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GLOSSARY:

| | |
|-------|---|
| WAE | Wagner Asia Equipment LLC |
| HACCP | Hazard Analysis and Critical Control Point |
| OHS | Occupational Health |
| ISO | International Organization for Standardization |
| CIEH | Chartered Institute for Environmental Health |
| QMS | Quality Management Systems |
| QMP | Quality Management Program |
| SDP | Supplier Development Program |
| MNCCI | Mongolian National Chamber of Commerce and Industry |
| NBFI | Non-banking Financial Institution |

SECTION I. TECHNICAL

A. Summary of Grant Activity Goals and Objectives

The Quality Supplier Development Center (QSDC) is a non-governmental organization founded in January 2013 by Mongolian private sector representatives and supported by the USAID's Business Plus Initiative (BPI) project. QSDC's primary objective is to increase and enhance the competitiveness of Mongolian SMEs by providing business development services and internationally certified and demand-based specialized knowledge trainings to professionals and businesses. The organization's value proposition consists of providing a suite of interconnected business services addressing SME needs. Led by an independent Governing Board (Board) and a small operations and technical team, QSDC is committed to providing targeted assistance critical to the growth of Mongolia's SMEs.

QSDC's activities are divided into two areas: (i) quality management and (ii) supplier development programs. USAID's BPI project provided support to QSDC through two different Fixed Amount Awards (FAA, formerly referred as Fixed Obligation Grants or FOG): (i) Support to QSDC through an Operational Development Grant; and (ii) Technical Assistance Fund (TAF) Support to QSDC.

The purpose of TAF support to QSDC FAA is to enable QSDC to provide selected client firms with financial and technical assistance. As part of building the supplier development area capacity this grant aimed to support QSDC's assistance to client firms directly. QSDC is responsible for identifying client firms through comprehensive selection process, working with the client to develop an assistance plan.

Activities and deliverables under the "TAF Support to QSDC" FAA to QSDC is structured in 31 Milestones with an overall budget of MNT 985,271,246 over the course of 21 months (September 25, 2013 – June 30, 2015). The purpose of the grant was to support the QSDC to establish and manage a revolving Technical Assistance Fund (TAF), which worked as an ongoing transaction-specific assistance to local suppliers that responds to buyers' demand as well as providing targeted Technical assistance to SMEs¹.

Resources from the TAF were used to finance negotiated supplier development plans with local SMEs in order to address the specific gaps limiting the SMEs ability to fulfill a buyer's demand. For most of the SDPs channeled through QSDC, SMEs repay advanced funds from realized increased sales attributable to QSDC intervention.

While the revolving TAF represents a great opportunity for supporting the development of local suppliers that can respond to buyers' demand, its actual impact at a broader level depends on QSDC's ability to recuperate the resources provided to its clients. A revolving TAF, that included repayment of principle and management fee (around 20 percent p.a.) was designed to ensure that QSDC can continue to provide vital support to local SMEs beyond the initial injection of donor capital and beyond the BPI project. The TAF could finance a wide range of activities including but not limited to:

- Specialized technical assistance to improve product quality and/or productivity
- Equipment needed to produce the required volume on a timely basis

¹ The revolving TAF operated between October 2013 and March 2015. Per USAID's recommendation QSDC discontinued its revolving TAF and provided (non-revolving) technical assistance to targeted SMEs.

- Working capital to take advantage of a specific order from a client
- Specialized skill development needed to meet market requirements

B. Summary of Grant Activity Achievements

QSDC aims at supporting SMEs to directly increase sales based on a buyer-led, transaction-based approach. QSDC works to link large buyers with SMEs that are committed to improve their capacity, capability and competence to meet buyers' requirements. Supplier Development Program (SDP) serves both large buyers who are seeking to develop their supplier portfolio (in quantity, quality and time) and SMEs who are seeking for direct technical and financial assistance to meet buyers' and/or market requirements to grow their businesses. The buyer-led approach is a result oriented approach in which (i) the assistance is aimed to facilitate only those transactions that have actual demand; (ii) focus on resolving the specific problems of the supplier that are identified in collaboration with both the buyer and supplier, rather than providing pre-packaged solutions that shall suit every supplier; (iii) act as an honest broker and facilitate effective buyer and supplier relationships. Hence, the assistances range from simple matching of the interested parties to technical and financial assistance package required in resolving the bottlenecks for the transactions with proven demand.

Box-1: *QSDC's approach for Supplier Development Program*

QSDC utilizes a buyer-led, transaction-based approach to ensure that SMEs can meet specific market requirements and can better manage their growth process. The basic principles of the buyer-led approach are:

Sales drive growth. QSDC aims to accompany SMEs in their path to growth. QSDC strongly believes in simple but powerful and result oriented approach to growth – increase in sales. Whether increase in sales achieved through improved quality, increased productivity, new technology or knowledge QSDC aims to provide tailored solution to increase sales of its clients. Increased sales means improved competitiveness through effective coordination, better operations and/or increased productivity.

Demand drives sales. QSDC promotes only those who produce what they can sell, and not sell what they can produce. QSDC assistance to SMEs is tailored in meeting specific requirements of the buyer in quality, quantity and delivery time.

Actual contract is real demand. Of the local SMEs QSDC clients are those SMEs that produce goods and services with specific opportunity for sale, i.e. with real purchase order to fulfill. While the criteria significantly narrows the clientele of QSDC the criteria ensures the success of the sales and therefore growth of the SME.

With support of the FAA QSDC was able to test the effectiveness and the ability of achieving real impact by utilizing the buyer-led approach.

From October 2013 to June 2015, QSDC assisted 29 Mongolian SMEs through its TAF program, worth MNT 985.3 million. Participating SMEs have been able to increase their sales by some MNT 7.8 billion² as a result of QSDC assistance. The TAF assistance to SMEs were disbursed through two mechanisms:

² As of June 2015. Data for incremental sales are collected on a quarterly basis from the clients for a duration of 12 months upon project start.

1. *Revolving TAF assistance:* Under the “TAF support to QSDC” FAA QSDC received a total of MNT 936.1 million, from which QSDC provided revolving financial assistance to 22³ local SMEs providing financial assistance of MNT 929.8.
2. *Technical assistance (non-revolving):* Per USAID recommendations QSDC phased out its revolving financial assistance from TAF by March 2015. Between April and June 2015 The TAF assistance continued by providing technical assistance from TAF to client SMEs. While QSDC maintained its buyer-led approach, under the new technical assistance program QSDC assisted three local SMEs by sharing cost of the technical assistance on a non-repayment basis.

During implementation of the FAA QSDC worked to identify new business opportunities and aggressively promoted their programs to the private sector via individual and collective meetings, networking at public and private sector events, and public presentations. QSDC staff worked with more than 170 clients for identifying business opportunity, fulfilling specific purchase orders, matchmaking and advisory services. The clients included both large buyers who are seeking to develop local supplier as well as their SME suppliers who are challenged in meeting buyer specifications (in quality, size, timing etc.), accessing new markets (including export market), operational burden, financial resources, etc.

Table 1: TAF activity brief description, by client

| | |
|---|--|
|  | <p>Bitube LLC is a local wire mesh supplier to construction companies. QSDC met with large construction companies, who confirmed satisfaction with the quality and services received from Bitube LLC and hence planned four large purchase orders for Bitube to be fulfilled over the next four months. In order to take advantage of these purchase orders, QSDC and Bitube agreed to sign a SDP and TAF agreement. QSDC’s assistance provided working capital to allow Bitube to acquire the required raw material and capacity to fulfill purchase orders for four new buyers over the November 2013 – February 2013 period.</p> |
|  | <p>Nomin Uguuj LLC is a bakery that supplies bread to Bayan Airag Exploration’s (BAE) catering supplier. The demand from the catering company exceeds Nomin Uguuj’s production capacity and is expected to grow quickly with the expansion of BAE operations. In order to take advantage of the increased demand, Nomin Uguuj needed to purchase an additional oven to increase production. QSDC through its TAF supported Nomin Uguuj in acquiring new oven. As a direct result of this assistance Nomin Uguuj expects to increase its sales ten times in the first year.</p> |

Bitube, a female operated metal mesh supplier is increasing its sales through new buyers facilitated by the QSDC.

Nomin Uguuj bread production capacity expanded with QSDC assistance.

³ Two clients: SRB, leather bag and garments producer and Arvin Suljee, construction company received two SDP assistances each from revolving TAF.



QSDC Executive Director, Bayarmagnai J. signs SDP with Clean Fuel.

Clean Fuel LLC is a biodiesel supplier with ten employees. The company re-processes waste cooking oil into biodiesel that is then mixed with petroleum diesel to produce B-5, B-10, B-20 and B-100 products (The number represents the percentage of biodiesel in the mix). After conducting a detailed analysis, QSDC was able to show Clean Fuel that they could significantly increase their sales and profit by focusing their efforts away from mixed products to 100% biodiesel (B-100) production. After facilitating conversation with local buyers, QSDC also supported the firm in securing substantial increased demand for B-100 product as compared to 2013 demand. QSDC provided a financial assistance to increase Clean Fuel sales seven times in expected increased sales in the first year.



QSDC Executive Director, Bayarmagnai J. signs SDP with SCG LLC.

Standard consulting group LLC (SCG) provides professional, technical, and management consulting services on energy, urban planning, transportation, environment, infrastructure and IT. It employs a staff of six. The client aimed to incorporate the services of Building Information Modeling (BIM) in their portfolio in order to meet the local demand from construction companies that have already committed to future contracts for BIM services. QSDC assisted the client in developing the new service through financial assistance for software licenses, special hardware and tailored training for two additional engineers.



Uv Ur spindle ATC wood engraver delivered in UB.

Uv Ur, a family-run furniture manufacturing business, based on custom orders from long-term clients for households, hotels, restaurants, and retail stores. The market extends to other wood products that can replace imported products from China, presenting a tremendous market opportunity because the number of local manufacturers with the capacity to supply this niche market is limited. QSDC assisted the client to purchase a computerized spindle ATC wood engraver machine with multiple heads that will allow high production capacity and a vacuum press laminating machine for fine quality surfacing.



Employee of SRB LLC working on women's bag.

SRB LLC, a women-owned and operated local leather bag producer with 10 staff. SRB has contracted representatives to sell its products in Taiwan, Japan, and Korea and is often forced to close down its e-shopping website when orders exceed production capacity. QSDC is assisting the client to increase the production of bags needed to meet SRBs growing market abroad, which is expected to more than double the client's sales in the first year.

QSDC assisted SRB by extending into the second phase of TAF assistance for acquiring new and larger facility for production.



May 23, 2014- Mrs. Rentsensuren D., leather glove producer and Mr. Mauricio Moscoso, BPI Private Sector Advisor sign Supplier Development Plan.

QSDC was introduced to **Mrs. Rentsensuren** by the Ministry of Industry and Agriculture after she unsuccessfully tried to receive a loan from commercial banks to buy the raw materials she needed to fill two new orders she received from large buyers in UB and Bayan-Ulgii that are also exporting to neighboring Russia. Mrs. Rentsensuren currently employs five local workers for her leather gloves production, which she has been operating since 2000. QSDC’s assistance contributed to grow her sales by three times and add two new jobs.



May 26, 2014- Mr. Dorjdagya D., Director of Arvin Suljee LLC and Mr. Bayarmagnai J., Executive Director of QSDC sign Supplier Development Plan.

Arvin Suljee, a construction company that employs 60 people, struggles to purchase sufficient raw materials to cover the operating and production costs required for its increasing orders, given that buyers are not always able to make advance payments. QSDC assists Arvin Suljee to cover these costs until the company begins to receive payments from its buyers. The increased capacity is expected to double increased sales in the first year alone.

Upon successful completion of the contract QSDC also assisted Arvin Suljee in the second phase where it secured a much larger contract for college/school building.



Garden City LLC worker on blocks compression machine.

Garden City LLC, a small business that employs 15 people, provides biological and technical remediation and landscaping services to its buyers from the mining, construction, and public sectors. The company was awarded tenders announced by Municipalities of Khentii aimag, Orkhon aimag for sidewalk renovation. QSDC assisted the client to develop its capacity to produce pavement blocks, in order to reduce the expenses involved with purchase of those blocks and eliminate their dependency on the suppliers, to enable Garden City to meet larger orders and take on additional projects. The increased capacity is expected to grow sales by more than two times.



Ikhbulag Delger LLC produces textile products such as uniforms.

Ikhbulag Delger LLC, a small-sized woman-owned and operated business employing five staff, provides textile products including uniforms, ger covers, and traditional costumes, among others. During 2013 the client has been seeking to expand its production offerings with more profitable products. The client secured her first two clients during a trade show in 2013 from Russia and Mongolia. QSDC assisted the client to develop its financial capacity to produce new products required by buyers that will increase exports and grow their market in Russia. The expanded production line is expected to grow sales by more than two times and generate two additional jobs.



Floss LLC supplies snacks to high-end supermarkets in Ulaanbaatar.

FLOS LLC, is a women-owned company with ten employees that has been supplying up-scale supermarkets with ready-made snacks and salads over the last three years. This new offering in Mongolia has been very successful, prompting the Orgil chain of supermarkets to demand a 300% increase in both the volume and variety of Floss's products. The client was not eligible for bank loans given that the banks require companies to be on the market for more than three years. QSDC stepped in to provide financial assistance, enabling the client to purchase the equipment needed to expand the production line, as well as double the size of the staff. As a result, Floss's sales are projected to triple in the next year.



New Value Construction employee prepares large order of concrete blocks for the construction of the new Shangri-La building in Ulaanbaatar, Mongolia.

New Value Construction LLC, is one of many concrete block producers in Mongolia. However, most companies only produce blocks during the warm season and the quality of production often lacks in consistency. The developer of the new Shangri-La in Ulaanbaatar ordered a supply of 100,000 blocks by the end of December and 200,000 blocks by May 2015. QSDC assisted the client meet the buyers' specialized demand by supporting the client's investment for additional human resources and a new indoor, heated production facility in order to produce blocks during the cold season. As a result of this opportunity to extend their production period, the client will more than double their annual sales.



Zambalgaramiin Gomyo employees test the company's new equipment which will enable them to produce more quality blankets in less time.

Zambalgaramiin Gomyo LLC, a local woolen blanket producer established in 2010. Over the last four years the client has sold blankets to small shops in the domestic market. Recently, the company's owner Ms. Narantsetseg received a big break into the export market, signing a large purchase order with a Mongolian exporter with shops and buyers in Russia. However, the company could not fulfill the order with their current stock of raw material and largely obsolete manufacturing equipment. QSDC assisted the client to purchase modern equipment and provide maintenance and repair to salvageable existing equipment. This opportunity to upgrade their manufacturing technology will open doors for large new markets; as a result the client is expected to more than double their annual sales in the next year.



Merex JSC employee tests the company's new equipment which will enable them to improve controls for raw material and production quality.

Merex JSC, a local concrete mix producer established in 2012, recently signed large contracts to supply concrete blocks to two construction companies working with the Municipality of Ulaanbaatar City's re-development plan for the Ger districts. QSDC assistance was geared to improve the client's internal operations to reduce waste and improve controls for raw material, strengthen production quality, and improve the efficiency of transport. The client is expected to increase sales by more than two times in one year.



Employee at GUM LLC oversees increased product volumes of yogurt that will supply local kindergartens.

GUM LLC, a local producer of dairy products with growing demand from Mongolian consumers for organic milk products. In September 2014, GUM signed contracts to provide milk and yogurt to 65 kindergartens. However, due to lack of operating capital to procure sufficient raw material, GUM could not fulfill the required product volumes under the new contracts. QSDC provided financial assistance to GUM to enable the client to acquire the raw material (milk) required to fulfill the purchase orders under the new contracts, which will help GUM increase its annual revenue by 145 million MNT.



Agrico LLC prepares freights of jam for distribution points in new markets.

Agrico LLC, a local producer of jam, ketchup, and candies founded in 2011. Traditionally, the company supplied products to rural areas; however after signing a contract with a local distributor the client witnessed a dramatic market increase in Ulaanbaatar. Due to the lack of operating capital to buy frozen fruit inputs, the client was only able to fulfill 70% of the new demand. QSDC's financial assistance is allowing Agrico to increase its production and revenues by more than two times over the next 12 months.



Quality Manager at Nogoong Gazar inspects the molds for polystyrene blocks to fulfill new contracts.

Nogoong Gazar LLC, a local construction sector supplier established in 2011 that produces polystyrene concrete blocks, and panels. The client's products are sought after because they are made from polystyrene which is significantly lighter than concrete. The advanced dry technology allows Nogoong Gazar to continue production throughout the winter, unlike traditional concrete production. Over the next six months the client has contracts with four construction companies and purchase intents with another five companies. However, the client can only meet 50% of the required investment in raw material. QSDC's assistance will help the firm to fulfill these purchase orders and increase its sales by two times over the next 12 months.



With QSDC assistance, Mogol Noos LLC will increase sales through the production of a wider variety of fine yarns and improved production quality.

Mogol Noos LLC, Mogol Noos LLC, a local wool and cashmere yarn spinning established in 2013 company with 20 years of experience and more than 120 permanent employees. Currently Mogol Noos is not operating at the full capacity of the spinning factory. With QSDC assistance Mogol Noos LLC will expand the variety of yarns the firm produces and improve product quality to capitalize on the full potential of the factory's capacity.



Mrs. Narantsetseg, New Juulchin Tours LLC and Mr. Tuguldur B., Executive Director of QSDC sign Supplier Development Plan.

New Juulchin Tours LLC, a local tour operator company with 13 years of experience. QSDC is assisting the client in implementing the international quality management standard ISO 9001:2008. The certification will result in improved quality services and is expected to sales by 30% over the next two years.



Bodi Mur International is adding OTR tire repair services to its portfolio of services to better serve mining operators.

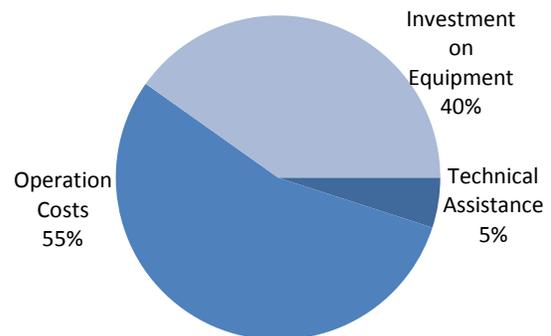
Bodi Mur International LLC is a local tire trader and repair service provider established in 2000. In 2013, Wagner Asia Equipment LLC, a Caterpillar equipment dealer approached QSDC to identify a potential local supplier for off-the-road (OTR) tire repair services. BMI has over 10 years of experience in tire trade and repair services for Passenger and Light truck tires, and seeks to add OTR tire repair to its portfolio of services to better serve mining operators. QSDC facilitated the initial match-making and proposal development between the mining operators, OTR tire distributors, and BMI. With QSDC assistance BMI will receive technical assistance for OTR tire repair business development and management services that will expand the clients opportunities significantly, with estimated sales of over MNT 400 million in the first year of operation.

The implementation of the TAF assistance provided a unique learning opportunity and capacity building to QSDC and most importantly tangible support to SME clients who benefited from TAF assistance through QSDC. Besides TAF assistance the FAA allowed QSDC to identify more than 139 products and service with buyer specifications and fulfilling over 191 purchase orders. While QSDC's assistance ranged from matchmaking, financial and technical assistance to the clients, common thread of all assistances QSDC provided to SMEs is that all utilized buyer-led approach and QSDC's assistance shared certain portion of the specific project/objective of the client.

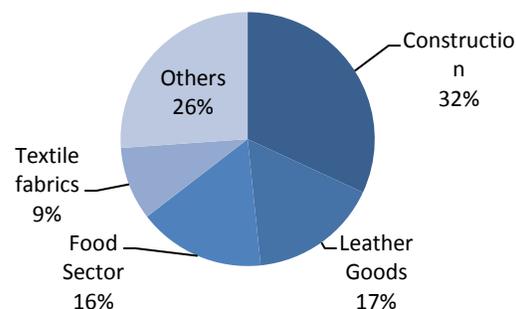
Of the TAF assistance clients 15 SMEs or 54.8 percent of the financial resources of the portfolio have been channeled to cover operations expenses, mainly to purchase raw material. Other nine SMEs (or 40.2 percent of the portfolio) utilized QSDC financial assistance to purchase new equipment in order to expand their production capacity. The remaining three clients received direct technical assistance.

The revolving TAF portfolio include firms from the food, agriculture, mining,

Graphic #1: Type of assistance by # of clients



Graphic #2: Main sectors by # of clients



construction, metal fabrication, leather and service industries both in Ulaanbaatar and the interior regions of the country.

TAF portfolio include SMEs from various sectors: construction (8), food (5) and leather (5), textiles (3), livestock products (2), biofuel, design services, furniture manufacturing and tourism, each with one client.

As a result of the assistance provided, 13 clients have already generated incremental sales worth over MNT 7.8 billion. Twenty clients of the portfolio continue reporting the incremental sales and five clients haven't begun reporting. QSDC expects by the end of the reporting period of these clients – around mid 2017- at least 11 billion in incremental sales. The participation of sectors in the results follows (or it is expected to follow) similar behavior than the funds allocated, with an important share of clients in the construction, leather and food sectors.

So far the clients that have contributed more to this result are Nomads Taylor (exporter of semi processed leather), Merex (concrete producer) and Garden City (construction company). In the following years it is expected that those client recently included in the portfolio such as Mogol Noos and New Juulchin Tour will contribute significantly in the sales results.

QSDC will continue to collect repayments of the revolving technical assistance well beyond the FAA period of performance. Six clients of the 27 clients have fully repaid to TAF, 11 clients expected to fully repay by end of 2015 and eight clients are in delinquency and under legal process. QSDC expects to fully recover 93 percent of the total TAF fund by end of 2015. All fund repayments will be used by the QSDC to continue to support the development of Mongolian SMEs, fulfilling the goal and objectives of the organization.

Table 3: Incremental sales

| No. | Client | Sector | Incremental sales (MNT) |
|--------------|------------------------------------|--------------------|-------------------------|
| 1 | SRB LLC | Leather Goods | 78,938,200 |
| 2 | Mrs. Rentsensuren (leather gloves) | Leather Goods | 36,252,000 |
| 3 | Arvin Suljee LLC | Construction | 229,723,572 |
| 4 | Garden City LLC | Construction | 359,241,372 |
| 5 | Ikhbulag Delger LLC | Textile fabrics | 82,604,274 |
| 6 | Ulemj Buyan LLC | Livestock products | 71,380,200 |
| 7 | Nomad Taylor LLC | Leather Goods | 684,939,900 |
| 8 | Mon Master LLC | Leather Goods | 26,546,600 |
| 9 | Durem Amuu LLC | Food Sector | 10,326,200 |
| 10 | FLOS LLC | Food Sector | 268,273,030 |
| 11 | New Value Construction LLC | Construction | 39,174,000 |
| 12 | Merex LLC | Construction | 1,101,901,900 |
| 13 | Agrico LLC | Food Sector | 27,800,455 |
| TOTAL | | | 3,017,101,703 |

The repayment performance of the revolving TAF assistance showed mixed results. In order to ensure growth of SMEs and better utilization of the resources QSDC engaged in strategic partnerships with local non-banking financial institutions (NBFIs). There are twofold objectives

to these partnerships: (i) strengthening the monitoring of the project implementation mechanism; and (ii) leveraging financial resources of the partners in favor of QSDC clients.

QSDC partnership with local NBFIs considerably improved the repayment of the financial assistance, leveraged additional financial resources and reduced risk of non-repayments as NBFIs shared financial resources as well as default risks.

C. Description of Any Activities/Milestones Not Completed

QSDC Completed all of the activities/milestones.

D. Lessons Learned and Recommendations

During the implementation of the FAA QSDC went through a critical learning curve that required QSDC capacity building, adaptation and flexibility and know-how, all of which QSDC learned by doing in a local environment. The main challenges were related with the knowledge and awareness about the concept of Supplier development and buyer-led approach, QSDC employed, and distinct features of the local SME business. Working with local SMEs requires thorough understanding of the SMEs, market and challenges faced in the day-to-day operations. It required time and effort for QSDC to win trust, create positive image in the market.

The lessons QSDC learned from the implementation of the project are summarized below.

Selling the concepts. Most local companies don't understand the concept of "supplier development," i.e. they don't perceive all the advantages inherent to the development of solid and stable business relationship between buyer and suppliers. Market failures as informality, poor ability to enforce contracts makes this even more difficult. Therefore, an important activity for any Private Sector Development Program is to organize awareness events with the private sector and to work closely with major companies in the private sector, those with the greatest potential for outsourcing, to internalize this concept.

Similarly, while the concept of the quality management is not new in the market the implementation and perception of the standards is weak. The economic growth perspectives require greater need for assistance in the areas of quality standards and management. In an effort of accessing new markets for local products government actively negotiates trade agreements and other simplified procedures with accessible markets, including China, Russia, Vietnam and others. However, trade agreements do not guarantee a successful export. Targeted new markets are heavily regulated and represent a big challenge for Mongolian producers, not only in terms of volume but also in terms of quality standards. Natural example is meat and other locally produced food exports. Hygiene, vaccination and other non-tariff barriers are still in place and prevent for major breakthrough in exports of those products.

Creating a right image. Winning the trust of SMEs and creating a right image is key for successful implementation of the project. While most donor funded projects in Mongolia provided grant based activities, QSDC's revolving TAF assistance required repayment of the financial assistance and deep knowledge of the clients' business in order to provide advisory service, matchmaking and due diligence for financial assistance.

Correct due diligence. The main objective of a due diligence is to increase the likelihood of providing assistance to a business with a significant growth potential in terms of sales. That, besides fulfilling the main purpose of QSDC, would assure its capacity to repay for QSDC services. As part of the due diligence QSDC require contracts and/or purchase orders. However

these documents are not legally binding and strictly enforced in practice; therefore, no document should replace a strict analysis of the sector, the business and the buyers. Additionally, when one asks an SME what is its main bottleneck it is very likely that the first answer would be “money.” And it could be the case that it is true; however it is also very likely that it is not the only challenge. Quality standardization, time management, suppliers development are elements that could put in risk the success of the business. Therefore, it is important for QSDC to consider in their analysis all these aspects and if it is possible provide assistance to overcome any other potential bottleneck.

Financial services as a specialized activity. The provision of financial services requires a highly specialized profile. A program or project that aims to venture into this field must have specialized personnel and incorporate practices that are already handled in the microfinance market. One strategy that QSDC considers highly valid and valuable is to create alliances with specialized entities. QSDC partnered local NBFIs which reduced the credit risk of its portfolio and leveraged additional financial and human resources. Additionally the partnership expanded QSDC portfolio of clients through referents provided by your partners.

Partnership is essential for the success and sustainability of the organization. Therefore seeking and identifying for strategic partners that share common objectives even prior to any activity to engage with. While most partners do share common objectives and it is somewhat complicated to convince them into the actual partnership. The most powerful and long term partnerships are when the common objective is within the core business interest and business model. Partnerships were instrumental for QSDC in leveraging resources (financial, know-how, human, market), reaching out more clients, expanding services and leveraging expertise. Private sector partners were key in successful operations of QSDC. Hence QSDC will aim to engage with more partners and build up more partnerships in the future.

Sectors. QSDC did not prioritize specific sectors in its initial portfolio of SMEs. However, high growth potential sectors in particular environment–construction, food, leather for Mongolia–naturally dominated the QSDC’s portfolio. While QSDC mostly provided entity specific assistance to SMEs it could provide sector level assistance by focusing and specializing in few select sectors. QSDC will prioritize specific sectors in the future while still leaving some room for high growth opportunity for other sectors.

Building on the lessons learned from the first years of operations QSDC will strengthen its operations by building more partnerships, introducing Special technical assistance response program tailored to specific needs of the client, complementing other SME development projects and programs and utilizing on specific sector opportunities.

E. Next Steps

QSDC will continue its services to Mongolian SMEs by continuing its two main and complementary programs: (i) Quality Management Program, and (ii) Supplier development program. Going forward QSDC will aim to become a premier institution for providing services to SMEs from its own resources:

1. Quality Management Services will continue on a cost recovery basis and aim to expand it with existing and new partners;
2. Supplier development program will continue from its recovered Technical Assistance Fund on a fee basis. QSDC will seek partnerships and donors to implement and expand

its supplier development program. Supplier development program shall be complemented with advisory services as well as matchmaking between large buyer and SMEs.

In order to leverage resources to provide more and better services for its SMEs, QSDC will continue to build strategic partnerships with both public and private institutions.

In June 2015, QSDC's Board made a decision in favor of the continuity of the Technical Assistance Fund (TAF) as tool under QSDC Supplier Development Program.

QSDC will continue its revolving TAF managed in partnership with one (or several) NBFIs. This would allow QSDC to (i) leverage resources, (ii) reduce risks, and (iii) increase size of potential clients. Additionally QSDC will:

(i) Allocate resources primarily in six sector – meat, textiles, hospitality, horticulture, ICT and leather – leaving always some flexibility for other high impact business in other sector.

(ii) Providing its clients with advice and assistance across the following six business processes:

- Management
- Marketing
- Innovation
- Operations
- Finance

In order to achieve this ambitious variety of services QSDC will continue working on the development of partnerships.

QSDC still has to assure the correct implementation of the Supplier Development Plans already signed and in progress. This includes; (i) following up of activities included in the SDPs, (ii) tracking the additional sales resulted from QSDC assistance, and (iii) recovering the funds provided through its Technical Assistance Funds.

Regarding the Quality Management Program, QSDC will continue providing trainings in International Quality Management Standards that has been successfully developed since the beginning of QSDC. Part of the revolving TAF will be used to provide specialized technical assistance to those Mongolian SMEs highly committed to implement management standards through international certification.

In order to strengthen this component, QSDC seeks to reaffirm and expand existing partnerships as well as to identify new ones. Regarding the current partnerships QSDC reaffirm its alliance with Wagner Asia Equipment, a company that has been supporting QSDC through facilitation, they are cost of their experts in Six Sigma and OHS. Also QSDC hopes to expand the scope of its partnership with SGS through the incorporation of new training camps as ISO 18000 Level 2 Level 2 and ISO 22000 Lead Auditor, among others.

ATTACHEMENT 1: ONE-PAGE USAID GRANTEE SUCCESS STORY

SUCCESS STORY

Partnership for Growth

As a result of USAID-funded QSDC Supplier Development Program, a local supplier took its business to the next level



Raw material production for construction sector is growing rapidly, however production quality continues to lag.



Ms. Tserenpagma, Executive Director of Garden City LLC and Mr. Mauricio Moscoso, BPI Private Sector Advisor to QSDC signing on Supplier Development plan.

As compared to small and medium enterprises (SMEs) in the region, Mongolian SMEs are inherently disadvantaged due to unique challenges they face, including: 1) high transport costs resulting from the country’s landlocked position; 2) a lack of productive infrastructure; and 3) high production costs. Part of the solution to these challenges requires dynamic local enterprises that are capable of meeting specific market requirements in terms of quality, volume, and timing. However, often time the capacity and market limit the local SME to grow and therefore many companies remain small in size and weak in capacity to meet large buyers requirements. Given the requirements for exacting standards and consistency of product and service quality, these common issues pose real challenges for the buyers. Quality Supplier Development Center (QSDC) through its Supplier Development program assists local suppliers to meet these challenges using the “buyer-led” approach—assisting SMEs building the capacity, productivity and quality to meet buyers’ requirements, resulting in suppliers’ increased sales, jobs and investment.

The Garden City LLC (Garden City) local architectural landscaping, and biological and technical remediation service provider was established 7 years ago and employs 15 people as permanent employees. The company provides biological and technical remediation services to mining companies and architectural landscaping service to construction companies and government agencies through public procurements. Due to expansion of the mining and construction sector in Mongolia the client had a unique opportunity for growth by challenged with capacity to deliver the contracts. The Government is the biggest buyer of client’s landscape services. The company won

tenders announced by Municipalities of Khentii aimag, Orkhon aimag for sidewalk renovation.

The company needed to upgrade their technology with new equipment to produce high quality sidewalk plates. The client needed financial assistance to partially cover both the purchase of equipment and the operation costs related to the new contracts. However, neither of the two buyers is in the position to provide advance payments and the client doesn't have enough collateral to access a bank loan.

In May 2014, QSDC approached Garden City as a potential client. During the initial assessment, Garden City requested assistance to upgrade technology with new equipment to produce high quality sidewalk plates by themselves due to its suppliers of sidewalk plates could not meet its requirements of quality, delivery and terms. After consulting with Garden City's potential and current buyers, QSDC and Garden City identified the key bottleneck affecting the firm's ability to move forward to the next step of the business and to increase its business margin. Through a revolving Technical Assistance Fund, QSDC provided assistance to buy new equipment and to cover part of operation cost. The company bought equipment of sidewalk plate production and started production for its specific projects in Khentii and Orkhon aimags. As a result, firm moved forward to next step of the business which will increase firm's margin, avoided risk of postponing project performance and quality of sidewalk used in the projects were improved. Its sales were increased around 220.0 million MNT which is 1.5 times more than 2013 and number of jobs were increased by 7 new employees.