

Country Name	<b>The Project for Capacity Development for Promoting Foreign Direct Investment</b>
Mongolia	

**I. Project Outline**

Background	<p>Mongolia had promoted liberalization and privatization of the domestic market rapidly since 1990 and had made and revised many laws related to trade and foreign investment. However, diversification of exports, development of overseas markets and collection of information had been key issues in promoting trade and investment activities with foreign countries. In addition, business in the country had problems such as lack of compliance and transparency of information, corruption and bribery by public officials, complicated procedures related to business, lack of consultation window for the trouble in the business. Although promotion of foreign direct investment (FDI) and improvement of the environment for that purpose (i.e. introduction of “One Window Service etc.) was stated in the government’s 4-year plan “Government Action Plan” (2008-2012), Foreign Investment and Foreign Trade Agency (FIFTA), Ministry of Foreign Affairs and Trade (MFAT), lacked the system to provide appropriate services to investors and was not able to play the expected role to promote foreign investment</p>				
Objectives of the Project	<p>The project aimed at strengthening research and coordination for investment promotion in Mongolia through formulation of an action plan for improving the investment environment based on the research results, analysis for improving function for investment service provision, and improvement of a working plan for investment services by Department of Foreign Investment Registration and Regulation (DFIRR (the former FIFTA)), Ministry of Economic Development (MED), with the related organizations (ministries and agencies as well as private economic organizations) involved, thereby improving investment promotion services to the private sector.</p> <ol style="list-style-type: none"> <li>Overall Goal: Investment promotion services to the private sector are improved.</li> <li>Project Purpose: Research and coordination for investment promotion is strengthened.</li> </ol>				
Activities of the Project	<ol style="list-style-type: none"> <li>Project Site: Mongolia</li> <li>Main Activities: <ul style="list-style-type: none"> <li>-Working Group (WG) consisting of DFIRR (the former FIFTA) and the related organizations conducts research and analyses on the current situation of foreign investment, the needs of the private sector, the necessity of improving the function of DFIRR etc., makes recommendation to improve division of function of the related organizations and investment policy, and drafts the action plan of DFIRR regarding improvement of investment environment.</li> <li>-WG analyses the services provided by investment promotion agencies in other countries and the needs of the private sector for DFIRR (the former FIFTA) in terms of registration service and information provision service.</li> <li>-DFIRR (the former FIFTA), in collaboration with WG, develops a working plan to improve its investment services (i.e. database management, information provision, and One Stop Service (OSS)), develops database management system based on the plan, improves its website, and starts the pilot OSS.</li> </ul> </li> <li>Inputs (to carry out above activities) <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;"> <p>Japanese Side</p> <ol style="list-style-type: none"> <li>Experts: 7 persons</li> <li>Trainees Received: (Training in Japan) 7 persons, (Training in the third country) 7 persons</li> <li>Equipment: Equipment for database and pilot OSS, office equipment such as personal computers etc.</li> <li>Local Cost: Local consultants etc.</li> </ol> </td> <td style="width: 50%;"> <p>Mongolia Side</p> <ol style="list-style-type: none"> <li>Staff Allocated: 33 persons for WG (13 from DFIRR, 16 from MED, 3 from Mongolian National Chamber of Commerce and Industry (MNCCI), and 1 from Business Council of Mongolia (BCM))</li> <li>Project Office, a meeting room for seminar etc.</li> </ol> </td> </tr> </table> </li> </ol>			<p>Japanese Side</p> <ol style="list-style-type: none"> <li>Experts: 7 persons</li> <li>Trainees Received: (Training in Japan) 7 persons, (Training in the third country) 7 persons</li> <li>Equipment: Equipment for database and pilot OSS, office equipment such as personal computers etc.</li> <li>Local Cost: Local consultants etc.</li> </ol>	<p>Mongolia Side</p> <ol style="list-style-type: none"> <li>Staff Allocated: 33 persons for WG (13 from DFIRR, 16 from MED, 3 from Mongolian National Chamber of Commerce and Industry (MNCCI), and 1 from Business Council of Mongolia (BCM))</li> <li>Project Office, a meeting room for seminar etc.</li> </ol>
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Project Period	November 2010 - May 2013	Project Cost	(ex-ante) 167million yen, (actual) 202 million yen		
Implementing Agency	<p>Department of Foreign Investment Registration and Regulation (DFIRR), Ministry of Economic Development (MED) (formerly known as Foreign Investment and Foreign Trade Agency (FIFTA), Ministry of Foreign Affairs and Trade (MFAT)).</p> <p>* DFIRR has been dissolved and reorganized into more than one organizations by the time of ex-post evaluation.</p>				
Cooperation Agency in Japan	Value Planning International, Inc., Koei Research Institute International Corporation				

**II. Result of the Evaluation**

## &lt;Constraints on Evaluation&gt;

- Since the project completion, foreign investment promotion system has been drastically changed because reorganization of ministries and agencies were implemented twice. First, DFIRR of MED, the implementing agency of the project, was dissolved as Investment Mongolia Agency (IMA) was newly established under the Prime Minister following the enactment of Investment Law in October 2013 and reorganization of ministries and agencies in December 2014. Its foreign company registration function was transferred to General Authority for State Registration (GASR). Further, following the reorganization associated with the general election in June 2016, IMA was integrated into National Development Agency (NDA) newly established under the Prime Minister, and GASR was restructured into General Authority for Intellectual Property and State Registration (GAIPSR). In conducting the ex-post evaluation, enough information was not available from NDA, the successor agency of DFIRR. In addition, a survey to the relevant departments of the former MED could not be conducted since the ministries and agencies that took over their roles could not be identified. As such, information was gathered by questionnaire and interview surveys to GAIPSR and the private sector (i.e. MNCCI and BCM) and review of the existing materials. BCM, however, did not provide answer to the questionnaire. In this ex-post evaluation, therefore, evaluation judgement had to be made based on the limited information.

< Special Perspectives Considered in the Ex-Post Evaluation >

- Indicators of the Project Purpose ((1) enhanced coordination among relevant ministries and organizations and (2) quality of investment promotion services of DFIRR (the former FIFTA)) are qualitative, and levels and criteria to be achieved are not clearly stated. In this ex-post evaluation, these indicators are judged to have been achieved when improvement by the project is confirmed from the information described in the existing reports.

- With respect to the Overall Goal Indicator 3 (improvement of rate of Doing Business), the evaluator used not only the ranking that shows Mongolia's position relative to other countries but also the score that shows the level of improvement in Mongolia as supplemental information.

## 1 Relevance

<Consistency with the Development Policy of Mongolia at the Time of Ex-Ante Evaluation and Project Completion>

The project is consistent with the development policy of the Mongolian government stated in the "Millennium Development Goals-based Comprehensive National Development Strategy of Mongolia" (2007-2021<sup>1</sup>), which aims at improvement of foreign investment environment for the development of the private sector.

<Consistency with the Development Needs of Mongolia at the Time of Ex-Ante Evaluation and Project Completion >

At the time of ex-ante evaluation, public opinion and parliament intention that domestic investors should not be discriminated was so strong in Mongolia that it was not easy for government agencies to take actions and budgetary measures for improvement of investment environment. Effective information provision to foreign investors, policy planning, capacity development etc. was therefore insufficient. At the time of project completion, the needs for securing a stable investment environment was evident because the government had been trying to revise the Law on the Regulation of Foreign Investment in Entities Operating in the Strategic Sectors (2012), which had brought about decrease of foreign investment, since April 2013.

<Consistency with Japan's ODA Policy at the Time of Ex-Ante Evaluation>

Improvement of foreign investment services, which is aimed by the project, is positioned in a cooperation program "Private sector support (including investment environment improvement) Program" listed under one of the four priority areas of Japan's Country Assistance Program for Mongolia (2004) "Support for institutional development and human resource development responsible for market economy".

<Appropriateness of Project Design/Approach>

During the project implementation, there was a reorganization of ministries and agencies associated with the change of government by the general election in June 2012. FIFTA (under MFAT) was dissolved and its function was transferred to DFIRR (under MED) so that the implementing agency and the members of Joint Coordination Committee of the project were greatly changed. Although the government reorganization was not assumed as a risk in the ex-ante evaluation study (2008), the project activities could be completed at the schedule originally planned by continuing technical transfer mainly to WG members. The Project Design Matrix (PDM) was revised in October 2012 reflecting the changes in the implementation system, and the contents of the deliverables to be produced by the project were changed with the new system in mind. As stated above, the response to the reorganization of ministries and agencies during the project implementation was appropriate. It is noted that the reorganization at that time included integration of the government organizations of which the project aimed at strengthening the coordination i.e. the integration of the four government organizations of the WG members including DFIRR into MED. This also seems to have contributed to smooth implementation of the activities. On the other hand, as will be described later, the reorganization after the project completion in 2014 and 2016 had a highly negative influence over the impact and the sustainability of the project. It was difficult to predict frequent organizational changes such as a reorganization associated with the general election, since future risk of reorganization is affected by politics, which tends to be beyond the control range of the implementing agency to a large extent.

<Evaluation Result>

In light of the above, the relevance of the project is high.

## 2 Effectiveness/Impact

<Status of Achievement for the Project Purpose at the time of Project Completion>

The Project Purpose was achieved by the time of project completion. Through project activities, coordination among relevant ministries and organizations in charge of investment issues was enhanced (Indicator 1), and investment promotion services provided by DFIRR (the former FIFTA) was improved in terms of their quality (Indicator 2).

<Continuation Status of Project Effects at the time of Ex-post Evaluation>

Achievement status of the Project Purpose is not continued except for some. Regarding coordination among the investment related ministries and agencies, continuation of the project effect could not be confirmed due to two-time government reorganization, including dissolution of DFIRR. As for coordination with the private sector, however, MNCII has maintained cooperative relationship with DFIRR and its successor agencies. Quality of investment promotion services had been maintained until DFIRR was dissolved. Responses from NDA regarding its service were not available, and no information was confirmed about the continuation of the service such as information provision through OSS. Therefore, it is unlikely that the quality of service as an effect of the project is maintained<sup>2</sup>. At the same time, efforts to reactivate the outputs of this project have begun: The Cabinet Secretariat issued a direction to NDA in December 2017 to establish OSS to address investors' needs confirmed in the past domestic and international investment forums and as part of the strengthening of activities of the Investor Protection Council established within the government in August 2016. In response, NDA has completed an outline of the organizational structure and roles of OSS. Although adequate number of counterparts of the project do not remain at the staff level, utilization of such personnel, who received training under this project, is being planned.

<Status of Achievement for Overall Goal at the time of Ex-post Evaluation>

The Overall Goal has not been achieved except for some by the time of ex-post evaluation (judged based on the status of achievement of the three indicators: not achieved, unable to verify, and partially achieved, respectively). The number of registered foreign corporate investors has decreased by nearly 60% compared with the start of the project due to influence of the Law on the Regulation of Foreign Investment (enacted in 2012 and abolished in 2014) and decline of resource price in the international market (Indicator 1). Improvement of

<sup>1</sup> In 2016, it was succeeded to "Mongolia Long-term Development Vision 2030" approved in February of the same year.

<sup>2</sup> There is a possibility that necessity to deal with a large number of investors efficiently as in the project implementation may have decreased since the number of investors has decreased due to the decline in resource prices since 2014.

the satisfaction ratio of the private sector with investment procedure in Mongolia could not be confirmed due to lack of data comparable with the beginning of the project since the survey on the satisfaction ratio is not conducted regularly or continuously. Nevertheless, the simplification and shortening of the period of procedures for investors described below may have enhanced investors' satisfaction (Indicator 2). While Mongolia is moving down on the business environment ranking (i.e. "Doing Business") released by the World Bank annually (Indicator 3), the overall score and the "starting a business" score of Mongolia are increasing (Supplemental Information to Indicator 3). Behind such an improvement, the contents of the Law on Investment enacted in October 2013 and entered into force in November 2013 are consistent with the recommendations of one of the project deliverables, the "Road Map of Improvement of FDI management (Registration and Promotion)" (the investment road map), such as simplification of administrative procedures for investors<sup>3</sup>. In addition, the corporate registration period has been reduced through the amendment to the Law on the State Registration of Legal Entities in 2015. The reduction of registration period is also in line with the recommendations based on the current situation survey by the project. In this way it is inferred that the project may have had an impact on this indirectly.

<Other Impacts at the time of Ex-post Evaluation>

The project has not had negative impacts on the natural and social environments. Regarding other positive impacts of the project, the textbooks used in the training of the project is utilized at MNCII for training and seminars related investment and foreign trade.

<Evaluation Result>

In light of the above, through the project, the Project Purpose was achieved at the time of project completion, but continuation of the project effect was not confirmed except for some, and it cannot be said that the Overall Goal was achieved at the time of ex-post evaluation. Therefore, the effectiveness/impact of the project is low.

Achievement of Project Purpose and Overall Goal

Aim	Indicators	Results
(Project Purpose) Research and coordination function for investment promotion is strengthened.	1. Coordination among relevant ministries and organizations in charge of investment issues is enhanced.	Status of the Achievement: achieved (partially continued) (Project Completion) -Cooperative relationship was established between DFIRR (the former FIFTA) and the related agencies (i.e. the former Department of Foreign Trade and Economic Cooperation, MFAT, the former National Development and Innovation Committee, and the former Department of Development Financing and Cooperation, Ministry of Finance), which was strengthened by integration of DFIRR and the related agencies through the reorganization after the general election in 2012. Coordination with the private sector (MNCII, BCM) etc. for improving investment promotion services was also established by exchange of information with relevant organizations. (Ex-post Evaluation) -Through the reorganization after the project completion, investment promotion function of DFIRR has been taken over by NDA, but the ministries and agencies which have taken over the functions of the related agencies integrated in MED then could not be confirmed. On the other hand, the coordination status among the investment related ministries and agencies and the continuation status of the project effects were confirmed as follows. -MNCII signed a Memorandum of Understanding of cooperation with DFIRR and its successor organizations i.e. IMA and NDA so that the cooperative relationship has been maintained. - NDA is implementing a joint agreement with GAIPSR and the General Department of Taxation to improve the foreign investment registration process as well as validity of information.
	2. Investment Promotion Services provided by DFIRR (the former FIFTA) are improved in terms of their quality.	Status of the Achievement: achieved (not continued) (Project Completion) -Though the project, it became possible for DFIRR to provide information through OSS, to reflect the needs of private sector in its services, to provide accurate and timely information through utilization of the database for FDI statistics, and to improve customer service through utilization of the equipment for the pilot OSS. (Ex-post Evaluation) -According to GAIPSR and MNCII, the quality of the investment promotion service had been maintained until dissolution of DFIRR. Responses regarding NDA's service were not available, and no information was confirmed in available documents about the continuation of the service such as information provision through OSS. However, NDA has started efforts to establish OSS based on the government's direction. Also, it was heard that investors' confidence has been restored and business activities have recovered for the past two years through activities of the Investor Protection Council. - Utilization of the few remaining counterpart personnel, who received training under this project, is being planned to enhance the quality of the services of OSS to be established.
(Overall Goal) Investment promotion services to the private sector are improved	1. The number of investors registered with DFIRR (the former FIFTA) increases.	(Ex-post Evaluation) not achieved

<sup>3</sup> During the project implementation, the contents of the investment road map were reconsidered after the government reorganization took place, and as results, policy and institutional recommendations, which would cater to broader investment management, were made in addition to those related to investment promotion services.

		<Number of registered foreign investment companies in Mongolia>						
		2009 (reference)	2010 (base year)	2013 (project completion)	2014	2015	2016	
		Number of registration	545	659	396	345	302	282
2. Satisfaction rate of the private sector with investment procedure in Mongolia increases.		(Ex-post Evaluation) unable to verify -Survey on satisfaction of Mongolian investment procedures by private investors is not conducted periodically or continuously so that there is no data comparable with the start of the project. The exact degree of improvement is therefore unclear.						
3. Rate of "Doing Business" improves.  Supplemental Information: The score of "Doing Business" improves.		(Ex-post Evaluation) partially achieved -The overall ranking was dropped by 2 ranks from 62nd to 64th in 190 countries between 2016 and 2017. - Mongolia's overall score improved from 67.31 in 2016 to 68.15 in 2017, and the "starting a business" score (at least partly attributed to the reduction of registration period realized in 2015) improved from 91.33 in 2015 to 92.55 in 2016 and 2017.						

Source : Project Completion Report, questionnaire survey and interview to GAIPSR and MNCII, website of NDA, Final Report for Information Collection and Verification Survey on Business Environment and Promotion of Investment in Mongolia, website of "Doing Business"

### 3 Efficiency

While the project cost was within the plan (ratio against the plan: 100%), the project period exceeded the plan (ratio against the plan: 120%). Therefore, the efficiency of the project is fair.

### 4 Sustainability

#### <Policy Aspect>

Promotion of foreign investment continues to be an important issue in the "Mongolia Sustainable Development Vision 2030" (2016-2030) approved by the parliament in 2016 and the "Government Action Program" (2016-2020). In addition, the legal environment is being improved, including enactment of the Law on Investment 2013. Also, the Mongolian government has adopted Law on Development Policy and Planning at the parliament in November 2015. Implementation of this law facilitates clearer understanding of national policies among the government, the private sector and investors, and adds positive implications on long-term plans of private companies.

#### <Institutional Aspect>

Since the project completion, the government's foreign investment promotion structure has undergone a major change through the reorganization of ministries and agencies. Foreign investment promotion function of DFIRR, the implementing agency of the project, is taken over by General Investment Policy Division and Registration, Information and Promotion Division of NDA via IMA, and the activities for information provision, FDI statistical data management etc. supported by the project are conducted by Registration, Information and Promotion Division. As described in "Effectiveness/Impact", it was confirmed that NDA has just started its efforts to reactivate the outputs of this project. A total of 13 staff is allocated to the above investment related divisions of NDA, and more staff members including the counterparts of this project are likely to be assigned for the establishment of OSS. Although further organizational changes are not planned at the time of ex-post evaluation, it is not certain if the current system shall be maintained in the future, considering that government reorganization has been repeated at the time of regime change after general election and cabinet reshuffle so far. To solve such issues of personnel change and consolidate the public-sector personnel policy, the Mongolian government managed to amend Law on Public Service in December 2017. This amendment would enable the government to introduce a public servant employment system based on the principle of merit system (performance and ability). Improvement of the personnel retention rate is expected as this amendment comes into effect in January 2019.

#### <Technical Aspect>

Frequent change of counterparts of FIFTA/DFIRR due to the staff transfer was regarded as a problem during the project implementation. Many counterparts at the time of the project completion have been either transferred or resigned due to two-time government reorganization after the project completion, and it was not confirmed whether they utilize the knowledge and technology transferred through the project within the organization or share them with their colleagues. The FDI statistical database system (a server) provided to DFIRR is installed at Information Technology Division (ITD) of GAIPSR via GASR. GAIPSR carries out FDI registration operations with its new servers, but it also utilizes the server provided under this project for extraction of old data, as well as the user manual developed by the project. Maintenance is appropriate because an engineer of ITD is in charge of equipment management and there has been no abnormality so far. While the customer service of the pilot OSS has been abolished after the organizational restructuring, major pilot OSS equipment provided under this project such as a photocopier and a smart board are used at General Investment Policy Division and Registration, Information and Promotion Division of NDA for investment promotion, etc.

#### <Financial Aspect>

An answer of NDA on the budget for foreign investment promotion was not obtained, and the budget situation was thus not confirmed. According to GAIPSR, maintenance budget for the server provided under this project is included in the IT related budget, and there is no prospect of reduction. However, as mentioned in the "Technical Aspect", the role of this server for maintaining project effects is limited. The Mongolian government is undertaking economic and fiscal reconstruction within the IMF's support framework (involving other donors) for three years from May 2017, which may put financial restrictions on governmental organizations.

#### <Evaluation Result>

In light of the above, no problem has been observed in the policy aspect. While sufficient information could not be obtained for the institutional, technical, and financial aspects of the implementing agency, it was confirmed that some administrative and legislative conditions for continuation of project effects have been secured. Securement of the necessary conditions for continuation of project effects was not confirmed, either, which causes a major concern. Therefore, the sustainability of the effectiveness through the project is fair.

## 5 Summary of the Evaluation

The project achieved the Project Purpose (i.e. strengthening research and coordination function for investment promotion). The effect of the project, however, has not been continued except for some (i.e. collaboration between MNCCI and DFIRR and its successors), and the Overall Goal has not been achieved except for some, either. Regarding the sustainability, the policy aspect has been ensured, and partial undertakings were confirmed in the institutional, technical, and financial aspects. As for the efficiency, the project cost exceeded the plan. Considering all of the above points, this project is evaluated to be unsatisfactory.

### III. Recommendations & Lessons Learned

#### Recommendations for Implementing Agency:

- The institutional sustainability of government agencies continues to be a major issue. The government of Mongolia needs to take measures concerning the sustainability of the organizations and the retention of staff.
- It is desirable that NDA and the government of Mongolia review the result of the project (i.e. the investment road map) and use it for future FDI related work since it is consistent with the current investment law.

#### Lessons learned for JICA:

##### Measures to be taken in case there is a risk of large-scale reorganization after project completion

The repeated reorganization of ministries and agencies had a negative impact on the effectiveness, the impact, and the sustainability of this project. In order to minimize the risk associated with the reorganization, JICA and the implementing agency should have incorporated certain activities to address the risks. For example, they should have developed the plans for institutional building in the (sub-) sector as a whole rather than the ones for a single organization, and should have worked on Mongolia side to formalize such plans during the project implementation.

On the other hand, though limited, situations that seemed to be continuing effects were observed at the time of ex-post evaluation. This seems to be because of the project's recommendations which may have led to the revision of the law and involvement of the private sector (i.e. the Chamber of Commerce), which was not affected by the government reorganization, in the project. They can be referred to as good practices of dealing with the risk.

Even if the above-stated measures are taken, the risk of reorganization of ministries and agencies is strongly influenced by politics and tends to be beyond the control range of the implementing agency to a large extent. Therefore, in a country like Mongolia, where reorganization is frequent and influencing, the aid coordinating organization should be involved from the project implementation period so that JICA can request to respond in case that the implementing agency is dissolved. Also, JICA should consider the follow-up mechanism in case that the implementing agency is dissolved immediately after the project completion as in this project since such mechanism is not clear now.

##### Improvement of investment promotion service in resource-rich countries

Continuation of the customer services established in this project could not be confirmed. Behind it lies a possibility that necessity to deal with a large number of investors efficiently as in the project implementation may have decreased since the number of investors has decreased due to the decline in resource prices since 2014. When planning cooperation on investment promotion services in a resource-rich country like Mongolia, it is necessary to keep in mind that the sustainability of the services to be improved by the cooperation may be affected by future fluctuation of resource price.