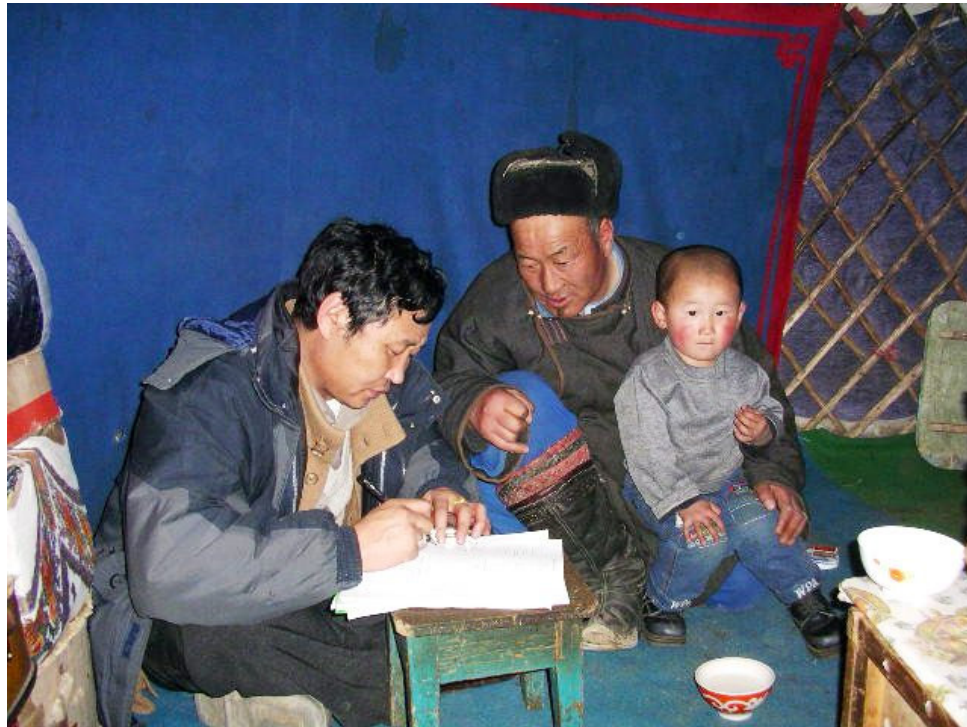




## **ANNUAL REPORT ON ACTIVITIES - 2004**



**Submitted to the Government of Mongolia**

**by**

**MERCY CORPS**

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**March 2005**

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**Acknowledgements:** This report could not have been prepared without the significant contributions of L. Bayan-Altai, Program Director; Sean Granville-Ross, Rural Economic Development Advisor; Sam Kane, RASP Project Director; Silas Everett, TAN Project Director, Ganhuyag, RBN Editor-in Chief, Stevan Buxt, Pact Country Representative; and the "Gobi Initiative", "Rural Agribusiness Support", and "Training, Advocacy and Networking" program staffs. Mercy Corps also gratefully acknowledges the financial support of the US Agency for International Development and the US Department of Agriculture without which the programs would not have been possible.

## ANNUAL REPORT ON ACTIVITIES - 2004

Mercy Corps is implementing three major programs in Mongolia; two of the three programs support rural economic development in twelve aimags throughout the country and the third supports the strengthening of civil society efforts in two aimags in the Gobi region. The "Gobi Regional Economic Growth Initiative" or "Gobi Initiative" is funded by the U.S. Agency for International Development, and the "Rural Agribusiness Support Program" or "RASP", is funded by the U.S. Department of Agriculture. The "Training, Advocacy and Networking Program", or "TAN", is also funded by the U.S. Agency for International Development.

The two **Economic Development Programs** have the following goal, objectives and overall focus:

### **Program Goal:**

- To develop and strengthen rural business

### **Program Objectives:**

- An increase in the number of new and strengthened productive rural businesses
- An increase in the production and sale of marketable animal products and crops
- An increase in availability, access to and use of business information by rural entrepreneurs

### **Program Focus:**

- Supporting herder groups that are expanding and/or diversifying their business activities
- Supporting the development of herder cooperatives
- Supporting businesses that add value to herder products and link those products to markets
- Improving the supply of critical inputs for production, including business financing
- Improving the quality and accessibility of local business development and support services
- Ensuring a safer supply of food products for Mongolian consumers

These two programs serve the following program clientele:

- **Herder Groups and Cooperatives** that are expanding and diversifying their operations in response to market signals, and are an integral part of the overall market supply chain
- **Non-Herder Enterprises** that produce locally-valued and consumed goods and services, and add value to herder production, employ local residents, and/or contribute significant tax revenues to the local economy
- **Business Associations** that support and advocate on behalf of an active rural business constituency
- **Local Governments** that support rural business development and engage in active and participative dialogue and activity regarding issues critical to business development

And undertake the following activities:

- **Agriculture and business training and technical assistance** for herder groups and cooperatives to expand and/or diversify their businesses
- **Targeted "one-on-one" technical assistance** for non-herder businesses to increase sales, profit margins and/or market share and add new profitable products and services
- **Production input and market linkage support** for all new/expanding businesses to ensure that they can access production inputs and secure markets
- **Loan guarantees** for small producers to diversify and "scale up" their agribusinesses
- **Capacity-building** of local training and technical assistance providers, including private consultants, associations, NGOs, institutions and government offices

- **Training and pharmaceutical/equipment support** for rural vets and vet technicians
- **Development and institutionalization** of key rural business support mechanisms including forage forecasting, animal nutrition monitoring, and dairy product quality assurance systems
- **Dissemination** of business information and communication of business interests and needs

Gobi Initiative and RASP are implemented in: Khovd, Zavhan, Arhangai, Govi-Altai, Bayanhongor, Uvurhangai, Umnugovi, Dundgovi, Tuv, Govi-Sumber, Dornogovi and Sukhbaatar.

The **Civil Society** program has the following goal, objectives and overall focus:

**Program Goal:**

- To increase development of an active civil society in rural Mongolia

**Program Objectives:**

- An increase in support for citizen oversight of public services and involvement in the policy process
- An increase in the impact and sustainability of rural civil society activists and organizations
- An increase in citizens' awareness of and involvement in civil society activities

**Program Focus:**

- Supporting civil society organization/local government collaboration to increase civic participation
- Supporting informal civil society associations to develop and benefit from indigenous organizational capacity-building expertise
- Supporting civil society organizations to mobilize community resources and local volunteers for improved organizational sustainability
- Promoting awareness of and involvement in community-driven activism and social entrepreneurship

This program serves the following program clientele:

- **Civil Society Organizations (CSOs)** that have been active and are beginning to expand and/or diversify their outreach activities in response to their community's political and social needs while, in the process, mobilizing more community resources
- **Social Entrepreneurs** who innovate for social change using local resources in replicable, practical and creative ways for public benefit
- **Local Experts/Trainers** who have experience in the field of organizational development and have demonstrated interest in sharing knowledge and skills with local CSOs
- **Local Government Departments** that employ CSOs for work on social service projects

And undertakes the following activities:

- **Technical assistance and small grants** to assist: (a) civic sector associations in target geographic areas to address sectoral needs (b) baghs to identify, prioritize, monitor, and address community needs (c) CSOs to publish and disseminate reports and studies on civic sector-specific issues (d) social entrepreneurs to further diversify and expand activities
- **Capacity building** for: (a) CSOs to improve service quality (b) local experts to improve training skills and to market their training services locally (c) government, civil society organizations, and businesses to establish pro-development procurement mechanisms
- **Consultation and training** to local government representatives and CSOs to improve the mechanisms for public involvement in policy decision-making

The TAN program is currently being implemented in Uvurhangai and Dundgovi. It will be expanded to at least three additional aimags in the Gobi region beginning in 2006.

## **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS FOR 2004**

The second phase of the Gobi Initiative began in January 2004 and the RASP program started in late May 2004. As noted, a key component of both programs is herder business diversification and expansion, defined as the initiation of commercially-viable business activities beyond cashmere and wool production. Results from the first year of implementation of this new strategy revealed that although some herder groups did experience problems with first-time production of vegetables, fodder, dairy, meat and felt products, most did not. Another important result was that profitability and marketability of newly-produced goods was not a constraint; whatever was produced was sold, and at prices that generated profits for the business. As a result, **MC/Mongolia remains committed to a diversification/expansion strategy for the agriculture/livestock sector**, and is in the process of more than doubling the number of herder groups/cooperatives with which the two programs will work in 2005.

Mercy Corps uses sales generated from new business activities outlined in the formal business plans developed under the two programs as an indicator of success. The total sales target for the 73 herder groups and cooperatives assisted under the Gobi Initiative program during 2004 was MNT 636,837,695 (\$530,700). As of December 31, 2004, sales of MNT 572,525,160 (\$477,100) were reported by these 73 groups, with these sales directly related to the activities noted in the business plans<sup>1</sup>. Mercy Corps believes that a 90% "success rate" in the first year of operation is a dramatic achievement, reflecting both a validation of the strategy and the motivation and hard work of all key stakeholders, including program clients, Mercy Corps staff and important program supporters/facilitators such as local aimag and soum governments.

Mercy Corps is further convinced of the appropriateness of the diversification/expansion strategy, tied to the formal business planning process that initiates the entire process, by the fact that a number of other donors are beginning to copy the strategy and methodology.

Mercy Corps also works with non-herder rural businesses. Although the number of non-herder businesses assisted by Mercy Corps was less than originally forecast at the beginning of the year, primarily due to delays in completing the business plans necessary for determining the business activity to be undertaken and the technical assistance required, a number of these businesses did generate significant sales as a result of assistance provided under the Gobi Initiative program. Sales by these businesses totaled MNT 204,844,000 (\$170,600) as of December 31, 2004. Buyers included the Ivanhoe and Jargalan mining companies, as well as both individual consumers and wholesalers/retailers in the Gobi aimags and in Ulaanbaatar.

**The success of the program during 2004 can also be attributed to a loan guarantee mechanism providing "additional cash collateral for loans to rural businesses.** During the planning for both the Gobi Initiative and RASP programs, Mercy Corps identified access to credit as a serious constraint in enabling herder businesses to diversify and expand, due in part to a lack of collateral to secure the necessary financing but also due to high interest rates and the lack of herder business relationships with commercial financial institutions. During 2004, Mercy Corps provided loan facilitation assistance to 47 herder groups/cooperatives and to 7 non-herder businesses in seven aimags. As a result, loans totaling MNT 173,100,000 (\$144,150) were issued to these businesses,

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<sup>1</sup> in addition, some vegetable production was stored pending sale during the winter months when prices are higher; this production is not include in the sales revenue

with MNT 134,490,000 (\$112,000) guaranteed by MC/Mongolia through the RASP program. Mercy Corps believes that the introduction of this novel mechanism has been instrumental in (a) helping to link rural businesses (particularly herder businesses) to the financial services sector, (b) creating more competition among banks operating in the rural areas, and (c) reducing interest rates. Mercy Corps further believes that a loan guarantee program is a far better alternative to stand-alone, client-specific donor programs offering subsidized interest rates, since, under the Mercy Corps program, the commercial institutions themselves, rather than the donor, set the lending terms, review loan applications, and make lending decisions based on their established procedures.

Mercy Corps has learned a number of valuable lessons from the first year of Gobi Initiative Phase II and RASP operations. These lessons include the need to:

- Be more selective over where vegetables can be successfully grown,
- Ensure that start-up production targets are more realistic in terms of quantities and timing,
- Facilitate the establishment of more local production input suppliers,
- Ensure that loan repayments are tied to sales revenue cycles,
- Promote more broad-based decision-making within cooperatives,
- Assist with identification/development of the "next generation" of cooperative leaders, and
- Enhance the monitoring and evaluation of local training and technical assistance providers.

The respective 2005 programs are being designed with this learning in mind.

**The increased focus on alternative business information dissemination channels beyond the Gobi Initiative-supported "Rural Business News (RBN) magazine is also seen as a successful strategy.** The increase in RBN radio and television programming, combined with a fine-tuning of message content and the way in which those messages are delivered, has already shown results in terms of listener/viewer recognition and awareness, and acceptability and interest on the part of mainstream media. As a result, Mercy Corps and its implementing partner Pact will continue moving toward delivery of highly-relevant business information through creative and popular programs, including radio dramas such as "Herder from the Future", as well as a planned television drama.

In the civil society sector, Mercy Corps has found that there is a lower level of civic activity among civil society organizations and the general rural population-at-large than was originally thought. Consequently, **Mercy Corps has focused on finding and supporting civic initiatives undertaken by motivated individuals in addition to those undertaken by existing organizations**, thus adding a community mobilization component to the Training, Advocacy and Networking program. Mercy Corps has also concluded that promoting a diversified approach for NGO financing is the only practical way forward for sustainable civil society development in rural areas of Mongolia. Thus, the program will continue to engage with both individuals and local government in promoting the "added value" of NGOs with respect to service delivery, recognizing that demonstrable examples of such "value added" services will be needed before a change can occur.

## **MAJOR ACTIVITIES DURING 2004 - ECONOMIC DEVELOPMENT**

Many of the economic activities are similar for both the Gobi Initiative and the RASP programs, particularly those related to business planning, cooperative formation, training and technical assistance, local BDS (business development services) provider capacity-building, and market development. Gobi Initiative is being implemented in six Gobi aimags - Govi-Altai, Bayanhongor, Uvurhangai, Umnugovi, Dundgovi and Govi-Sumber. RASP is being implemented in Khovd, Zavhan, Tuv, Arhangai, Dornogovi and Sukhbaatar, although some of its project components, such as the loan guarantee mechanism, are being implemented in the Gobi aimags as well.

Details concerning major economic development activities undertaken during 2004 are as follows:

### **Business Plan Development and Implementation**

The foundation for the work that Mercy Corps undertakes with its program clients is the Business Plan. This Plan is produced by the client, with assistance as necessary from Mercy Corps. Each Plan clearly articulates the objectives of the business, the specific activities that need to be implemented to realize these objectives, the expected profitability of the business and other results of expansion/diversification, and the anticipated need for external resources, including training, technical assistance, and financing. During 2004, a total of 73 herder groups/cooperatives in the Gobi region prepared and implemented formal business plans.

During the year, although diversification into dairy and vegetable/fodder production was largely successful, with many groups reaching or exceeding their production and sales goals, other groups fell short of their targets. Tables 1 and 2 provide a breakdown of the total 2004 sales figures for all herder clients cooperating with Mercy Corps in the Gobi region.

Table 1 - Planned vs. Actual Sales by Aimag

Aimag	Planned Sales for 2004 (MNT)	Actual Sales for 2004 (MNT)	Reasons for Variance
Umnugovi	119,812,595	125,358,500	Exceeded plan
Dundgovi	111,496,200	117,257,460	Exceeded plan even though felt processors received equipment late and did not achieve production targets
Uvurhangai	122,245,200	93,046,400	Inability of major fodder producer to access oat seeds; large dairy receives loan and starts production later than planned
Govi-Altai	216,981,700	183,272,800	Two elite animal breeders will realize sales in 2005 rather than 2004; camel milk producer not sufficiently organized to produce in 2004
Bayanhongor	38,980,000	36,971,500	Water constraints and pest problems experienced by vegetable/crop producers
Govi-Sumber	27,322,000	16,618,500	Bankruptcy of large dairy
<b>Total</b>	<b>636,837,695</b>	<b>572,525,160</b>	

Table 2 - Planned vs. Actual Sales by Business Activity

Activity	Planned Sales for 2004 (MNT)	Actual Sales for 2004 (MNT)	Reasons for Variance
Dairy production	113,116,000	80,892,400	Tendency of some groups to overestimate raw milk production; GS dairy bankruptcy; large UH dairy late in starting production
Vegetable/fodder production	123,003,000	84,679,500	Localized drought conditions and water, pest and knowledge/experience constraints
Felt production	21,731,095	13,808,000	Delay in receiving needed equipment
Breeding of elite animals	41,650,400	34,095,300	Some sales to be realized in 2005 rather than 2004
Meat production	50,624,600	49,799,960	Single pork producer lacked adequate technical knowledge/experience
Tourism	12,740,000	11,725,000	Marketing plans implemented late in season
Trade/services	273,972,600	297,525,000	Exceeded plan
<b>Total</b>	<b>636,837,695</b>	<b>572,525,160</b>	

Mercy Corps has made a significant effort to document why some herder groups experienced difficulties in meeting their business objectives while others succeeded beyond their planned

expectations. The results from four groups, and an indication as to why Mercy Corps believes they were successful, are as follows:

**"Zuunbogdiin Uguuj" partnership, Bogd soum, Uvurhangai aimag**

This group cultivated vegetables during the year and harvested the crops this quarter, with excellent results (12,400 kg of potatoes, cabbage, carrots, watermelon, cucumbers and oats). The herders also harvested 25 tons of hay from their fenced field, which they will use as winter fodder for their livestock. To date the partnership has made sales of MNT 4.0 million through selling part of their harvest. They built a large vegetable cellar with project technical assistance and are storing the remaining harvest until prices increase during the winter. The herders participated in the Uvurhangai market event and signed contracts to supply one ton of potatoes during the winter of 2004 and spring of 2005 to the secondary school in Bogd soum and the Trade Center in Arvaiheer. The group has prepared their business plan for 2005, focusing on the continued cultivation of vegetables and adding a small tree nursery. It is expected that once the group sells the stored vegetables, they will meet their 2004 sales goal of MNT 8.4 million.

Mercy Corps has attributed the success of this group to (a) having adequate water and a good irrigation system, (b) proper preparation of the soil, (c) adherence to recommended watering timing and quantities, (d) proper pest control procedures, and (e) a well-organized division of labor among group members.

**"Bulag" herder group, Saintsagaan soum, Dundgovi aimag**

This group developed a business plan to fatten animals and sell meat worth MNT 11.6 million during the year. In October the group sold 315 sheep, 12 goats, 7 cows, 1 horse, and 2 camels, with 80% of the sales within the aimag and 20% in Ulaanbaatar. The sales, which totaled MNT 13.1 million, were made to the meat traders located in the wholesale markets.

Mercy Corps has attributed the success of this group to (a) excellent technical knowledge related to raising productive animals, (b) involvement in the business by all group members, (c) sound business relationships with existing and potential buyers, and (d) good business and financial management.

**"Bat-Amgalan Hurkh" cooperative, Nomgon soum, Umnugovi aimag**

This group focused on dairy production and the creation of an 800-head goat farm. During the year, the animals produced 11,300 liters of milk which was turned into dried curd, dried curd drops, melted butter, acidified milk, and cottage cheese. 2004 sales totaled MNT 7.2 million (against a target of MNT 6.7 million), including MNT 5.8 million sold through a retailer in the aimag center and through the co-op's own shop in the soum center, MNT 1.1 million sold at the Gobi Initiative-sponsored trade fair, and MNT 0.3 million purchased by Ivanhoe Mines.

Mercy Corps has attributed the success of this group to (a) an adequate number of productive animals and the proper equipment, (b) active participation in the dairy processing training provided by the project, (c) a proper division of labor within the cooperative, (d) good business relationships with buyers, (e) a strong quality control and marketing orientation, and (f) good business and financial management.

**"Ushgug Erdene" cooperative, Baruunbayan-Ulaan soum, Uvurhangai aimag**

The cooperative has been breeding elite goats since 2001 and recently received a breeding certificate from the aimag's Agriculture and Breeding Department. Their 2004 business plan focused on expanding their elite animal breeding activities. In the spring of 2004, the cooperative members classified the goats of herder families in neighboring Nariinteel soum and purchased 100 elite kids from this soum. Sales income resulting from leasing and selling elite breeding sires totaled MNT 3.6 million. Using their profits, the cooperative bought 25 elite goats and 75 elite sheep at the end of 2004 to improve herd composition.

Mercy Corps has attributed the success of this group to (a) high technical competency, (b) particularly good interaction with the technical assistance provider, (c) a reputation in the aimag for animal quality, (d) a good relationship with the local government, and (e) high demand for elite animals within the aimag.

A total of 73 groups and cooperatives collaborated with Mercy Corps during 2004. Of this number, 56 groups have either revised or developed new business plans for 2005 and will continue their participation in the Gobi Initiative program. Seventeen of the herder groups/ cooperatives will not continue, either because they (a) feel they no longer require assistance, (b) are really single family operations as opposed to a functioning group or cooperative, (c) are unwilling to become a formal legal entity, despite being involved in commercial activities, and/or (d) lack the motivation and interest deemed necessary to succeed.

During the last quarter of 2004, Mercy Corps staff initiated the process of selecting new herder groups and cooperatives to participate in the Gobi Initiative program in 2005. They traveled out to the soums to promote the program and to meet with herder groups that had already expressed an interest in cooperating with the program. During this assessment period, 100 new herder groups and cooperatives were initially selected, based on the following criteria:

- Previous experience in working together,
- A formal or informal leader, acknowledged, respected and supported by fellow members,
- Ability to reach collective agreement on a business activity to be implemented,
- Agreement within the group that workload and business profits need to be shared,
- No less than six households comprising the group,
- No less than 800 animals owned by group members, and
- A willingness to become a formal legal entity if not one already.

Mercy Corps subsequently conducted intensive business plan training for two representatives from each herder group and at the end of the training the participating herders prepared their first draft business plans. Eligible veterinary businesses were also identified during the field travel; the veterinarians developed their 2005 business plans with support from Mercy Corps.

A total of 170 business plans were either complete or under review as of December 31, 2004. This includes plans produced by 150 herder groups/cooperatives/veterinary partnerships and 3 non-herder businesses in the Gobi region, and 17 herder/non-herder businesses in the aimags covered under the new RASP program.

### **Cooperative Formation and Development**

Cooperative formation and development are core components of both the Gobi Initiative and RASP programs. During 2004, a total of 25 Gobi herder groups became formal legal entities. Table 3 provides a summary of the herder business legal status as of December 31, 2004.

Table 3 - Legal Status of Herder Businesses

<b>Aimag</b>	<b>Cooperative</b>	<b>Partnership</b>	<b>LLC</b>	<b>Herder Group</b>	<b>Total</b>
Bayanhongor	11			1	12
Uvurhangai	16	1		1	18
Dundgovi	9			4	13
Govi-Altai	10			2	12
Govi-Sumber	4			1	5
Umnugovi	8	3	1	1	13
<b>Total</b>	<b>58</b>	<b>4</b>	<b>1</b>	<b>10</b>	<b>73</b>

The ten informal herder groups will continue to collaborate with the Gobi Initiative program during 2005 if they agree to become a legal entity, whether cooperative, partnership or LLC. The program staff will assist these groups in the transition and will support the institutional development of the new and existing cooperatives.

In the RASP program areas, the first training sessions on cooperative development were held in the final quarter of 2004.

### **Herder Training and Technical Assistance**

During 2004, Mercy Corps provided a total of 150 training and technical assistance interventions for herders, herder groups and herder cooperatives. In the Gobi region, the topics were primarily

agricultural and livestock-oriented, including vegetable and crop production, animal breeding, dairy product processing, veterinary services, and food sanitary procedures and regulations. Training courses were also offered, and technical assistance provided, on rural tourism management, financial recordkeeping and reporting (and other business subjects), and cooperative development.

In the RASP program areas, the courses were more basic, reflecting the start-up nature of the program and the initial needs of the program clients. The topics, selected on the basis of a survey conducted among herders included: household budgeting, business skills, the rationale for cooperation between herders, and the basics of establishing and operating formal cooperative organizations.

A total of 23 herder groups/cooperatives had developed business plans in 2004 related to vegetable and fodder crop production. As previously noted, results were mixed. Some groups, such as the "Zuunbogdiin Uguuj" partnership in Uvurhangai, were very successful while others, such as the "Delgereh Shar Huv" cooperative in Umnugovi, fared poorly. In late 2004, a consultant completed a detailed study of the herder cooperatives in Bayanhongor, Uvurhangai and Umnugovi that had been engaged in vegetable production. The consultant was tasked with (a) identifying the major challenges and problems faced by the herders as well as the factors that contributed to successful cultivation, (b) analyzing the skills of the local consultants and the quality of the technical assistance provided by them, and (c) providing recommendations to assist with the design of the agriculture strategy for 2005. The main challenges encountered by the herders included insufficient water access and availability, problems with pests such as mice, rats, grasshoppers and locusts, and a lack of sufficient experience and technical knowledge. The report contains a number of recommendations that will be incorporated into the program plans for 2005<sup>2</sup>.

Mercy Corps also provides training opportunities for herders who are not considered to be "primary clientele" (defined as groups/cooperatives committed to business expansion/diversification and engaged in all aspects of the program from initial business planning to targeted technical assistance), but who may access the successful training courses that have been offered by Mercy Corps in the past. These courses are offered when there is a clear demand for the training and if the participants are willing to cover the training costs. During 2004, a number of these "refresher courses" were organized; examples appear in Table 4.

Table 4 - Secondary Clientele "Refresher Courses"

<b>Aimag</b>	<b>Topic of Training</b>	<b>Number of Participants</b>	<b>Consultant</b>
Govi-Altai	<i>Felt boot production and technology on the production of horse saddles</i> - design of boots and saddles, decorating and embroidery	20	Ms. Dungaama, Director of Ganga Goyol Ltd.
Umnugovi	<i>Restaurant management</i> - necessary services, customer service, staff training, menu planning/food operations	15	Mr. J.Oktyabri, Mongolian Culinary Association
Bayan-hongor	<i>Business Planning</i> - the major components of a business plan and how to prepare one; finding and securing commercial financing.	15	Mr. Jargalsaihkhon Business Economy School at AG University
Bayan-hongor	<i>Financial Recordkeeping</i> - setting up and maintaining a proper set of financial records	32	Ms. Enkhtuul MonGer Coop company
Umnugovi	<i>Business-Start up</i> - developing new business ideas, products and services; marketing and market research; competition; financial analysis; formation of a business entity; business law; and developing and implementing a business plan	12	Ms. Enkhtuul MonGer Coop company

<sup>2</sup> "Lessons Learned and Recommendations for Vegetable Production in the Gobi Region", author Ms. Hishigt Tsogetoo, Mongolian Agricultural University, Ulaanbaatar. The complete report can be made available based upon request.

Govi-Altai	<i>Felt processing technology</i> - wool combing, felt processing/production, decorating/embroidery	10	Ms. Ts. Amarjargal, Uvurhangai consultant
Umnugovi	<i>Tourism management</i> -hotel management basics, menu planning, customer service/service delivery	19	Mr. J.Oktyabri, Head of Mongolian Chef Assoc.
Bayan-hongor	<i>Milk processing technology</i> -purifying, storing and processing methods	4 co-ops	Ms. S.Tsetsgee, Ministry of Food and Agriculture
Bayan-hongor	<i>Milk processing technology</i> -purifying, storing and processing methods	2 co-ops	Ms.S.Tsendsuren, Mongolia University of Agriculture
Bayan-hongor	<i>Marketing management</i> - market research, analysis, marketing components	2 co-ops	Mr.Khaidar, Golomt Bank, Small Business Sector
Dundgovi	<i>Business planning</i> - basics, requirements, and areas of special concern	13	Mr.B.Chinbaatar, Mongolia Chamber of Trade/Industry

### **Acquiring Critical Inputs**

As noted in the summary, Mercy Corps has assisted 54 herder and non-herder businesses with obtaining commercial financing, totaling MNT 173,100,000. Of this amount, a total of MNT 134,490,000 has been provided by Mercy Corps in the form of "additional cash collateral".

Most of the loans were disbursed in the spring and early summer months of 2004. During the year, most businesses made loan principle and/or interest payments on or before the scheduled due date. A few herder clients made payments that were late by several days, primarily due to difficulties in traveling to the aimag centers, but no loans were in default or required re-scheduling. Through December 31, 2004, the borrowers repaid MNT 22,528,162 in principle and MNT 8,655,581 in interest, for a total of MNT 31,183,743. Six herder clients repaid their loans in full prior to December 31, 2004.

A summary description of the loan guarantee component of the RASP program is included in this report as **Appendix A**.

In addition to financing, many herder businesses require access to suitable production inputs such as seeds and equipment. A priority for Mercy Corps has been the identification of potential vegetable and forage crop seed suppliers, especially those offering quality oat seeds. A number of contacts have been made with potential seed suppliers based in Ulaanbaatar and Erdenet; once the 2005 business plans are complete and the exact quantities of seeds required are known, Mercy Corps will facilitate the linkage between the herder clients and the seed suppliers. Other critical input suppliers contacted by Mercy Corps include vendors of small tractors, irrigation systems, and milk processing equipment such as milk separators and small scale pasteurizers.

### **Long-term Technical Assistance to Non-Herder Businesses**

Mercy Corps selected nine non-herder businesses for long-term technical assistance during 2004. In the last quarter of the year, an additional three businesses were added; these businesses will continue to receive technical assistance support in 2005. The status of work with these firms as of December 31, 2004 is as follows:

Table 5 - Status of Work with Long-Term Non-Herder Business Clients

<b>Business Name</b>	<b>Current Status</b>
Sulden Tenger Cooperative - Bayanhongor	Business plan completed, focused on establishing own baked goods wholesale/retail outlet. Received a loan for MNT 8.0 million from Xaan Bank. Completed the refurbishment of new premises for the bakery and installed the machinery and also opened a cafe serving fresh baked products and drinks. The bakery produces 500 loaves of bread and 175 Kg of fine pastries daily. Mercy Corps provided experts on bread/pastry technology, human resources management, marketing and product promotion. The co-op also had the most sales at the aimag's Sept 2004 market event.

Dorniin Gegee LLC - Bayanhongor	At the recommendation of Mercy Corps, the company undertook a consumer survey on product packaging, and subsequently received an award for best product packaging at the aimag's Sept 2004 market event. Mercy Corps also provided a consultant on human resource management.
Arvin Belt LLC - Govi-Altai	After long delays, the business plan is being finalized, focused on the production of new types of construction materials and bricks. A loan application for MNT 25.0 million is currently being prepared for submission to Xaan Bank. The company plans to purchase new brick making machinery in early 2005 and will begin production of the bricks for use during the 2005 construction season. Mercy Corps will provide a marketing consultancy and further assistance with financial forecasting and budgeting in 2005.
Suun Dalai LLC - Uvurhangai	Business plan completed, focused on curd production. Received a loan of MNT 8.0 million from Zoos Bank and purchased required machinery. Received Mercy Corps consultancy on curd and sour cream production technology. The company is currently producing 500 kg of "worm" curds on a monthly basis and has made sales of MNT 3.0 million through December 31, 2004. The company has begun signing contracts with herders in the region for future production of curd whey. Mercy Corps will provide assistance in identifying drying and packaging equipment in 2005.
TU-BA-SE LLC - Uvurhangai	Business plan completed, focused on sanatorium/ger camp upgrading and expansion. The company has recently received a MNT 5.0 million loan from Zoos Bank. It received a business planning consultancy during 2004 and will receive several tourism related consultancies during 2005.
TEBBE LLC - Dundgovi	Business plan completed, focused on wood furniture product expansion using more modern equipment. Submission of a loan application of MNT 10.0 million to Xaan Bank. The company had most sales during the aimag's Sept 2004 market event. During the last quarter of 2004, sales totaled in excess of MNT 5.0 million, including tables and chairs for school #1 and the vocational training center in the aimag and private orders from aimag residents. Received business planning/management consultancies in 2004
Goviin Tenger LLC - Dundgovi	After long delays, a revised business plan focusing on new beverage products has been completed and is under review. The company is currently preparing a loan application of MNT 15.0 million. Mercy Corps provided a financial management consultancy in 2004.
Molor Khuleg LLC - Uvurhangai	Business plan completed, focused on improving cost accounting and pricing and on marketing and product promotion. Following Mercy Corps-supported business planning, the company concluded mineral water contracts worth MNT 15.0 million with three companies in Ulaanbaatar. Mercy Corps will provide additional technical assistance on marketing and financial planning in 2005.
Choir Bakery - Govi-Sumber	Business plan completed, focused on production facility and equipment upgrades. Received a loan of MNT 4.0 million from Xaan Bank. Received an award for best product diversity at aimag's Sept 2004 market event. During November the bakery made sales of MNT 0.8 million in the aimag center and in Ulaanbaatar, and has made the first repayments on the loan.
Ergel Bogdiin Zoo Partnership - Govi-Sumber	Developed a business plan to upgrade bakery equipment and increase production. Submitted a loan application for MNT 1.7 million to Xaan Bank in December 2004. The company has received consultancies on business planning and marketing and product promotion. Mercy Corps will provide additional technical assistance on marketing and financial recordkeeping in 2005.
Buyan Undral Cooperative - Govi-Altai	Currently revising a business plan to establish a wool washing facility to process raw wool from co-op members and purchase wool from neighboring herders. Mercy Corps provided a consultant to assist with business planning in 2004.
Dashmyangan LLC - Govi-Altai	Business plan completed to improve tourist ger camp facilities and improve natural environment around the camp. The company is preparing a loan application for MNT 10.0 million to submit to the banks in spring 2005. Mercy Corps provided a business planning consultancy in 2004 and will provide technical assistance in facilities management, customer service, food preparation and restaurant management in 2005.

The cost of long-term technical assistance is shared between Mercy Corps and the client. The above clients paid between 20% and 60% of the consulting fee (average of 45%), with the amount of cost-share dependent upon a number of factors, including size of company, years of operation, relative profitability, etc.

## **Short-Term Training/Technical Assistance for Non-Herder Businesses**

Mercy Corps also receives requests for short-term technical assistance, usually defined as a single consultancy around a specific business topic. For all short-term training and technical assistance, businesses are expected to contribute at least 30% toward the cost of the activity. During 2004, a total of 181 business entities received short-term training and technical assistance; examples from the last quarter of 2004 include:

Table 6 - Short-Term Training/Technical Assistance

<b>Aimags</b>	<b>Name of Client(s)</b>	<b>Technical Assistance Provided</b>	<b>Consultant</b>
Bayanhongor	1. "Unaga Trade" LLC 2. "Navtgar Khairhan" LLC 3. "Naran-uul" LLC	Assistance on new building technology, concepts/designs and building materials	Ms. Erdenechimeg, Executive Director of "Hungun Beton" construction company
Dundgovi	1. "Dalain Khugjil" co-op 2. "Delgerekh Ungut" co-op	Marketing, the "3P's", market survey and product promotion	Mr. G. Bat-Erdene Private Consultant
Govi-Sumber	1. "OJS" Tengis cafe 2. "Ulam Mandah" partner. 3. "Solongo" cafe 4. "Gesegt" patent holder, 1st school canteen	Health and food safety compliance, kitchen and restaurant hygiene	Ms. Oyunchimeg, Department Inspector, Govi-Sumber aimag
Umnugovi	1. "Ayanchin" hotel 2. "Hatagtai" cafe 3. "Umnin Gobi" LLC 4. "Dal Huudas" LLC	Hotel/restaurant management, new menus/recipes, service for the tourism market	Mr. J. Oktyabr Head of Mongolian Culinary Association
Bayanhongor	1. Songolt Trade 2. Hovshikh 3. Khongor Anduud Savings & Credit Cooperative	Human resource management, including recruitment, hiring, contracting and payment of staff, personnel policies and regulations, and staff development and training	Mr. Luvsanjamts Regional Development Initiative
Dundgovi	Devjin Cooperative	Camel milk processing, including hygiene and sanitation standards related to production, storage and processing of raw milk and dairy products, yeast culture technology, proper use and maintenance of milk processing equipment, and product packaging, labeling and storage	Ms. Batsukh Food and Biotechnological School of STU

Mercy Corps often administers pre- and post-training tests to determine the increase in participant knowledge concerning the subject taught.

A training course on basic business skills and practices was offered in Arhangai at the end of October. There were 24 participants from 20 businesses who attended the 2.5 day session. The businesses included dairy processors, a boot manufacturer, vegetable producers, bakeries, an ice cream factory, veterinary services, a wood processor, and various trading and retail companies. Course topics included developing business ideas, business planning, market research, production and human resource planning, financial management and reporting, and business risk management. Pre- and post-training tests were administered, in accordance with standard Mercy Corps/Mongolia practice. Before the training session, the average score was 23.7%; after the training was concluded, the score was 68.8%, representing a significant improvement. Participant feedback on the training was very positive with requests for more detailed follow-on courses on accounting, business planning, financial management, marketing, and general business management.

## **Local Capacity Building for Training and Technical Assistance**

Another important objective of Mercy Corps' programs is to build the capacity of local training and technical assistance providers. This has been accomplished by training Mercy Corps aimag-based staff and promoting the concept of "counterpart" interaction between local consultants and the Ulaanbaatar-based consultants when the latter travel to the field. An example of successful capacity building to date is the increasing ability of Mercy Corps aimag-based program officers to provide business plan training and undertake business planning with local herder and non-herder businesses.

The need to build the capacity of the local trainers is an area that still requires further attention. The programs continue to look at ways to better monitor and evaluate the quality and the technical knowledge of the local consultants and training providers. During 2005, Mercy Corps will begin "certifying" local consultants. A list has been compiled of all aimag-based consultants available in the aimags in which Mercy Corps operates and their respective areas of expertise. Mercy Corps plans to evaluate these local consultants on both their technical knowledge and their skills as a trainer. This will likely be done by a two-person team of Ulaanbaatar-based experts, one focusing on technical knowledge and the second on the presentation and transfer of that knowledge. The local consultant will be "rated" with any areas requiring ongoing professional development identified so that Mercy Corps can work with the provider to improve his/her technical and/or training skills.

Many of the business-related trainings including financial recordkeeping, human resource management, business law, taxation, and marketing, continue to be provided by Ulaanbaatar-based consultants. More complex technical topics, including milk processing, fodder preparation, crop production, and restaurant and tourism management, also continue to be covered by the UB consultants. Mercy Corps is continuing to assign local counterparts to each UB consultant, with the goal of having these counterparts develop the necessary skills and knowledge to provide future training and technical assistance. Some examples of this "pairing" are as follows:

Table 7 - UB Consultant "Mentoring" of Local Training/Technical Assistance Providers

<b>Aimag</b>	<b>Training/Technical Assistance Topic</b>	<b>UB Consultant</b>	<b>Counterpart(s)</b>
Bayanhongor	Milk processing technology	Tsetsgee	D.Bayasgalan, GI
Bayanhongor	Vegetable processing/preservation	Poli	D.Yundenbazar, GI
Bayanhongor	Financial record-keeping	T.Enkhtuul	E.Enkhat, GI S.Rentsenbyamba, consultant
Bayanhongor	Felt production	Amarjargal	D.Nadmid, client/consultant
Govi-Sumber	Cooperative marketing	L.Urtnasan	G.Tuvshinabayar, GI T.Sunjidmaa, GI
Govi-Altai	Marketing	Ch. Batbold	G.Batbold, GI
Govi-Altai	Rural hotel/ger camp management and food production/service	J.Oktyabri	G.Batbold, GI Ya.Suvdmaa, consultant
Govi-Altai	Milk and dairy production	S.Tsendsuren	B.Narantsetseg, consultant
Umnugovi	Fodder	B.Togtohbayar	U.Erdenebileg, Pasture project D.Gombo, veterinarian
Umnugovi	Greenhouse farming	J.Tumen	A.Oyuntuya, Extension Centre
Umnugovi	Milk technology	S.Tsetsqww	S.Maamanhuu, consultant
Uvurhangai	Milk and dairy production	S.Tsetsgee	Ariunaa, consultant
Uvurhangai	Pig farming	D.Bataa	E.Tegshbayar, GI
Dundgovi	Financial management	Beterdene	L.Daanii, GI
Dundgovi	Business planning	Chinbaatar	L.Danaai, GI
Dundgovi	Mare milk production	Batsukh	Ts.Gerel, GI

## **Market Development**

Major marketing efforts during 2004 included the Gobi trade fairs which showcased local production. These events were held in Umnugovi (12-13 August), Govi-Sumber (2-3 September), Gobi Altai (16-17 September), Bayanhongor (17-18 September) Uvurhangai (23-24 September) and Dundgovi (25-26 September).

Sales over the total twelve-day period reached almost MNT 125 million. There were 628 exhibitors selling locally-produced dairy goods, bakery products, vegetables, woolen and cashmere garments, leather and felt products, furniture, handicrafts and construction materials. It was estimated that up to 38,000 people attended the six events.

The events were organized and co-sponsored by a number of different organizations in addition to Mercy Corps, including:

- **Uvurhangai:** Chamber of Commerce and Industry, Aimag Governor's Office, Invalid Peoples Employment Generation Project, and the Herder and Business Support Association
- **Govi-Altai:** Chamber of Commerce and Industry, Aimag Governor's Office, Employer's Association, and the Herder and Business Support Association
- **Bayanhongor:** Aimag Governor's Office, Agricultural Broadcasting Center, Employer's Association, and the Aimag Agriculture Department
- **Govi-Sumber:** Aimag Governor's Office and the Aimag Agriculture Department
- **Dundgovi:** Aimag Governor's Office, Aimag Agriculture Department, Animal Breeding Department, and the Herder and Business Support Association
- **Umnugovi:** Aimag Governor's Office, Agricultural Broadcasting Center, and the Herder's Initiative Association

The financial cost to Mercy Corps was far less than the cost incurred in sponsoring the "Cashmere Market Days" of previous years. Mercy Corps spent MNT 2,967,870 in support of these events; this amount represented 28% of the total cost of MNT 10,588,870. The balance of financing was provided by the respective local governments, corporate and institutional sponsors, and exhibitors.

Mercy Corps has also been successful in linking producers in the Umnugovi and Dundgovi aimags to the largest Gobi consumer - Ivanhoe Mines. For the year ended December 31, 2004, sales by twelve herder/non-herder businesses to Ivanhoe Mines totaled MNT 137,763,500 (\$114,800). The products sold included gers and ger furniture, vegetables, and dairy products.

In December 2004, the Employers Association of Dornogovi aimag organized a trade and equipment fair, facilitated by Mercy Corps' "RASP" program. The fair provided an opportunity to exhibit a wide variety of equipment such as small-scale irrigation and cultivation machinery, as well as the latest technology in communication and information services for rural entrepreneurs. Mercy Corps assisted ten business people from the Govi-Sumber and Dundgovi aimags to attend the fair, including the directors of seven Gobi Initiative-assisted cooperatives. The participants acquired a more thorough awareness of the new equipment and technology currently available and were able to establish the business contacts necessary to either purchase such equipment or to learn more about the new technology. The event proved to be a successful way of linking market-oriented enterprises with the businesses that can supply them with high quality inputs and services. Mercy Corps plans to involve more of these business suppliers in the 2005 market events.

Mercy Corps has also held a number of meetings with businesses involved in the cashmere sector, from Ulaanbaatar-based knitters to US-based designers/importers. Mercy Corps remains convinced that there is a market for high-end cashmere goods produced in Mongolia, but only when more spinning capacity is created within the country, thus allowing small, relatively efficient Mongolian

knitters to access high quality locally-produced yarn that meets the specifications established by US firms selling to high-end retailers. As of December 31, 2004, the US Government-funded "EPRC" project was finalizing a scope of work for a feasibility assessment on establishing an in-country spinning capacity that would be independent of the large Mongolian firms that are currently unable to meet the required specifications for yarn quality and origin.

### **Local Government Support for Business**

During December 2004, local government/business community roundtable forums were organized in five Gobi aimags. The objective of the forums was to provide business owners and local government officials with both an opportunity and a venue to explore the constraints and problems encountered by the businesses in the aimag. An output from each forum was a summary of the main topics discussed and any resulting recommendations; each summary was then presented in letter form to the respective Aimag Governors.

Topics for each forum included:

- Govi-Altai - rural land use regulations and procedures
- Bayanhongor - accessing new production equipment and technology
- Uvurhangai - amendment to the "special license resolution"
- Umnugovi - the business environment at the border point
- Govi-Sumber - laws and regulations affecting rural business

The Mercy Corps office in Umnugovi, in consultation with the local business community and the aimag government, organized a roundtable discussion on improving the business environment at the border point. The roundtable was attended by 69 participants, including representatives from local government (12), government service organizations (20), the local business community (20), NGOs (7), local media (5) and the Mercy Corps office (5). The issues that were discussed included (a) legal ownership of the border point, (b) the poor environmental and working conditions, (c) the responsibilities of organizations that serve the border point, and (d) the duties and responsibilities of residents and businesses that regularly access the border point. Recommendations included the desirability of having local government and local NGOs jointly undertake a survey on trade and business conditions at the border, and the need for government to decide where the border trade center should be established. Details of the discussions were broadcast on Gobi Wave radio and Altan Gobi television.

An assessment of the training needs of local government officials and staff was also undertaken in six Gobi aimags during December. The assessment involved surveying 149 employees of both soum and aimag government offices. The survey revealed that training at the soum government level is virtually non-existent; in Govi-Altai, only one individual had ever attended a training course (cooperative development). The respondents felt that the initial training topics should be focused on building the capacity of local government to (a) support business start-ups, (b) advise on business laws and financing, and (c) support the efforts of NGOs in business development.

Government officials felt that their role was to organize regional/aimag business conferences, provide technical and financial assistance, link businesses to educational/training centers, establish wholesale trade centers, assist with the formation of business networks, provide tax-relief support to new businesses, and encourage more NGO involvement in rural life.

The results from the assessments are being used to develop training programs for 2005.

### **Veterinary Service Sector Development**

Mercy Corps, through its implementing partner, Mongolia V.E.T. Net, a local public service NGO, will be providing continuing education to veterinarians and vet technicians and operating a

veterinary pharmaceutical and equipment revolving fund that will complement the continuing education program. Both of these planned activities will begin in mid-2005.

The continuing education program will focus on improving the veterinary medical approach to animal health and safety in Mongolia. Continuing education topics will include: animal surgical procedures, use of modern pharmaceuticals, public health and food hygiene issues, the basic sciences, animal grazing practices, and business management. Formal one-week classroom training will be offered to a select number of veterinarians. The classroom training will be followed by an on-site assessment of training results, as well as additional group training for the original classroom participants and neighboring veterinarians and vet technicians.

The revolving pharmaceutical and equipment fund will ensure that effective and affordable drugs and equipment are available to the vets and vet technicians. The pharmaceuticals will be procured from reputable US and international companies and will be registered with the Government of Mongolia. The drugs are expected to include antibiotics, anti-parasitics, anesthetics and tranquilizers, wound treatments, vitamins and minerals, anti-inflammatories, and reproductive drugs. The equipment will be similarly acquired and include automatic syringes, multi-dosing liquid medical dispensers, water distilleries, floats and speculum, emasculators, basic surgical packs, external parasitic applicators, and suture material.

### **Animal Nutrition Monitoring**

In partnership with Texas A&M University, Mercy Corps has begun the process of establishing an animal nutrition monitoring system that will assist herders to track the nutritional status of their herds and determine the optimal fodder interventions necessary to maximize animal productivity. Texas A&M University has recently purchased the needed equipment and designed the fecal delivery, fecal processing and results reporting procedures necessary to ensure project success. The project will be fully underway in 2005, with samples regularly sent to Texas A&M for processing and scanning, with the results, and the implications of the results, passed back to participating herders, association members and other interested parties through the Gobi Initiative and RASP programs.

### **Dairy Sector Development/Food Safety Campaign**

Mercy Corps is supporting the establishment of at least one micro-dairy in each aimag that is deemed suitable for such production. In late 2004, business plans were completed for the first micro-dairies, to be established in Govi-Altai, Bayanhongor, Uvurhangai and Arhangai. A comprehensive set of training materials, on topics such as animal breeding, health, nutrition, and dairy processing, have been developed for use in training programs that will assist herders seeking to improve or expand their existing dairy production activities. These materials will be published in early 2005, with training provided to dairy producers, project staff and, to the extent possible, appropriate local government staff.

This project component is also focused on educating local consumers concerning safe dairy products. The food safety public education campaign is currently being developed and will begin in 2005. A foreign technical expert has been engaged to lead the initiative, with a local counterpart recruited to assist in development and implementation. The local counterpart will eventually take responsibility for ongoing technical support to, and oversight of the campaign as it is fully implemented.

### **Business Information Dissemination**

### **Forage Forecasting**

Mercy Corps is working closely with Texas A&M University to adapt and deploy a forage monitoring system in Gobi-Altai, Bayanhongor and Uvurhangai. This system will have a minimum of 120 field monitoring sites that are linked with satellite-based weather systems and vegetation greenness data. As of December 31, 2004, all of the sites have been established and the "GOBI Forage" team has completed soil analysis and the identification and documentation of the grazing preferences of Mongolian livestock for the different rangeland plant species in the study area. The team has also collected data on plant species related to growth rates, the influence of changing temperatures, and drought tolerances. Mercy Corps and Texas A&M University are on schedule to produce and distribute the first information and forage forecast maps by May 2005.

A forage forecasting information video has been produced in both the English and Mongolian languages. It was recently screened at a UNDP-sponsored conference.

### **Production and Dissemination of RBN Mongolian Magazine**

Pact, which is Mercy Corps' implementing partner under the Gobi Initiative, produces the "Rural Business News" (or RBN) magazine, as well as RBN radio and television programming. The average print run of the monthly RBN magazine is currently 5,500 and it appears in a 16-page, tabloid format with an additional 2-page technical insert. In 2005, the RBN magazine will be expanded from 16 to 18 pages per issue excluding the insert.

Regular monthly articles in RBN include "Lead Story", "Business Corner", and "Herder Tips". The magazine also includes special regional pages and a technical insert that provides highly sought-after information about appropriate and new technology relevant to rural economic development.

Recent "Lead Story" topics included "How to Be a Good Manager" (October 2004), "Rural Human Resources" (November 2004), and "Supporting Rural Businesses" (December 2004).

Mr. J. Bud is the Chairman of the "Gobiin Orgil" cooperative in Umnugovi. He stated that he has obtained new business idea opportunities from RBN on pig farming and fodder production, and on raising beef cattle. The co-op's recent entry into pig farming was highlighted in the November 2004 issue of RBN, and they are now planning to produce fodder during 2005. Mr. Bud is also a big fan of RBN's marketing column, where he has used the tips in that column to improve the packaging and labeling of his co-op's yoghurt.

RBN's "Business Corner" provides business tips in many different areas. Its most recent focus has been on business marketing and management. Stories are written by RBN staffers with input from Gobi Initiative and RASP staff, national experts and program clients.

The leader of Umnugovi's "Huren Hana" herder group, Mr. D. Tulgazana, was instrumental in organizing a group discussion on rural SME business marketing after the story appeared in RBN earlier this year. The discussion resulted in an increased understanding within the group of the importance of ensuring product quality and understanding competition. According to Mr. Tulgazana, the herders immediately began working on improving product design and product quality. Combining the marketing information provided by RBN with the training provided by a Mercy Corps consultant, the group conducted a product marketing survey for each of its felt and camel wool products and produced items consistent with the survey results. The end result was impressive; the group sold all of their products, with sales far exceeding their original business plan targets.

"Herder Tips" provides new and established agricultural and livestock-related ideas to herders. The focus of the column is not to give simple tips, but to provide more detailed and practical information around herding business risk management. The most recent topics included weather forecasting and winter herding, animal breed improvement, and pig and chicken farming as additional options for diversification.

Mr. S. Tumor from the "Gobi Tulga" cooperative in Umnugovi is a strong advocate for "Herders Tip". The co-op is successfully running an elite animal breeding business thanks, in part, to information provided by RBN. The cooperative has managed to decrease cashmere micron to 13 over the past few years and, in order to keep the business sustainable, they have also started planting fodder, rehabilitating wells, and focusing on livestock health improvement.

Ms. D.Selenge in Govi-Altai recently read about a chicken-breeding business in neighboring Hovd aimag. Contacting the business, she learned enough from them to start her own business and now has over 30 chickens providing 8-10 eggs every day. She is now looking for information on how to expand into meat production as well.

Launched after numerous requests from readers, the Technical Insert offers information on different production and processing equipment that is locally available. Thus far, RBN has provided information on building block machines, as well as equipment for making briquettes and plastic fence poles. The Technical Insert has been popular from its debut, read and effectively used by both herder and non-herder readers.

"Bayantooroin Burd" LLC of Govi-Altai started producing jarred pickles after reading the Sept 2004 Technical Insert. Although the company had planted a number of vegetables, it had never produced pickles before. This new product is bringing in more year-round income for this company.

Govi-Altai's D.Byambatug is a farmer. He encountered problems with using the outdated irrigation system in Sharga soum. From an article in RBN, he learned how to irrigate the field using snow and stream water. He is already planning to modify his irrigation methods for next spring.

RBN's Regional Pages continue to present the best practices of successful rural businesses. Over 20 stories highlighting these businesses appeared in RBN during the last quarter of 2004.

The "Huhruun Dolgion" cooperative in Govi-Altai had been planting only wheat each year until they learned of the demand for barley bread in Ulaanbaatar, through an RBN article. They have now added barley as a crop and have found regular buyers in the aimag center and in UB.

### **Production and Broadcast of RBN Weekly Radio Programming**

RBN is now producing 950 minutes of radio programming per month, in addition to the "Herder from the Future" radio drama. Programming continues to focus on traditional mainstays such as "Market Watch" (providing price information for 50 different commodities) and "Weather Watch" (providing weather forecasts in selected geographic areas). A roundtable discussion on RBN's "Lead Story" is also regularly produced and aired.

RBN has also begun producing newer program segments including the "Business Mirror" series (a talk show with business experts), "Marketing Tips" (interviews with a rural marketing specialist), and "Feature Success Stories" (best business practices of rural cooperatives and companies). Other segments include an RBN magazine review and numerous interviews with business and agricultural specialists on different topics.

Collaboration with rural radio stations has also increased. These stations are being used as outside sources for program production, including a ten-part series on business start-ups, and a five-part series on herder business diversification.

Mr. B. Avirmed has more than 2,000 animals and needs to make major decisions regarding the selling of hides, skins, cashmere, and meat. He claims that he cannot afford to make bad decisions and therefore listens to "Market Watch" every day. He is also a regular listener of the "Business Mirror" series, providing information which he has used on more than one occasion to support his herding business.

Feedback from listeners indicated that they are satisfied with the content but also hope for inclusion of more information on a variety of technical subjects and issues.

### **“Herder from the Future” Radio Drama**

During 2004, Pact continued producing and airing the radio drama "Herder from the Future". Topics incorporated into the drama included: business planning, diversification and financing; vegetable planting and irrigation; rangeland management; fencing and fodder production; food security; dairy production, veterinary services; and marketing. The drama continues to be educational, entertaining, thought-provoking, and wildly popular.

“Herder from the Future” is an interesting drama giving us inspiring news and information, but we are not able to catch all episodes. Is it possible to print and distribute the radio scripts?”

“There are so many interesting programs on Mongol radio, e.g. "Herder from the Future" (From an independent Mongol Radio monitoring survey).

“I think that “Herder from the Future” should be aired via FM radio in the aimag centers. Many rural herders have long wave radios, but townspeople have only FM radios”.

### **Production and Dissemination of Market Watch**

"Market Watch" has been one of the most successful RBN products. The purpose of the service is to eliminate rural and urban price differentials and enable herders to market their products at the highest price. The information is disseminated via the following:

- **RBN-509 (MobiCom SMS service).** There are currently 900-1,000 accesses of RBN-509 each month. As herders have limited access to cell phones, users of this service are mainly people living in the aimag centers. As the number of cell phone operators and users increase, the SMS service will become more popular, serving as a back-up to the radio and print "Market Watch" information.
- **RBN Radio-Market Watch Program.** In recent months, "Market Watch" has focused on prices for cashmere, wool, meat, skins, hides and intestines, as well as some non-traditional items. In special cases, like the recent increase in the price of petrol in Mongolia, RBN produced a program highlighting the main cause and the impact on rural businesses. RBN also provided time-sensitive price information, such as vegetables and animal body weight prices offered by meat processing companies.
- **RBN Magazine.** The magazine highlights products that have seasonal significance. As the magazine is only printed and distributed once a month, price information is normally provided only on "non-volatile" products. Price trends of key raw materials are also included in the magazine.
- **RBN TV.** In late 2004, RBN piloted a ten-minute program focused on "Market Watch" and its products, in co-operation with the Social and Economic Programming Department of Mongol TV. Four programs were produced and broadcast from October to December 2004. In 2005, ten-minute segments will be aired twice per month, focusing on commodity prices and fluctuations, and including expert opinions.

With increasing herder diversification, Pact has added more commodities on to the price list, focusing primarily on seasonal items - seeds in spring, agriculture equipment in summer, vegetable prices in fall, and fodder prices in winter.

### **RBN Website**

Pact has continued to regularly update the RBN website ([www.rbn.mn](http://www.rbn.mn)) which pulls together all rural business news reported through RBN services and products. During 2004, the website's automatic counter registered over 4,150 visitors. Pact has also started a portal forum where online readers can write and submit opinions. Since the forum was only launched in mid-November 2004,

there are few opinions currently online, but Pact is looking forward to collecting more feedback through this mechanism. The forum is not only for feedback, but will also serve as a means to express opinions and offer recommendations regarding rural business development.

From reviewing the website access, Pact has discovered that many of the users are Mongolians living and studying abroad, and foreigners interested in Mongolia. There have been several requests for "Market Watch" information, mainly for research purposes. These requests are mainly from Mongolian students studying overseas.

One businessman who sent an email to RBN is D. Batbold of Hentii aimag. He runs a small company that operates a boiler in the soum center and also plants crops and raises animals. He asked for detailed information about a mushroom growing business in Bayanhongor that was featured in RBN, as well as a contact address. In his email, he said that he gets very useful information from the website.

### **Production and Broadcast of RBN TV Programming**

The first RBN television programming to be regularly produced and aired appeared on Mongol TV in October 2004. The TV programs focus on sharing best rural business practices with the viewing audience. Pact has negotiated that the programs will be broadcast on Mongol TV during their "Four Seasons" economic program on a twice-monthly basis, with each segment consisting of 10 to 12 minutes.

"Market Watch" TV program segments of 7 to 10 minutes in length were also broadcast on Mongol TV during peak viewing hours in October, November and December 2004. In 2005, Pact will continue to produce ten-minute "Market Watch" TV programs in cooperation with Mongol TV. These programs will be broadcast twice per month on Mongol TV's "Business Time" program and will contain a summary of agricultural raw material prices with trends and future forecasts provided by experts. Additional content will include tips and advice for rural business operators aimed at improving business decision-making.

"An RBN TV program once focused on a vegetable producer in Umnugovi aimag. Our cooperatives decided to operate similar business models and asked MC for training on vegetable preservation. We then invited the producer, Mr. Poli, for the training; this taught us a lot. (Baldir, Togtoh, co-op chairmen)

"After our cooperative was highlighted on "Four Seasons" (RBN TV segment), we started receiving requests for more raw materials and more people began to buy our products. So the program helped us to increase sales and get connected to the market". (Chairman of Buyan Undral co-op, Govi-Altai)

### **Local Capacity for Information Dissemination and Communication**

In October and November 2004, Pact/RBN staff finalized the development of a training curriculum that focuses on how to manage, improve and undertake information dissemination at the aimag level, in a way that is easy for the public to understand. The curriculum and its content are based on the findings from an April 2004 information dissemination assessment in Umnugovi and Dundgovi. In November 2004, the training was conducted in Govi-Altai, Bayanhongor and Uvurhangai. The first participants included 45 local government officials and other employees of state organizations. Government departments represented included the Governor's office, tax, health, agriculture, police, legal, information, and environment. Future trainings, scheduled for early 2005, will be organized for other members of the community, including business leaders and representatives from other organizations (NGO's, associations etc.).

The seminars were successful in a number of areas: (a) improving the quality of the information the participants were presenting, (b) encouraging them to see information dissemination from an integrated standpoint, and (c) devising new ways to transmit information over vast distances more effectively using available organizations and facilities. As a result of the training, the participants

are now in a better position to be able to pass on this knowledge to their peers, with the aim of forming a more coordinated aimag-wide system of communication transmission and dissemination. The interactive approach to teaching was also a success, encouraging independent thinking and new ideas from the participants. Similar training will be conducted in other aimags in 2005.

## **MAJOR ACTIVITIES DURING 2004 - CIVIL SOCIETY**

Mercy Corps' Training, Advocacy and Networking Program works to strengthen NGOs in rural Mongolia to be effective, collaborative and professional organizations. Due to the nascent civic sector in rural areas, Mercy Corps works with registered NGOs as well as committed individuals and informal organizations to establish a solid foundation for effective community-based activities. The willingness of the local government to help increase civic activity has made it possible to define a broad mandate for civic engagement and the means to sustain that mandate. Mercy Corps supports research, technical assistance, and other inputs that improve mechanisms for civic participation and effective use of local resources, including human and financial capital. In this way, Mercy Corps is working towards the following objectives: (1) increased community-driven activity for social benefit, (2) increased impact of civic organizations in local communities, and (3) strengthened environmental conditions for the sustainable activities of civil society organizations.

### **Support for Community-Driven Activity for Social Benefit**

#### **Community Grant Voucher Program**

Mercy Corps conducted a civil society assessment in its target area noting that NGOs had a history of responding to donor needs, but not local community needs, despite the efforts of all stakeholders, and that citizens had a history of making complaints about community issues, but did not come to open forums to discuss solutions to those problems. Mercy Corps decided to provide vouchers to members of a selected bagh constituency giving them the power to decide on a project that addresses community needs. The program has four steps: (a) baghs are selected on the basis of demonstrated commitment for civic action, (b) households of selected baghs are given a voucher where they, in a guided series of bagh council meetings, consolidate resources and prioritize community needs, (c) local NGOs present proposals to the bagh constituency that address the constituency's needs, and (d) the projects are selected, implemented and monitored by the bagh constituency.

The program was launched in mid-2004 through announcements in three national newspapers, two local newspapers, the local market via posters and public announcement system, and through FM Radio in both target areas. TAN staff conducted informational meetings with two soum governors and 18 bagh governors, as well as 245 community members. In October, 18 people were selected for the community facilitator training provided in Dundgovi and Uvurhangai in November. Vouchers totaling more than MNT 4,500,000 were distributed to the 500 households in two baghs selected for the program: bagh #9 in Mandalgovi soum, Dundgovi, and bagh #7 in Arvaiheer soum, Uvurhangai. The projects of these baghs are expected to be completed by September 2005.

#### **Social Entrepreneur Support Program**

Mercy Corps is identifying and supporting rural social entrepreneurs to demonstrate to rural NGOs how local resources can be used in innovative ways for community benefit. Mercy Corps' criteria for the selection of social entrepreneurs is someone with the ability to demonstrate success and commitment in implementing a practical and replicable idea that creatively uses local resources towards the greater public's social benefit. In 2004, through an extensive nomination process, the program identified three social entrepreneurs who use almost entirely local resources to address the needs of their communities. Oddly enough, Mercy Corps found these individuals to be widely known but not yet recognized. On November 12, 2004, these social entrepreneurs were given the

first annual Mongolian social entrepreneur award, which was covered by national print and broadcast media reaching over 800,000 people. The social entrepreneur award comes with MNT 1,200,000 for each social entrepreneur to implement a community development project. The prize has made a lasting effect on how these social entrepreneurs are regarded in their community.

In December 2004, the “Youth Federation NGO” of Dundgovi teamed up with newly-recognized Social Entrepreneur Award recipient, Ts. Lhundevdorj, to mobilize 200 students from Erdmiin Dalai school to collect trash and bottles. A total of \$100 was earned with which the school bought a digital scanner.

Mercy Corps also assists participating social entrepreneurs to share the impact of their activity through visits to other aimags and through the media. Again, this individualized approach aims to stimulate innovation among existing NGOs and set standards of responsiveness for addressing community needs.

### **Capacity-Building of Local Civic Actors for Improved Impact**

#### **Training of Trainers Program (TOT)**

Mercy Corps is creating an indigenous cadre of professional trainers to meet local NGO training needs and lower the dependency and costs of external trainers. A total of 31 local experts were selected for the training program based on the prioritized needs of local NGOs. From that number, 24 successfully completed the first phase of the program, “Basic Certification”, gaining the competency to (a) identify target groups, (b) define training goals, (c) assess different learning styles, (d) identify levels of behavior, and (e) choose appropriate methods to achieve goals for specific target groups. The second phase, or “Intermediate Certification”, began in November 2004 when local experts with basic certification, developed, marketed and delivered the first of two practicum trainings. The eleven trainings were observed by international and national training experts. To address the challenge of selling new services, Mercy Corps provided a training course for twenty local experts on marketing training services. Local trainers will deliver a report to assess key training areas based on local demand in February 2005.

#### **Impact Oriented Capacity Building Program**

While it is not possible to strengthen all NGOs directly, Mercy Corps is supporting a core group of NGOs in each target aimag to improve the importance and satisfaction levels of services they deliver, so that they may serve as examples to other NGOs. In December 2004, five NGOs were selected in each aimag for the core group. Based on client surveys and a continuous improvement approach, participating NGOs are creating organizational development plans to improve their services. TAN will then employ the local training capacity enhanced through its TOT program to deliver trainings and other forms of capacity-building.

Local NGOs identified the following needs for capacity building: (a) fundraising, (b) board development, (c) strategic planning, (d) financial management, (e) volunteer and internship co-ordination, (f) tax, legal, and accounting issues, and (g) marketing and public relations.

#### **Network Support**

Mercy Corps assists local NGOs and other civil society organizations to form informal networks and associations. In 2004, local networks were formed in Dundgovi and Uvurhangai, each including more than 30 NGOs. The networks conducted a survey in which the communities they serve prioritized their own issues and needs. The networks, facilitated by Mercy Corps, developed annual project plans to address those issues. Mercy Corps will provide financial support and technical assistance as needed to ensure effective implementation of the plans.

*Objectives of the NGO Network in Uvurhangai based on community surveys:*

- To cooperate with other social groups for identifying priority issues and solving them
- To improve CSO activities for increasing local khural's openness and transparency
- To organize public awareness programs
- To increase open information access and sustain information flows

*Objectives of the NGO Network in Dundgovi based on community surveys:*

- Impact on local decision-making process and policy
- Provide opportunities in the local community to join organizations that address problems
- Give opportunities to interest groups to address issues
- Sustainable activities towards a goal and common interests and bringing expertise together
- To improve capacity of network organizations

## **Promoting an Open Regulatory Environment that Supports Civil Society Development**

### **Procurement Research and Technical Assistance**

Mercy Corps is conducting, publishing and disseminating research on local procurement practices using participatory methodologies. The program consults the aimag government, the Ministry of Finance, international donors, and local CSOs and businesses to identify needs using tested methods. From April through May 2004, TAN staff conducted legal and field research on public procurement in rural Mongolia in cooperation with the Ministry of Finance. In November 2004, TAN staff held a round table discussion on the report findings. A working group in one aimag was formed to address procurement issues. Input from stakeholders, including local businesses, government officials, and NGOs will be included in a final document to be prepared for wider distribution in March 2005.

### **Participation Research and Technical Assistance**

Mercy Corps assists its NGO and local government partners to identify the current mechanisms used for civic involvement and to seek areas for improvement. The research focuses on the demographics of civic participation and the degree of debate that occurs within existing mechanisms. Follow-up activities, including training and technical assistance for the local government and NGOs, will be determined based on the report findings and feedback due out in May 2005.

## **COLLABORATION WITH OTHER PROJECTS**

In Ulaanbaatar, Mercy Corps staff regularly meet with other implementing agencies and with consultants engaged to design and/or evaluate donor-funded rural economic development programs. In late 2004, a key meeting was held with the UNDP "Sustainable Grassland Management Project", with the objective of coordinating activities and sharing project planning and implementation information in the aimags of Uvurhangai and Bayanhongor where both projects are working. Mercy Corps is providing UNDP with the names of the herder groups that will be working with Gobi Initiative during 2005 and the two programs will also look at opportunities to cooperate on the capacity-building of local training and technical assistance providers. A similar coordination meeting was held with the recently-started EU-Tacis project that is being implemented in the aimags of Govi-Sumber, Dornogovi and Sukhbaatar. Meetings were also held with the World Bank funded "Livestock Insurance Scheme", with World Bank staff evaluating the "Sustainable Livelihoods Project", with the "Pasture Management and Community Development" project of WWF, with consultants of the ADB-funded "Agriculture Sector Strategy Study", with the US Embassy-funded Mongolian AgPROMO project, with the Privatization of Veterinary Services" project of GTZ, and with USAID land privatization specialists.

Recent discussions were also held with small UB-based knitters on the challenges that they face in meeting foreign production orders, as well as with two US-based cashmere design/import firms that

sell to high-end retailers in the United States. These discussions led to a recommendation that a feasibility study for an independent spinning facility be undertaken.

Mercy Corps program staff participated in the UNDP-sponsored "Micro-credit National Summit" and in the UNDP-sponsored "National Conference on Pastureland Legislation". Staff also participated in the roundtable discussions organized by the Open Society Forum on "Official Donor Assistance for Rural Development", "The Role of Government in the Livestock Industry" and "How to Support Mid-Level Herders". Mercy Corps Program Director L. Bayan-Altai was also invited by the government to join the advisory group working on the business development component of the Millennium Challenge Account proposal.

## **FINANCIAL SUMMARY**

For the year ended December 31, 2004, Mercy Corps incurred the following direct costs for its three programs in Mongolia:

Gobi Regional Economic Growth Initiative	MNT 1,369,747,200 *
Rural Agribusiness Support Program	732,381,400
Training, Advocacy and Networking Program	182,344,800 *
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TOTAL	MNT 2,284,473,400

(\* converted from USD @ MNT 1,200 = USD 1.00)

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This concludes the Annual Report on Activities for 2004.

## Loan Guarantee Program Summary

Mercy Corps/Mongolia has received funding from the U.S. Department of Agriculture to implement a rural economic development program in twelve aimags of Mongolia. The program, entitled the "Rural Agribusiness Support Program" or RASP, has a loan guarantee component. This financing activity is not direct lending to participants but rather the provision of "additional cash collateral" for commercial loans to rural businesses - whether cooperatives, partnerships, or limited liability companies. The purpose of the loan guarantee is to support the expansion and/or diversification of business activities that are deemed viable by the business client, the commercial lender, and Mercy Corps.

Business clients are selected on the basis of the business activity being proposed, the level of client interest and motivation, exhibited through active participation in training and technical assistance programs (whether Mercy Corps supported or not), and the amount of internally generated resources that the client is willing to invest in the business. Once selected, the client is assisted by Mercy Corps with preparation of a detailed Business Plan that includes information related to the client's legal status and history, proposed business activity, market assessments and assumptions, and pro-forma financial statements. Once completed, the Business Plans are approved by Mercy Corps and shared with interested commercial banks. The banks decide as to whether or not the client is eligible for a loan, based upon their established lending criteria. They determine collateral requirements and value the collateral offered by the client. If both borrower and lender agree upon the terms of the loan, then Mercy Corps will deposit at the lending institution the "additional cash collateral" necessary to secure that loan. Borrowers ultimately decide on the institution that will provide the financing for their business, based on loan terms offered, previous banking relationships, etc.

The "additional cash collateral" provided by Mercy Corps enables the borrowers to negotiate better loan terms, including duration of the loan and an interest rate "buy down". In no case will Mercy Corps fully guarantee a loan, nor will it guarantee the bank's profit (i.e. loan interest and fees). If a default occurs, Mercy Corps will require the financial institution to recover any collateral pledged by the borrower.

Additional detail concerning the Loan Guarantee component is as follows:

**Purpose** – Provision of additional collateral required for herder groups, cooperatives and non-herder aimag and soum-based businesses to obtain loans from financial institutions to expand and/or diversify their business activities. This additional collateral is being provided in the form of a limited guarantee with a cash collateral pledge.

**Funding** – This "loan guarantee" program is being funded by the U.S. Department of Agriculture (USDA).

**Timing and Geographic Area** – Beginning in late March 2004, herder groups and cooperatives in the six Gobi aimags of Govi-Altai, Bayanhongor, Uvurhangai, Umnugovi, Dundgovi and Govisumber. By the summer of 2004, non-herder businesses in the same Gobi aimags. By the fall of 2004, herder and non-herder businesses in six additional aimags of Khovd, Zavhan, Arhangai, Tuv, Sukhbaatar and Dornogovi.

**Eligible Participants (Borrowers)** - qualifying herder groups, cooperatives and non-herder aimag and soum-based businesses that are participating in the “Gobi Initiative” program funded by the US Agency for International Development (USAID) and the “Rural Agribusiness Support Program” funded by USDA.

**Eligible Participants (Financial Institutions)** – all legally constituted and legally recognized financial institutions, including commercial banks, non-bank financial institutions and savings and credit cooperatives.

**Borrower Selection of Financial Institution** – all borrowers will select the financial institution from which they will borrow, based on best terms offered and other considerations. Mercy Corps will neither select nor influence the selection of the lending institution by the borrower.

**Expected Loan Purpose** - Based on Business Plans prepared by potential herder group/cooperative borrowers, most loans will be used for the purchase of agricultural equipment (small tractors, fodder machines, dairy machinery, etc) and, in some instances, for working capital as well.

**Expected Loan Amounts** – Based on Business Plans prepared by herder group/cooperative borrowers, loan amounts are expected to range from a high of MNT 7,000,000 to a low of MNT 500,000. The average loan size is MNT 2,500,000 for the first borrowers in the Gobi aimags.

**Expected Loan Terms** - Based on Business Plans prepared by potential herder group/cooperative borrowers, loan duration will be a minimum of 3 months and a maximum of 24 months. Since the loans will be fully secured, both Mercy Corps and the borrowers expect that the interest rates charged on the loans will be adjusted (downwards) accordingly.

**Cap on Collateral Provided** - Collateral provided by Mercy Corps will not exceed the difference between the collateral supplied by the borrower and the amount required by the financial institution to secure the loan. The collateral provided by Mercy Corps will be "second recourse", provided only after the bank has exercised all of its rights against the borrower's collateral.

**Borrower Requirements** – All borrowers will be required to complete a Business Plan that is reviewed and approved by Mercy Corps; copies of these Business Plans will be provided to the lending institution. All borrowers will also be required to complete and submit all documentation required by the lending institution. All borrowers will also be expected to pledge owned assets as collateral.

**Terms Related to Collateral Provided by Mercy Corps** – All collateral provided by Mercy Corps will be deposited into an interest-bearing bank account maintained at the lending institution. The bank account will be in the name of Mercy Corps. Mercy Corps will enter into an agreement with each financial institution covering payment of the funds to the bank in the event of borrower default.