

Performance Report – 2nd Quarter
January 1, 2008 – March 31, 2008
GER (Growing Entrepreneurship Rapidly) Initiative, Mongolia

Contractor: CHF International
Cooperative Agreement #: 438-A-00-02-00017-00
Reporting Period: January 1, 2008 – March 31, 2008

A. Background

The Growing Entrepreneurship Rapidly (GER) Initiative improves the quality of life for low- and medium-income families in the ger and rural areas by providing business development and employment services. The GER Initiative began in the peri-urban Ger Areas of Darkhan in August 2002 and expanded to Erdenet in March 2003, Ulaanbaatar (UB) in June 2003, and Choibalsan in July 2004. GER Initiative expanded in spring of 2006 to include Bulgan Aimag, Selenge Aimag, Tov Aimag, Baganuur, and Ulgii.

The GER Initiative works with a variety of private sector partners to facilitate its business and employment services, as well as local banks to provide entrepreneurs with access to credit. Medium and large businesses are partners in the program's employment training, employment matching, and business-to-business linkages services. GER also collaborates with local, private, and government business support services to develop their capacity and promote the sustainability of services.

B. Expected results at the conclusion of the contract

- Improved capacity of peri-urban residents to initiate and expand businesses by providing demand-driven business development services and business training
- Increased access to business information, financial resources, and employment opportunities
- Strengthened capacity of local institutions and development stakeholders to support the demand-driven and commercially oriented needs of the target population

C. Current core activities

1. BDC Client Recruitment

As shown in Table 1, 1,366 new clients registered for services this quarter, up 6% from last quarter. Of these new clients, 58% are female and 42% are male; compared to 67% female and 33% male last quarter.

GER Initiative has registered a total of 43,603 clients over the Life of the Project (LOP), of which 19,861 (46%) are business clients; 18,727 (43%) are employment clients; and 5,015 (12%) are "other"¹ clients.

Of the clients who registered this quarter:

- 53% registered as current or future business owners² (up from 49% last quarter)
- 33% registered for employment services (down from 43% last quarter)
- 14% registered for "other" services (up from 8% last quarter)

¹ "Other" refers to Ger Area people who are interested in services unrelated to business or employment (i.e. information on Mongolian laws or how to register as a citizen).

² A future business owner is a new category to capture clients who want business services but are not yet business owners.

Table 1: New Clients Registered Profile – Q2 2008

Client Type	Clients	Male	Female	Avg. Ger Time	Avg. Age	Disabled
Business Owner	364	157	207	9	39	1
Employment Client	445	185	260	8	27	0
Future Business Client	361	140	221	10	38	1
Other	196	90	106	7	34	0
Total	1,366	572	794	9	35	2

Table 2 below summarizes the types of businesses operated by GER’s newly registered clients. Traders continue to dominate the new clients, which is typical during the winter months. Based on previous trends, producers will increase in the spring and summer months. The early stages of this trend can be seen in the increased proportion of Agriculture Businesses within the Producer Sector listed after Table 2.

Table 2: New Businesses by Sector – Q4 2007

Sector	Number³	Percentage
Producers	125	34%
Services	67	18%
Traders	172	47%
Total	364	100%

Within each sector, the most prevalent newly registered business types were:

- Agriculture: 36% of Producers (up from 24% in the first quarter)
- Transportation: 40% of Services
- Consumer Retail: 48% of Traders

2. Business Consulting

GER Initiative business advisors provide one-on-one consulting on topics directly related to the clients’ businesses. During this quarter, 483 clients benefited from 569 consultations. Ongoing clients comprised 57% of those receiving consultations. Of the consulting services provided, GER continues to maintain a ratio of approximately 60% ongoing clients to 40% new clients; see Figure 1.

³ The number of businesses may be greater than the number of business owner clients because many GER clients operate more than one business.

Figure 1: New Clients vs. Ongoing Clients Obtaining Consulting Services by Percentage

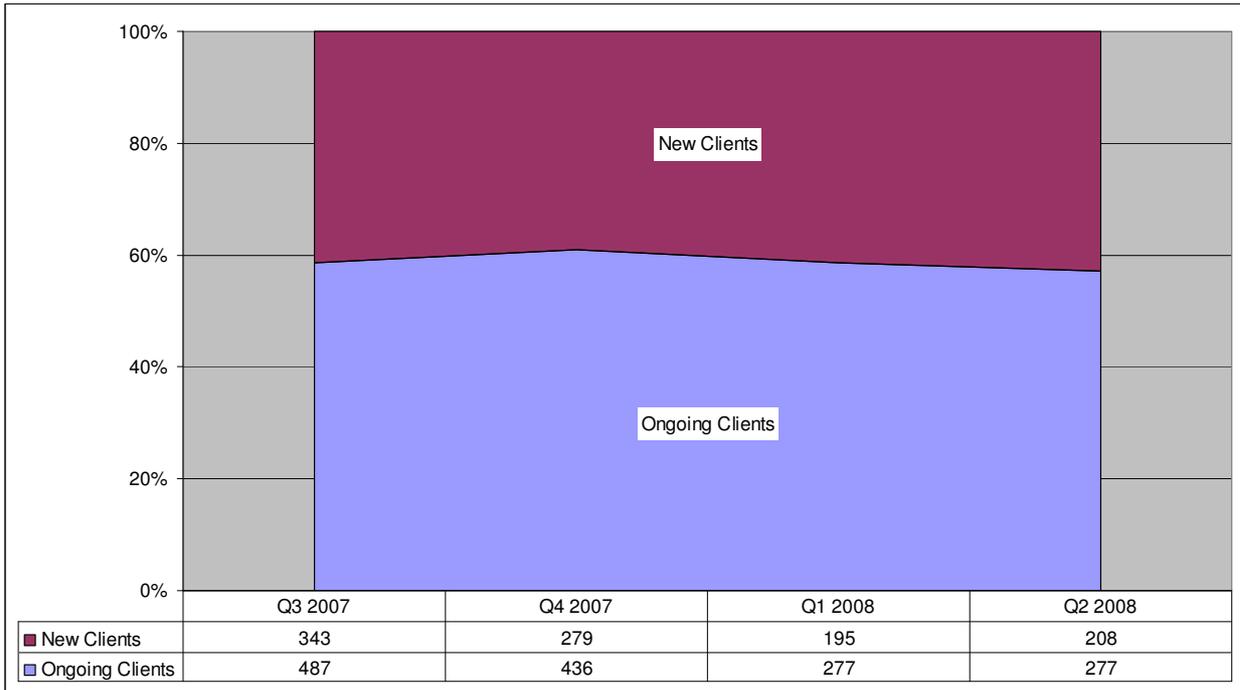
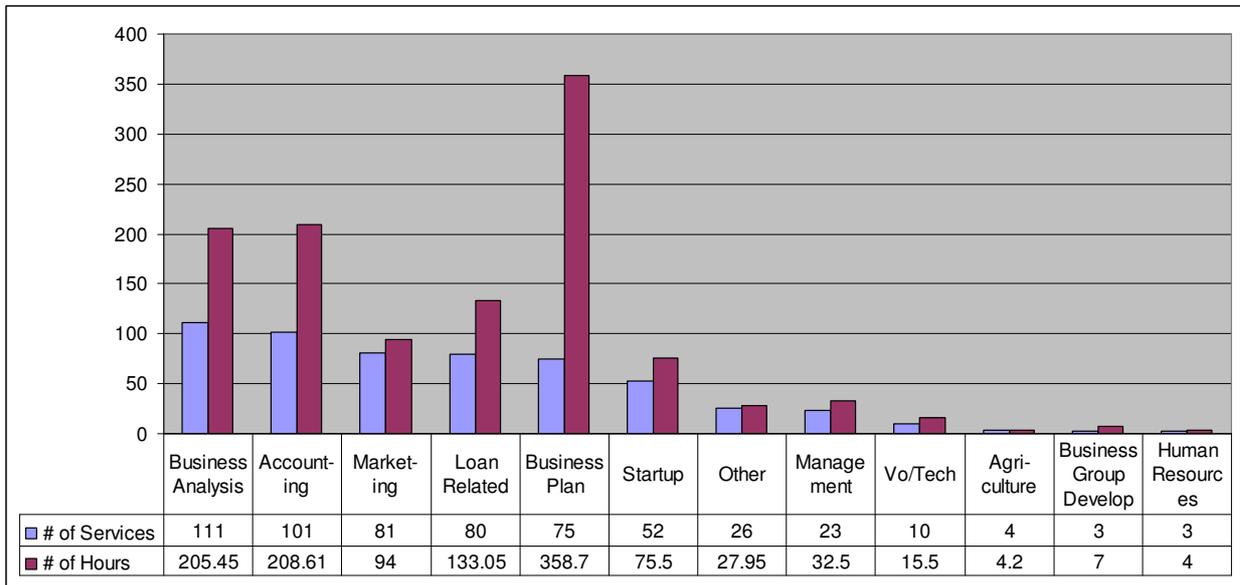


Figure 2 below details the demand for the type of consulting service. Reversing the trend of the previous two quarters, consultancies increased in the second quarter of this fiscal year mainly due to business analysis consultations.

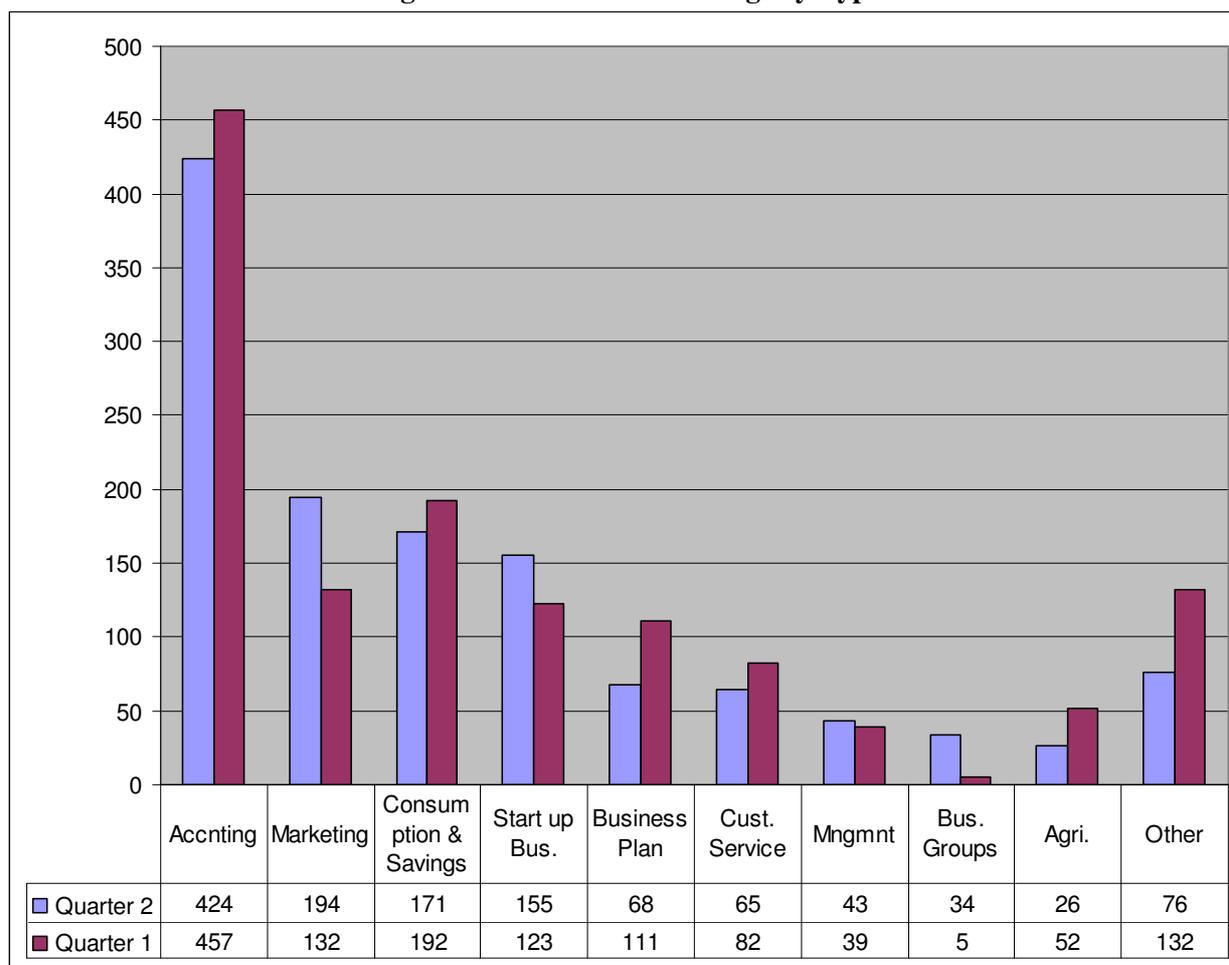
Figure 2: Consulting Services Provided



3. Business Training

GER Initiative provided 1,256 business trainings to 571 clients this quarter. Figure 3 compares types of trainings for the first quarter and the second quarter of this fiscal year. While most training types decreased in the second quarter; Marketing, Start-up, and Business Group trainings all increased significantly. Increases in Business Group trainings can partially be attributed to new group-based loan products offered by XacBank.

Figure 3: Number of Trainings by Type



In January, GER Initiative organized meetings at five UB branches (4th bus stop, Zuumod, Dambadarja, Yarmag, and Bayankhoshuu) for potential clients interested in starting their own business or expanding their current businesses. A total of 43 clients/potential clients came to the meetings, during which GER Initiative advisors explained the program and its services. Twenty of those clients purchased the Start-Up package training, which includes a broad range of trainings: Start-up, Business Plan, Bookkeeping, Costing and Pricing, Market Research, Consumption and Savings, Customer Service, Loan Preparation and Marketing. Subsequently, fourteen of the 43 clients received funding from either CAF or GER Initiative's partner banks, and two have started their own businesses.

In March, GER Initiative introduced combined packages of training and consulting services. GER has developed seven different packaged trainings: 1) the New Loan Client Package, 2) the Market Linkage Package, 3) the Producer Business Package, 4) the Human Resource Management Package, 5) the Service Business Package, 6) the Start-Up Business Package, and 7) the Business Group Package. In this first month, 31 UB clients elected to purchase packaged services, thus demonstrating demand for such services. In Darkhan, four clients purchased the Start-Up Business Package, which includes the Start-up Business, Project Writing, Borrower's Education, and Savings and Consumption trainings.

4. Financial Services⁴

Loan Facilitation (LF)

⁴ Average exchange rate used for this quarter: 1,174.8930 ¥ to 1 US Dollar

GER Initiative facilitates loans to clients through five partner commercial banks. The number of loans facilitated this quarter was 239; down from 284 last quarter. The total value of loans facilitated this quarter was \$380,809; down from \$395,811 last quarter.

On average, the terms of this quarter's facilitated loans were:

- Loan Size: \$1,593; up from \$1,394 last quarter
- Loan Term: 13.3 months; down from 14.2 months last quarter
- Interest Rate: 2.1% per month; down from 2.2% last quarter

In this quarter, one of GER Initiative's partners, XacBank, introduced a new loan product designed especially for business groups. GER Initiative began promoting the new loan product among its business groups and updated its business group development training to include this loan related training.

In March, GER Initiative met with XacBank to discuss the development of a specialized loan product targeting pig farmers and their unique financing needs. Because GER Initiative counts numerous pig farmers among its clients and the Mongolian pig farming industry is expanding, XacBank and GER Initiative will work together to understand better these businesses and their financing needs. With information provided by GER Initiative, XacBank hopes to launch the specialized pig farming loan product in the very near future and possibly will use GER Initiative clients to test the product.

Of the 5,456 loans valued at \$5,809,192 facilitated over the life of the project, the outstanding portfolio at the end of the quarter consisted of \$883,703 and 821 active borrowers. Within this outstanding portfolio, seven loans were in arrears with a remaining principal balance of \$6,525. As the table below shows, GER Initiative continues to reduce the number and amount of loans in arrears.

Table 3: Loan Facilitation Arrears

Arrears Category	Q1		Q2	
	# Loans	Amount	# Loans	Amount
Overdue (up to 30 days past due)	4	\$1,252	2	\$1,218
Abnormal (31 – 60 days past due)	3	\$378	0	\$0
Doubtful (61 – 90 days past due)	0	\$0	0	\$0
Bad (> 90 days past due)	5	\$6,261	5	\$5,307
Total	12	\$7,891	7	\$6,525

There are nine defaults in the loan facilitation portfolio. Since our partner banks play the role of loan administrators and providers of capital, they retain the right to decide when to write off a loan. No loans were written off by banks in this quarter.

Capital Augmentation Fund (CAF)

GER Initiative developed the CAF in July 2004. CAF is a syndicated lending program which provides loans to businesses through banks. CAF loan decisions are based on cash flow rather than collateral. Banks provide loans through CAF when the businesses do not meet their lending requirements. This allows promising businesses with insufficient collateral to obtain loans, e.g. start-up businesses.

CAF loans are awarded to motivated clients who have been working with the project for more than three months and have received more than three services. This service is neither advertised nor promoted to clients in any way. It is only offered in cases where GER Initiative deems the banks too rigid for their clients and thereby missing an opportunity to assist a winning business.

To date, 966 CAF loans valued at \$1,189,599 have been approved. GER Initiative continues to increase the disbursement of CAF loans. A total of 76 loans were disbursed this quarter, compared to 96 last quarter. The value of this quarter's loans decreased to \$107,374 from \$164,359 last quarter.

- Loan Size: \$1,413; down from \$1,712 last quarter
- Loan Term: 14.2 months; down from 16.0 months last quarter
- Interest Rate: 2.0% per month; equal to last quarter

At the end of this quarter, CAF had \$382,436 of outstanding loans and 289 borrowers. Of the current CAF loans, 29 loans were in arrears with a remaining principal balance of \$33,024. Only two CAF loans have been written off to date. The current arrears break down as follows:

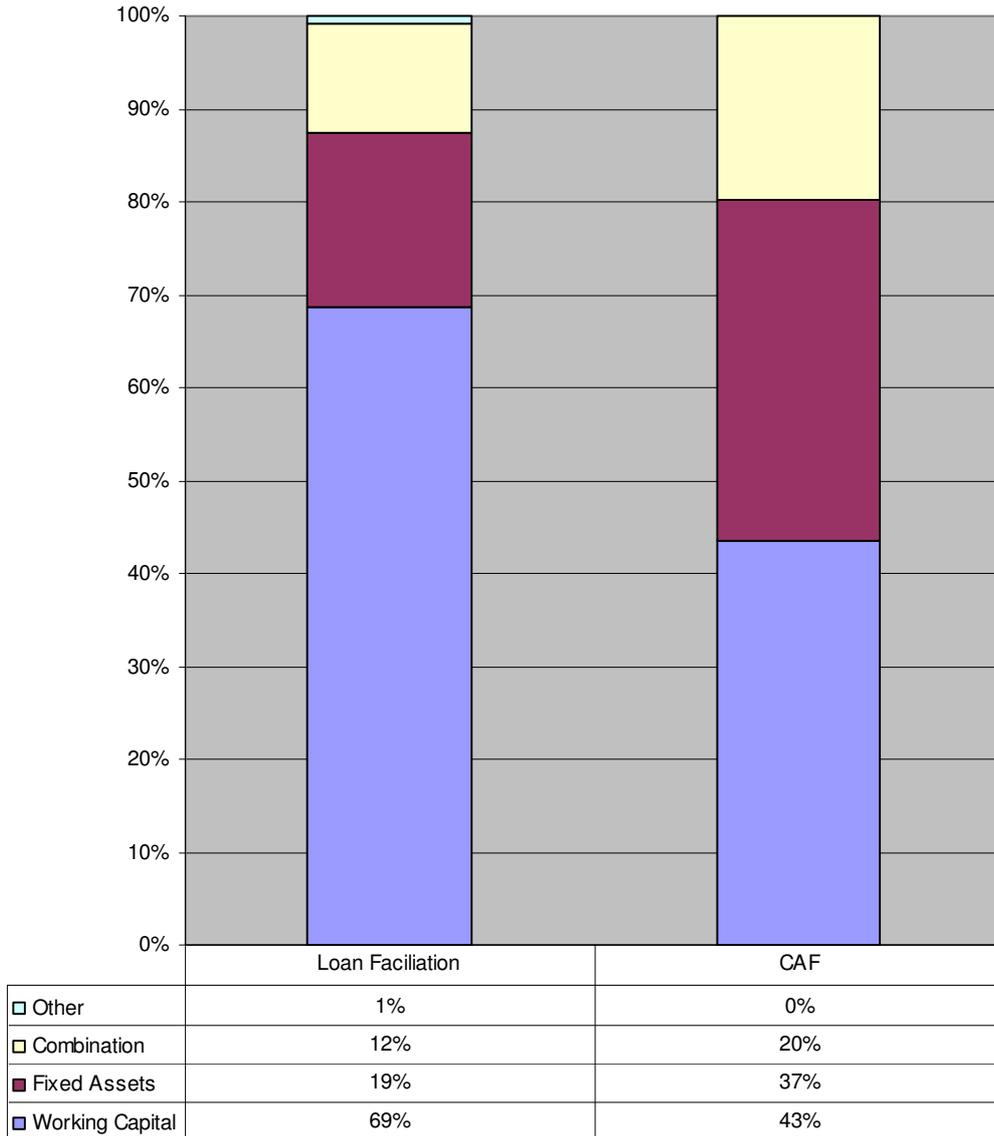
Table 4: CAF Loan Arrears

Arrears Category	Q1		Q2	
	# Loans	Amount	# Loans	Amount
Overdue (up to 30 days past due)	5	\$2,510	8	\$7,279
Abnormal (31 – 60 days past due)	0	\$0	1	\$36
Doubtful (61 – 90 days past due)	5	\$10,249	2	\$563
Bad (> 90 days past due)	13	\$15,640	18	\$25,147
Total	23	\$28,398	29	\$33,024

Loan Purpose

GER Initiative partner banks continued to increase their exposure to Fixed Asset and Combination loans, reaching 31% of all loans facilitated this quarter. Working Capital continues to be the most frequent loan purpose, though Fixed Asset loans continue to increase within the CAF portfolio.

Figure 4: Loan Purpose as a Percentage of Facilitated and CAF Loans



5. Linkages

Linkages provide tangible benefits to clients, such as lowered costs (i.e., Input Linkage) or increased sales (i.e., Sales Linkage). Linkages also allow GER Initiative staff to mentor clients in time management, costing and pricing, product quality, and new market development.

During this quarter, the total estimated value of trade fair⁵ and facilitated linkages was \$118,248, up from \$54,087 last quarter. Since the beginning of our extension in April 2006, we have facilitated total linkages valued at \$613,914.⁶ As shown in the following figure, the value of Sales Linkages increased considerably in February due to Tsagaan Tsar Holiday related trade fairs and large export orders for felt slippers.

⁵ Cash sales only. Does not include orders.

⁶ Our reporting requirements changed in April 2006. For this reason, we began tracking the value of linkages from this point forward.

Figure 5: Sales and Input Linkage Value by Month⁷

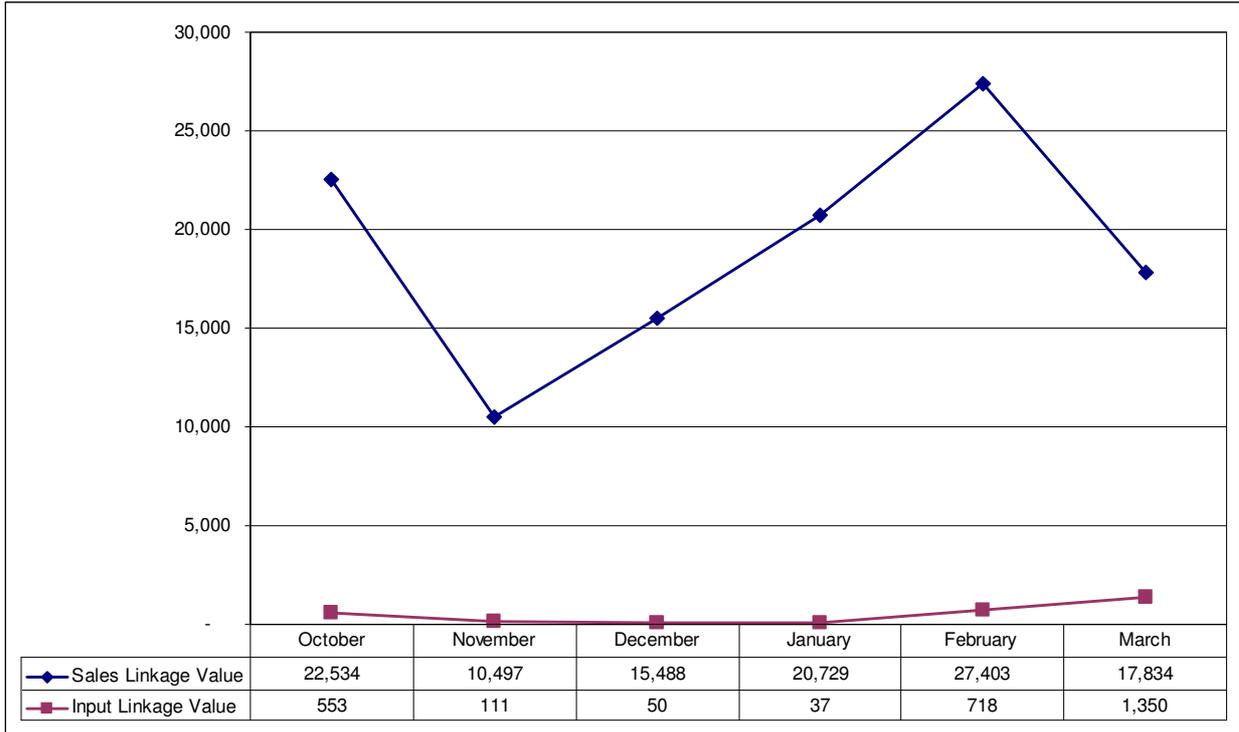


Figure 6: Number of New Clients Involved in Linkages per Month⁸

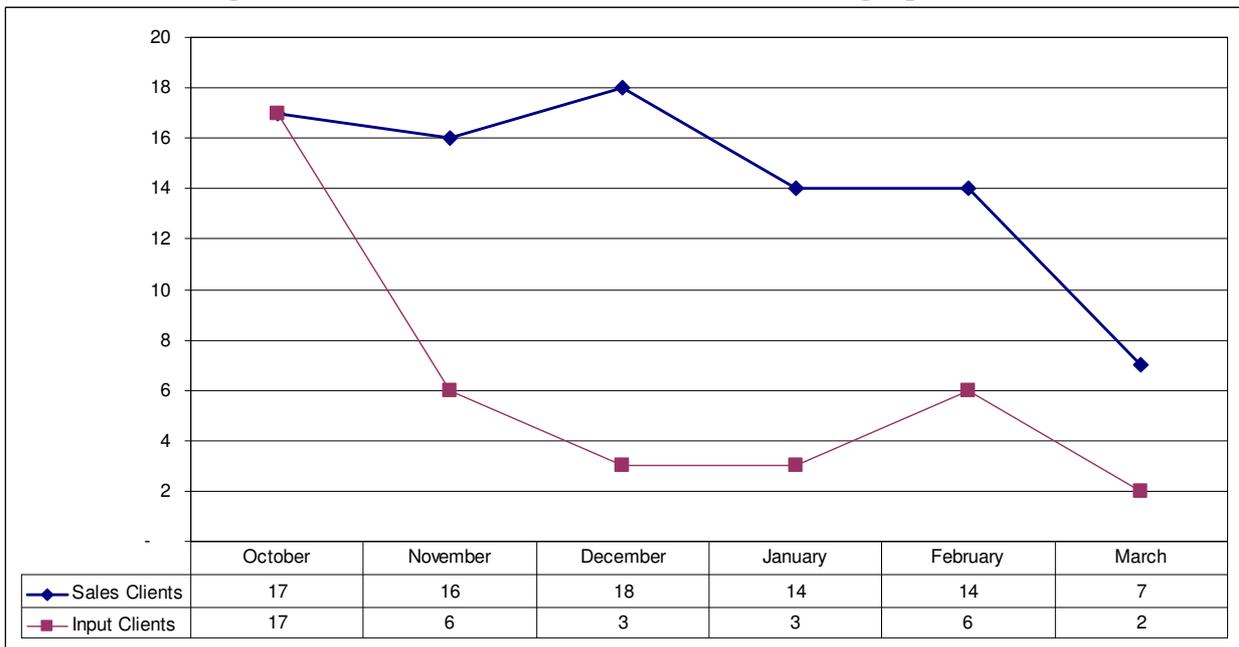
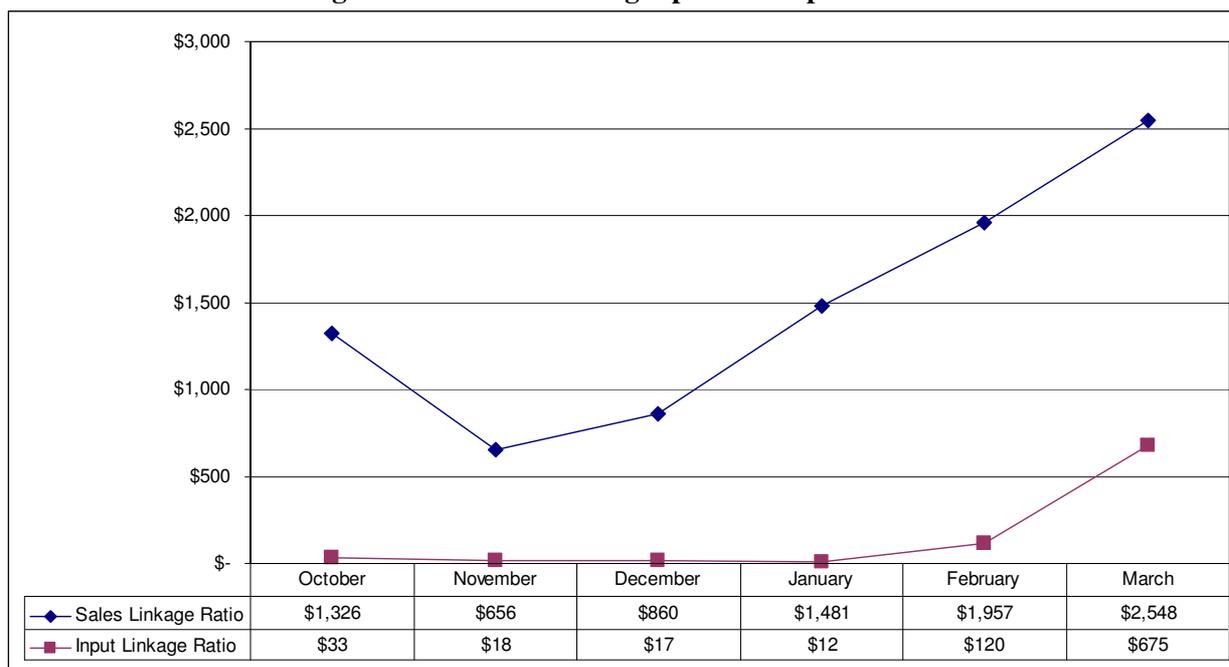


Figure 7 below highlights that the value of a linkage per client increased this quarter, again due to the Tsagaan Tsar Holiday related trade fairs and export orders.

⁷ Excludes trade fairs.

⁸ Excludes trade fairs.

Figure 7: Value of Linkages per Client per Month⁹



Examples of linkages completed this quarter include:

- GER Initiative finalized and printed the second edition of the GER Client Products catalogue in January. The updated catalogue features the products of 121 clients and provides a useful visual tool for promoting client products and generating new linkages.
- The Linkage Team has reached an agreement with the *Nomin State Department* store to support local micro and small businesses. From the 30th of January until the 7th of February, GER Initiative clients rented one square meter of space to sell products during for the Lunar New Year (Tsagaan Tsar).
- GER Initiative formed a partnership with the Mongolian-German Bridge NGO to assist its campaign of replacing plastic bags with cotton bags in leading supermarket branches throughout UB. GER Initiative will be responsible for selecting the micro-businesses to produce the cotton bags, monitoring the completion of the bags, and providing consulting and training to assist those businesses with forming a cooperative. Other partners in the project include the Mongolian Chamber of Commerce, the Ministry of Environment, and the World Wildlife Fund (WWF).

GER Initiative established new linkage relationships with Denison Mines, a mining company; Mongol Global, a trade and construction firm; Southgobi Sands LLC, a mining company; Ellehcor Drilling LLC Mongolia, a mining company; and Three Summit LLC, which provides geological services, consulting, and education.

Trade Fairs

- GER Initiative organized a three day Lunar New Year trade fair in UB. A total of 59 micro and small business owners participated in the event, selling products including handicrafts/souvenirs, jewelry, sewn/stitched products, traditional clothing (dresses, hats, boots etc.), wooden products, metal works, leather goods, and ceramics. Participants sold a total of \$3,653 worth of merchandise and received orders worth an additional \$693.
- In Choibalsan, GER Initiative organized the third annual Lunar New Year Trade Fair. Participating clients sold over \$12,000 worth of goods; an increase of 62% from last year. GER

⁹ Excludes trade fairs.

Initiative discovered that clients were well prepared for the fair and used good marketing methods.

- In Bayan Ulgii, GER Initiative celebrated the Nauriz Holiday with its second annual trade fair. The local community provided support with the Governor supplying space and workers, and several businesses sponsored prizes, awards, and gave monetary contributions. Twenty-five clients participated and generated \$1,860 in sales.

6. Business Associations

With IMPACTS, CHF International's cooperative development project, GER Initiative classifies business groups into three types: transactional, informal, and formal. Transactional groups are comprised of individual GER Initiative business clients who come together only for specific instances such as a joint purchase or joint sale. Transactional groups generally do not share assets and do not work together daily. Informal groups are groups that are not legally registered as a business, yet they share asset(s) and work together. Formal groups are legally registered as cooperatives.

GER Initiative provided services to 89 active transactional, informal, and formal groups over the course of the quarter. Highlights of business group activities this quarter include:

- In UB, GER Initiative continues to work with a rabbit business group established last year. The group has acquired an agricultural tractor with a half grant worth \$1,149. Twelve members of the group have agreed and applied for a GER Initiative loan for the remaining monies.
- In Baganuur, GER Initiative helped to form an informal vegetable production group that is now in the process of registering as a formal cooperative.
- In Zuunmod, GER Initiative helped to formalize a carpentry group into a company that began working together in January via a shared workplace and shared equipment.
- Setgemj-2, a sewing business group from Darkhan, received an \$850 USDA-funded CAF loan for expanding business activities and improving its workspace effectively.
- In February, GER Initiative developed new packaged trainings for business groups, as mentioned above, which were recently updated based on the availability of the XacBank new group loan product.
- GER Initiative assisted *Mandal*, a decorating and repair business group, to formalize into a limited liability company - *Chambai uur* - in order to participate in an open tender.
- In UB, a new informal business group was formed with assistance from GER business advisors at the Sukhbaatar branch. Three mothers of disabled children joined together in a business group to produce cotton bags and other simple products. Due to their children's disabilities, these women must stay home to care for them and cannot work outside their homes. The new group received GER Initiative's New Business Group packaged training service. Save the Children has been working with these disabled children and will provide their mothers' business group with a sewing machine so they can begin production immediately on the first orders.

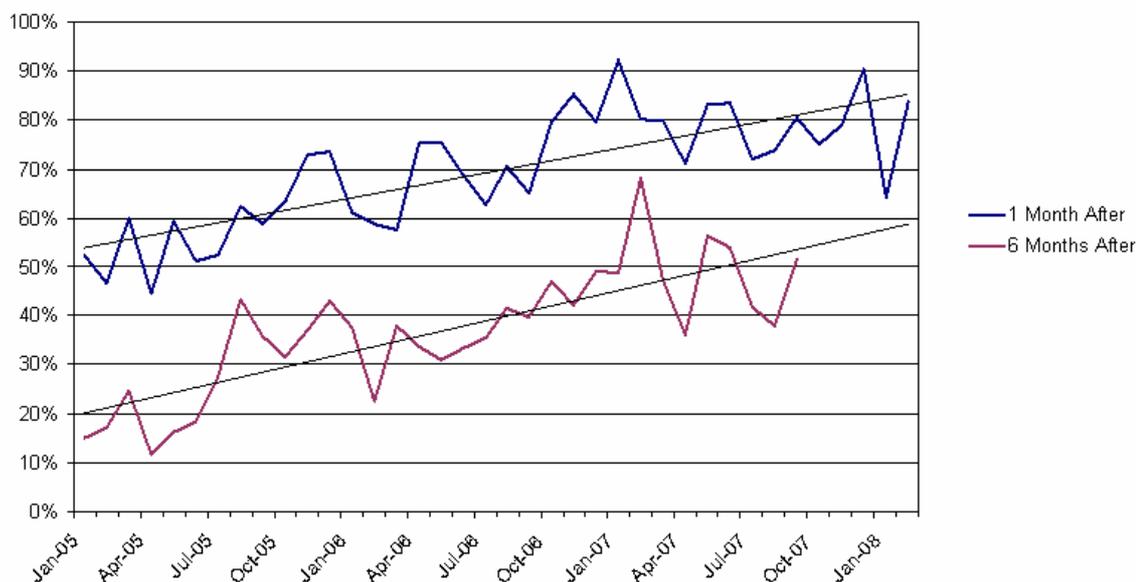
7. Employment Services

GER Initiative's employment services include soft skills training, vocational training, and job matching. Employment soft skills training decreased to 227 people from 642 last quarter. Longer-term vocational trainings increased to 99 people from 63 last quarter. GER Initiative matched 162 people to jobs, down from 238 last quarter. Of those, 34 were matched to temporary jobs, 10 to seasonal jobs, and 118 to long-term jobs.

Retention rates, as identified through monitoring employees' employment, are illustrated in Figure 8 below. The job retention rates - beyond one month - were as follows: December 90%, January 64%, and February 84%. During the last quarter, 140 people were placed in seasonal or long-term jobs; 108 people (77%) stayed in the job for at least one month. The red line in Figure 8 indicates employees who

remained in their jobs for six months. For this report, we are monitoring September 2007. In June, 71 clients were matched to long-term jobs and as of March 2008, 37 clients or 51% were still in the jobs. This is down slightly compared to the 54% of the previous quarter.

Figure 8: Employment Matching Retention Rates by 1 Month and 6 Months



Activities within employment services that took place this quarter include:

- GER Initiative improved the Soft Skills training material and extended the training time from two to five hours. The service fee has been increased accordingly.
- GER Initiative’s Employment Coordinator met with multiple district employment offices to develop a mode of cooperation with the employment offices, partner employers, and local vocational training centers located around UB.
- Vocational training was in high demand in UB in March. Four types of vocational trainings were conducted: 1) Thirty-five clients completed cellular phone repair training at the *Solongo* training center; 2) eight clients completed knitting training at *Gobi* company; 3) twenty clients completed carpet weaving training at *UB Carpet*; and 4) fifteen clients completed English Language training at the *Gegeerel* training center. The trainings at both *Gobi* and *UB Carpet* were conducted on-the-job, and each company will employ those trainees immediately following the training. *UB Carpet* will pay compensation to the trainees equal to the lowest wage, which is 108,000 MNT (\$92) per month during the training period. For the clients participating in the cellular phone repair training program, GER Initiative offered them Start-Up training.
- In Zuunmod, *Dadi LLC* closed, resulting in over 100 lost jobs. At the request of the Tuv Aimag’s Employment Agency, GER Initiative conducted a three-hour Soft Skills training for the former *Dadi* employees and is now assisting them to find new employment.

Labor Days

- GER Initiative’s Bayangol branch organized a Labor Day on January 16th for 20 unemployed clients. Seven clients were introduced to potential employers, two received a permanent job, and two were chosen to take a four-week cooking and decorating training as part of the GoM voucher training program.

Partnerships:

- GER Initiative made new employment matching agreements with Ulaanbaatar Carpet, *Solongo* vocational training center, *Gegeerel* education center, Power station-3, *Komit Service*, *Ganbros*, and *Tavan-Erdenet* companies.
- New training partnership agreements were concluded in March with the *Shine Garts* and *Ulaach Chandmani Company* professional training centers, which provide road repair and vegetable production trainings, respectively, under the GoM vocational training voucher program.

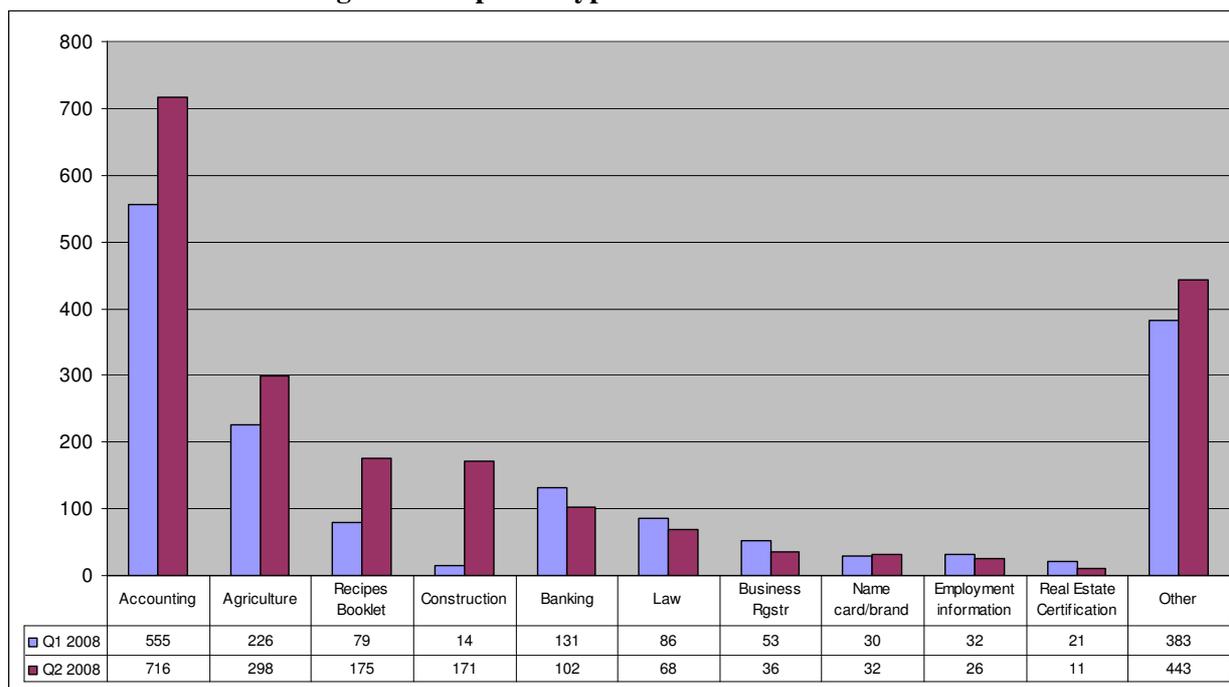
8. Information Services

Information Services include activities to share information per clients' individual requests, to provide general information to ger-area residents on important community issues, and to include activities implemented for or with government representatives. As in previous quarters, accounting information continues to be the dominant type of information requested. This quarter saw notable increases in construction information requests as clients prepare for the spring.

Information related activities this quarter included:

- GER Initiative's Erdenet Branch Information Officer met with Erdenet TV-10's executives about potential cooperation. TV-10 asked for assistance in finding successful local businesses to highlight in a weekly television program. In exchange, TV-10 will allow GER Initiative to air information about the program free of charge and provide free time slots to air commercials about upcoming GER Initiative events. This is a unique opportunity because it will allow our clients to advertise their businesses and will advertise GER Initiative services as well. The first program aired during the third week of January, featuring a cashmere production client.
- GER Initiative organized an information meeting in Darkhan to provide information to new and potential business owners who want to start their own businesses. Sixteen participants attended the meeting and received information on establishing and operating their business, as well as information on:
 - Organizations that can provide grants or special low interest loans
 - Types of bank loans available, necessary documents for loan applications, and common requirements for borrowers
 - Which assets could be collateralized by the bank or project for loans, and how banks evaluate those assets
- Information services related to agriculture were in high demand during March due to the approach of the spring planting season. All branches reported an increase in sales related to agricultural manuals for March. A substantial increase in the demand for construction manuals was also seen during March in all branches. The CHF-developed construction manual continues to sell well and is greatly appreciated by clients who have purchased it.
- In Selenge, GER Initiative organized an information meeting entitled, "Financing Needs for New Businesses," which provided information and advice to thirteen start-up business owners and residents who were interested in starting their own business.
- All Khashaa Valuation Surveys (KVS) have been collected as of January 2008. All available data has been entered into the KVS database, and data analysis is currently underway.

Figure 9: Top Ten Types of Information Provided



9. Partnerships

NTR

10. Local Staffing

As of December 31, 2007, GER Initiative employs 107 local staff. During this quarter, no new staff were hired, and seventeen staff left the organization. CHF continues to manage the downsizing of staff in preparation for transitioning to a local NGO in October 2008.

11. Business Development and Employment Services Centers and Branch Offices

GER Initiative operates out of thirteen branch offices. We have seven branches in UB, and one each in Darkhan, Erdenet, Choibalsan, Ulgii, Baganuur, Bulgan, Selenge, and Tov. CHF plans to begin consolidating branches in UB during the next quarter.

12. International Staff Changes, Consultants, Volunteers, and Visits

The Deputy Director, Brian King, joined GER Initiative in January 2008.

13. Reports Completed

NTR

14. Current Subcontracting Activities

NTR

15. Performance

This is the eighth quarter for the extension of the GER Initiative Cooperative Agreement. The table on the following page summarizes targets and results achieved only during the extension period.

Table 5: Results by Q2 FY08 Compared to Targets

Indicators & Results	Period Result	FY08 Year to Date		LOP (4.06 – 9.08)		%LOP 79%
		Result	Target	Result	Target	% Target Completed
Business Service Fees Collected	\$28,447	\$47,428	\$24,400	\$146,323	\$61,000	240%
Clients Registered for Business Srvces	725	1,528	4,000	8,201	10,000	82%
% Repeat Clients Various Services	78%	66%	65%	63%	65%	97%
New Businesses Created	61	165	100	585	250	234%
Expanded/Improved Businesses	297	688	720	2,194	1,800	122%
Average % Increase In Sales	135%	125%	40%	125%	40%	NA
Average % Increase In Assets	314%	255%	20%	255%	20%	NA
Average % Increase In Working Capital	179%	207%	40%	207%	40%	NA
Jobs Generated	379	974	400	3,172	1,000	317%
Long-term Jobs Generated	15	442	340	2,232	850	263%
Employment Service Fees Collected	\$1,280	\$2,534	\$3,600	\$9,289	\$9,000	103%
Clients Registered for Emplmnt Srvces	275	926	2,400	5,616	6,000	94%
Clients Matched to Jobs	162	400	1200	2,587	3,000	86%
% Matches Lasting Over 6 Months	47%	47%	50%	207%	50%	414%
Estimated Value of Linkages	\$118,248	\$172,335	\$280,000	\$599,653	\$700,000	86%
Business-to-Business Linkages	538	1,245	250	4,042	625	647%
Value of Loans Facilitated	\$380,809	\$749,422	\$720,000	\$3,016,473	\$1,800,000	168%
Loans Facilitated	239	515	880	2,616	2,200	119%
Value of CAF Loans	\$107,374	\$221,891	\$210,000	\$700,439	\$525,000	133%
CAF Loans	76	154	320	503	800	63%
Clients Receiving Info	2,078	3,748	3,200	12,310	8,000	154%
Business Groups Formed / Supported	93	174	60	404	150	269%
Clients Vocationally Trained	68	178	340	840	850	99%
Employers Trained in HR	12	28	24	196	60	327%
Labor Days Held	1	6	24	47	60	78%
% of Long-Term Matches	73%	73%	0%	68%	60%	0%
# of Long Term Matches	118	291	390	1,712	2,350	61%
% Matches Lasting Over 1 Month	81%	80%	NA	77%	NA	0%
# of Matches Lasting Over 1 Month	108	250	650	1,273	1,950	53%
% Matches Lasting Over 6 Months	100%	47%	50%	43%	50%	0%
# of Matches Lasting Over 6 Months	26	239	325	608	975	34%

16. Fees for Service

GER Initiative collected service fees from clients worth \$28,447 this quarter, compared to \$18,891 last quarter; a 50% increase. This increase was led by Linkages and Information fees. Loan Facilitation fees paid by partner banks was the only fee category to decrease, falling 9% compared to last quarter.

Table 6: Fees Collected per Service

Activities	Q1 2008	% of Total	Q2 2008	% of Total	% Change
Training & Consulting	\$3,152	17%	\$3,481	18%	10%
Linkages & Information	\$7,291	38%	\$16,661	88%	129%
Loan Facilitation (client)	\$2,834	15%	\$2,975	16%	5%
Loan Facilitation (bank)	\$4,450	23%	\$4,050	21%	-9%
Employment Services	\$1,254	7%	\$1,280	7%	2%
Business Association	\$0	0%	\$0	0%	--
Total	\$18,981	100%	\$28,447	100%	50%

17. Statement of Work

There are no changes to the statement of work for the project.