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By

Greg Lassiter
Margaret Herro
John Napoleoni
Patrick Somerville

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Table of Contents

Executive Summary	1
1 Objective.....	3
2 Background of Darkhan and Its Ger District.....	3
2.1 Overview.....	3
2.2 Ger Districts.....	4
2.3 Infrastructure	5
2.4 Economic Opportunities and Employment.....	5
2.5 Local Government Structure	8
3 SEED Client Base	8
3.1 Small and Medium Enterprises (SME's).....	8
3.2 Startups and Entrepreneurs.....	11
3.3 Large Businesses and Major Employers	12
3.3.1 Construction Sector.....	12
3.3.2 Heavy Industry Sector.....	13
3.3.3 Textiles Sector.....	14
3.3.4 Food Processing	14
3.3.5 Other Large Industries.....	14
4 Potential Collaborators.....	14
4.1 Credit Providers.....	15
4.1.1 Ag Bank	15
4.1.2 Xac Bank	15
4.1.3 Other Credit institutions.....	16
4.2 Private Business Development Organizations	16
4.2.1 Darkhan Chamber of Commerce.....	16
4.2.2 Union of Cooperatives.....	17
4.2.3 Other BDS Providers.....	17
4.3 Local Training Providers	17
4.4 Local Government Services.....	18
4.4.1 Darkhan Employment Office.....	18

4.4.2	Other Local Government Services.....	18
4.5	Other NGO's and Humanitarian Organizations	19
4.6	Potential Collaborators in Ulaanbaatar	19
5	Planned Activities	20
5.1	Business Development services	20
5.2	Business Training.....	22
5.3	Business Information Center.....	23
5.4	Employment Matching.....	23
5.5	Capacity Building.....	24
6	Issues and Recommendations.....	25
	BIBLIOGRAPHY.....	29
	ANNEX	31
	Annex 1 Contact List	31
	Annex 2 Potential Client List	31
	Annex 3 Government Structure	31
	Annex 4 Potential SME List.....	31
	Annex 5 Bank Loan Programs	31

Executive Summary

The USAID/CHF Support to Enterprises and Economic Development (SEED) Program provides small business development services, information, and training to the peri-urban “ger districts” of Darkhan, Erdenet, and Ulaanbaatar. This report provides a rapid assessment of Darkhan’s potential small and medium enterprise (SME) client base and business environment, identifies impediments to SME development and employment growth, and describes potential program collaborators.

Since Darkhan’s Ger District economy is an integral part of the Darkhan city economy and vice versa, SEED will focus on SME’s located in the Ger District, but also include businesses that employ Ger District residents or purchase their products and services. SEED will develop criteria to prioritize potential clients by the degree to which they benefit Ger District residents.

Ger residents test the definition of “employed”-- they are generally economically active, but typically underemployed in low paying, informal sector activities. Unemployment estimates range from 6% (registered unemployed) to 50% (unemployed and underemployed who are looking for better jobs), depending on the information source and definition used.

The SEED Program will use the following criteria for prioritizing SME sectors: export potential, value-addition, employment generation (with subcriteria for off-season and retiree employment), and potential for organizing enterprises into groups (business associations, cooperatives, or informal groups). Based on these criteria, SEED’s first priority will be SME clients in small and medium construction, textiles, food processing, vegetable production, and some key new startups.

Darkhan’s largest businesses and employers are in construction, heavy industry, textiles, food processing. Few will be SEED clients, except as buyers of SME’s products and services or employers of Ger residents. Unfortunately, Darkhan’s economy is too dependent on large businesses with uncertain futures. SME development will reduce this dependence.

Darkhan’s banks do a very good job of providing credit, but with most emphasis on very short term, typically three month, consumer loans. Effective use of credit by SME’s is small because of high interest rates, few medium term (6 – 12 month) investment loans, and high collateral requirements. Except for micro credit, loans generally require an apartment or other real estate as collateral. There is great potential for the SEED Program to collaborate with banks and serve as an objective “honest broker” for SME clients. We will assist SME’s in loan applications, ensure that banks’ record keeping requirements are met, and assist with business planning and financial analysis in order to develop more creditworthy loans. Because Ger residents can rarely meet banks’ collateral requirements, pawnshops may have a legitimate role as a credit alternative.

The SEED Program will collaborate closely with the Darkhan Chamber of Commerce, which has great potential as a self-sustaining organization that can deliver business development services after the life of the SEED Program. We also will work to develop other local business services providers, such as local consulting firms and training institutions. Business associations and the local cooperative union also have potential for providing business development services.

We have good leads on training resources in Darkhan but have much follow-up work to do, particularly in Ulaanbaatar, to identify business training consultants, institutions, and curricula. We have made contact with several local government offices and identified areas for collaboration in the areas of employment matching, agricultural extension, and business

development policy. We have more to do in the areas of developing dialogue between government agencies and the SME business community in the areas of business development and regulation.

A key goal of the SEED Program is to develop self-sustaining business development services through collaboration with and capacity building for local institutions such as the Darkhan Chamber of Commerce, business associations and cooperatives, private consulting service providers, local business training institutions, and local government agencies. In addition, the SEED Program will charge fees for its business development services to promote self-sustainability.

This report provides a preview of activities planned for SEED's Darkhan office. These activities fall into five areas: business development services, business training, business information, employment matching, and capacity building. Further details on activities planned for the Darkhan, Erdenet, and Ulaanbaatar SEED offices will be presented in the forthcoming annual work plan, due November 15, 2002.

The concluding section of this report (see page 25) provides a summary of outstanding issues and recommendations for implementation of the SEED Program.

1 Objective

The USAID/CHF Support to Enterprises and Economic Development (SEED) Program provides small business development services, information, and training to Mongolians living in the peri-urban areas of Darkhan, Erdenet, and Ulaanbaatar. This Darkhan Rapid Needs Assessment represents the start-up phase for the opening of the SEED Program Darkhan office. A detailed one year Work Plan covering all three offices will be submitted to USAID by Nov. 15, 2002.

The purpose of the Rapid Needs Assessment is to assess the potential client base and SME business environment, identify impediments to SME development and employment growth, and identify collaborators in the business community, government agencies, and local training institutions. Three CHF staff members and two CHF consultants provided 86 workdays to this effort, which was implemented from Sept. 23 – Oct. 18, 2002. After initial meetings in Ulaanbaatar and one site visit to Darkhan during the first week, the team set up operations in Darkhan on Sept. 28. During Sept. 24 – Oct. 12, the team interviewed approximately 50 potential clients, 50 potential collaborators, and 30 other contacts. Key contacts and interviewees are listed in the Contact List in Annex 1 and the Potential Client List in Annex 2.

This report is the first step in CHF's assessment of clients and the SME business environment in Darkhan. Once staffing is completed and the Darkhan office is operational, our first task will be to identify, register, and assess new clients as quickly as possible. The registration form and business assessment interviews will provide a more detailed perspective of SME economic conditions, constraints to business development, demographics, and potential for developing group services. We have been fortunate in that the local government's statistical service and other project reports have given us a reasonably good statistical base from which to plan our operations. As the SEED Program expands its services into Erdenet and Ulaanbaatar in the coming year, we will conduct similar Rapid Needs Assessments in each location, but with the advantage of the Darkhan experience. We will utilize local staff to conduct these future assessments.

Although the goal of the SEED Program is to focus on SME's that are located in the Ger District, we will also include SME's that are major employers of Ger District residents or have close economic ties with them. In Darkhan, this means that we will mainly focus on residents of Derevin and Drunken Hill¹, SME's in Old Darkhan that employ or service them, and selected businesses in New Darkhan and the industrial park.

2 Background of Darkhan and Its Ger District

2.1 Overview

Darkhan is the second largest city in Mongolia, located 220 kms. north of Ulaanbaatar on the road to Russia. Built in 1961 as a northern industrial center, it is a long, narrow town divided into three distinct parts: Old Darkhan, New Darkhan, and the industrial park. Old Darkhan

¹ Darkhan's Ger District extends up to 20 kms. from Darkhan into the surrounding countryside. We will not service these outlying rural areas, which are used mainly for herding.

contains the central market, most small businesses, and the slightly older, city center. Most importantly, Old Darkhan is bordered on two sides by Darkhan's largest Ger Districts—Derevin (including bhags 1, 2, and 3) and Drunken Hill (including bhags 6 and 7). New Darkhan is the slightly newer residential district, which contains the majority of Darkhan's apartment buildings, shops, and education centers, but contains few businesses and no large market. It also has a small Ger District, called Russian Base, located near the former Russian military residence zone. The industrial park contains Darkhan's large industries, such as the electric and heating plant, cement plant, leather and wool textile factories, and three former construction materials factories (concrete forms, bricks, and insulation).

Darkhan's population was most recently estimated at 75,810 in 2002, increasing from 72,600 in 1999². There are 9,055 apartments in Darkhan and 6,105 houses in the Ger District of Darkhan³. The five bhags (1, 2, 3, 6 & 7) where the SEED Program will focus its programming have a registered population of 18,427 or 24% of Darkhan's population. The Darkhan Statistical Office reports that there are an additional 10 – 20% unregistered inhabitants living in the Ger District at any given time.

The Darkhan-Uul Aimag experiences most of its in-migration from western aimags and almost all out-migration goes to Ulaanbaatar. Fifty percent of migrants to Darkhan-Uul Aimag are former residents of western aimags⁴. Many young adults move to Ulaanbaatar because of educational opportunities. Many out-migrants also move back—over 22% of the migrants to Darkhan-Uul Aimag are former residents. Also, 67% of migrants that move to the aimag already had relatives in the area and 50% moved as a family.

Because Darkhan was built and settled in the past 40 years, most residents are immigrants. While recent immigrants are more likely to live in the Ger District than in apartments, our impression is that most Ger District residents have lived here for more than five years. We lack detailed information on Darkhan Ger District migration patterns, but will seek other information sources.

2.2 Ger Districts

By appearances, the Ger District of Darkhan⁵ consists of poor residential neighborhoods, with gers and low cost housing neatly separated by rough board fences, arranged along winding dirt roads. Ger District residents are generally poorer than Darkhan's apartment dwellers. Because the Ger District is largely residential, few businesses are apparent at first view. Behind the walls, however, there are micro enterprises, cottage industries, and subsistence activities. Small and medium businesses are less apparent, but are sometimes found in unexpected locations.

Ger residents test the definition of "employed", as they are generally economically active, but typically underemployed in low paying activities. Almost all residents participate in some economic activity that provides at least subsistence income. We did not see people sitting about idly. We did hear the vast majority of Ger residents say that their current informal sector activities were insufficient and that they did hope to find good jobs or "real employment".

² National Statistics Office, "Monthly Bulletin of Statistics", National Statistics Office of Mongolia, Ulaanbaatar 2002.

³ Development Alternatives, Inc., "Commercialization Initiatives at Darkhan-Selenge Electric Distribution Network Volume 1, A Report for the USAID Mission to Mongolia", DAI Economic Policy Support Project Power and Heat Sector Reform, Ulaanbaatar, 2001.

⁴ National Statistics Office, "Internal Migration in Mongolia", 2000 Population and Housing Census; 2000 Microstudy on Internal Migration

⁵ Mainly bhags 1, 2, 3, 6, and 7, plus small parts of bhags 4, 5, 8, and 15)

2.3 Infrastructure

Darkhan offers well-developed infrastructure for economic growth, including good road and train connections south to Ulaanbaatar, north to Russia, and west to Erdenet—Mongolia's third largest city and a relatively wealthy mining town. The Darkhan-Selenge Electric Distribution Network provides electricity that covers the entire region and sells electricity to Ulaanbaatar. The electrical and city heating systems are reliable, city roads and services are relatively good, and the cost of living, particularly housing, is quite low relative to Ulaanbaatar. There are two universities, four colleges, a vocational school, and 19 high schools in Darkhan. Telephone service is also reliable and new connections are quick, although coverage and reliability are lower in the Ger District.

The Ger District has electrical services, but no running water or sewage services. City administration provides potable water to Ger residents via neighborhood cisterns filled by truck. This system is dependable and relatively inexpensive (1 tugrig/liter), but requires that residents spend time and effort carrying water. Derevin has a high water table (3-4 meters), so most residents have open wells that provide non-potable water for gardening, animals, and cleaning. Drunken Hill Ger District is located on hills and has a deeper water table, so wells are rare.

2.4 Economic Opportunities and Employment

Private sector businesses are an increasingly important component of the local Darkhan economy, due both to privatization of pre-existing businesses and startup of new private businesses. Tax records show that 3,399 new private businesses were created in the past 10 years in the Darkhan-Uul Aimag, mainly in Darkhan, although only 1,300 businesses, including the state owned companies, currently operate. Employment statistics confirm the private

Table 1: Darkhan Ger District Employed Population by Type of Employer

Employer	# of Workers	% of Workers
State Owned Factory	841	19.8%
Private Company	889	20.9%
Cooperative/Association	516	12.1%
Self-Employed	1311	30.9%
Government Worker	682	16.1%
Nonprofit, Charity	8	0.2%
Total	4247	100.0%

Data for Bhags 1, 2, 3, 6 & 7
Source: Darkhan Statistics Office, 2000

sector's growing importance in the local economy. The August 2002 Monthly Bulletin of Statistics reports that 985 unemployed people in the Darkhan-Uul Aimag found jobs in the first eight months of the year, of which 73% were in the private sector. As shown in Table 1, a comparable proportion (64%) of Ger District workers are employed by the private sector, either in private companies (21%), cooperatives (12%) or are self-employed (31%).

Table 2 compares the employment patterns of Darkhan Ger District residents with national statistics. In general, Ger residents tend to work more in trade related businesses (33%) and industrial sectors (39% in mining, manufacturing, utility supply, and construction) than average urban Mongolians (16% and 26% respectively). This demonstrates Darkhan Ger residents' tendency to work in informal trading, which often means low-paid, underemployment in small kiosks or tiny market stalls. The higher rate of industrial employment among Darkhan's Ger Residents is due largely to Darkhan's large electricity and heating plant, which employs 10% of Ger residents, but is also due to large employment in the construction sector. While Darkhan is less dependent on seasonal agriculture than most regions in Mongolia and surprisingly low for a small city, its large construction sector provides only seasonal employment.

Ger families often run small businesses or micro enterprises that provide work for most family members. Predominant Ger District businesses include trading, semi-skilled trades (carpentry, home building, etc.), sewing, and handicraft production. From Ger District interviews, it appears that retired people tend to make ends meet by vegetable gardening, other cottage

industries, and kiosks. They also tend to raise animals, sometimes at great distance. Younger people tend to work in the sewing factories, trading, repair, and other jobs based on the city economy. See the section below on SME's for further discussion of Ger businesses.

Table 2 Employed Population by Economic Sector and Residence

Sector	Total Mongolian Population		Urban Mongolian Population		Darkhan Ger Districts*	
	# of Workers	%	# of Workers	%	# Of Workers	%
Agriculture, Hunting, and Forestry	367,617	47.2%	28,000	7.6%	319	7.5%
Mining and Quarrying	18,802	2.4%	15,287	4.2%	169	4.0%
Manufacturing	56,587	7.3%	51,014	13.9%	681	16.0%
Electricity, Gas and Water Supply	15,940	2.0%	14,079	3.8%	430	10.1%
Construction	13,734	1.8%	13,043	3.6%	359	8.5%
Wholesale and Retail Trade, repair	68,503	8.8%	58,866	16.1%	1,381	32.5%
Hotel & Restaurant	11,079	1.4%	9,845	2.7%	163	3.8%
Transportation, Storage and Communication	42,111	5.4%	34,607	9.5%	132	3.1%
Financial Services	4,464	0.6%	3,590	1.0%	30	0.7%
Real Estate, Renting and Business Activities	10,215	1.3%	9,356	2.6%	52	1.2%
Public Administration, Defense, Compulsory Service	59,611	7.7%	43,574	11.9%	170	4.0%
Education	51,487	6.6%	36,188	9.9%	135	3.2%
Health and Social Work	30,592	3.9%	22,769	6.2%	86	2.0%
Social and Personal Services	17,912	2.3%	15,736	4.3%	125	2.9%
Other	10,497	1.3%	10,090	2.8%	15	0.4%
TOTAL	779,151	100.0%	366,044	100.0%	4,247	100.0%

*Data for bhags 1, 2, 3, 6, and 7.

Source: National Census of Mongolia for 2000, Statistics Office of Mongolia and Darkhan Statistics Office unpublished bhag data, October 2002.

It is difficult to gauge unemployment in the Ger District. In interviews with Ger residents, they typically responded to questions about their employment status by saying that they were "unemployed" or "looking for work". Follow-up questions revealed that the vast majority of Ger residents are economically active, but in low-paying, low productive jobs, such as part-time kiosk operator, home gardening with occasional sales, small stall vendor in the market, or part-time tradesman. A typical Ger resident works sporadically in several micro activities to make ends meet. Many of the part-time jobs and micro-activities are seasonal, particularly those related to construction or agriculture. Thus, most Ger residents consider themselves unemployed because they tend to work in low-paid, informal sector jobs and are actively seeking "real jobs". However, because they are economically active, they are more correctly termed "underemployed".

There are three measures of unemployment used by government offices:

- **Official unemployment rate:** 8% for Darkhan-Uul Aimag and 6% for Darkhan Ger District . This unemployment rate is used by the Darkhan Employment Office and is based on the International Standards definition of unemployment—active job seekers of working age, without paid employment or income-earning self-employment, and registered at the

Employment Office. Unemployment registration must be updated monthly. This rate is quite low due to the registration requirement because there is evidence that most unemployed do not register.

- **National Census Unemployment Rate:** 26% for Darkhan-Uul Aimag for 2000. This defines unemployed persons as “persons who did not work during the past seven days, were not temporarily absent from a job and were looking for work at the time of the census⁶”. This definition does not require official unemployment registration. However, this measure overstates unemployment because the census was taken during October – December, when there is much seasonal unemployment in construction, agriculture and some manufacturing, particularly construction materials and food processing.
- **Underemployment Rate:** 50% for Darkhan-Uul Aimag. This rate apparently includes persons looking for new jobs, including the unemployed and those working in the informal sector who seek new, higher-paid jobs. The Aimag Employment Office and Aimag Statistics Office claim that the number of unemployed and underemployed people in the Aimag is around 20,000, or roughly 50% of the working age population, based on an annual survey conducted in November.

Table 3. Total Population, Employed Population and Registered Unemployed Population of Darkhan’s Ger District by Age

	Total Population			Employed Population			Registered Unemployed		
	Total	Female	Male	Total	Female	Male	Total	Female	Male
less than 16	5,508	3,028	2,480	24	18	6			
16-19	1,691	903	788	176	77	99	20	13	7
20-24	1,717	908	809	589	311	278	76	38	38
25-29	1,554	862	692	656	333	323	131	71	60
30-34	1,293	663	630	917	436	481	104	64	40
35-39	1,292	689	603	732	378	354	113	35	78
40-44	1,256	721	535	528	310	218	62	32	30
45-49	988	593	395	305	175	130	58	27	31
50-54	1,049	584	465	237	87	150	10	6	4
55-59	813	422	391	52	35	17			
60 and older	1,266	740	526	15	9	6			
working age (20-54)	9,149	5,020	4,129	3,964	2,030	1,934	554	273	281
Total	18,427	10,113	8,314	4,231	2,169	2,062	574	286	288

Data for bhags 1, 2, 3, 6, and 7.

Source: Darkhan Statistics Office unpublished bhag data, October 2002.

Of the 970 unemployed people registered at the Darkhan Employment Office from the aimag, 574 (59%) are from the Ger District. Since Ger residents make up only 24% of Darkhan’s population, this suggests that a higher proportion of Ger residents are unemployed than city dwellers, but may be exaggerated by the fact that Ger residents are more likely to register at the Employment Office.

Of the 2,079 Ger residents over 54 years of age, only 67 (3%) are considered employed by the international standards definition. According to national labor law, the official retirement age is 55 for women and 60 for men. Also, older Ger residents commented that it is difficult to be

⁶ National Statistics Office of Mongolia (2001), Population and Household Census 2000, National Results, Statistical Booklet, Ulaanbaatar, page 153.

hired for a job in the formal sector, even past the age of 40. Many older Ger residents laid off in the 90's as the command economy ended are still unable to find new work.

A number of older Ger residents commented that they preferred the Ger District over apartment living. Some Ger retirees moved there from apartments, either to give the apartment to their children or because they prefer the Ger district lifestyle. Living in the Ger district allows older people to garden or tend the family's animals while the younger family members live in the family's apartment and work in the city.

2.5 Local Government Structure

Darkhan city (administratively called Darkhan Soum) is the capital of the Darkhan-Uul Aimag, and one of four soums that make up Darkhan-Uul Aimag. Darkhan city was converted to soum status eight years ago. The structure of local government and its relationship to national government is presented in Annex 3 Government Structure. In summary, the Governor of Darkhan-Uul Aimag reports to the Prime Minister and Aimag Assembly. The Governor of Darkhan Soum reports to the Soum Assembly and Aimag Governor. Within the soums are "bhags" or delineated neighborhood districts, comprising the lowest level of local government in Mongolia. Each bhag has a Bhag Governor, nominated and overseen by a non-professional Bhag Citizens Assembly and approved by the Soum Governor. Bhag Governors and their small cadre of staff are responsible for local government administrative tasks such as registration, housing approvals, data collection and limited social service provision. These bhag offices represent a strong force for community organization and mobilization within Darkhan's Ger Districts.

3 SEED Client Base

This section provides a summary of the potential client base for the SEED Program based on interviews and other information collected as part of this Rapid Needs Assessment. For this purpose, we interviewed potential SME clients and collaborators in the Ger District, markets, and city districts. In addition to SME's, we interviewed banks, large companies, government representatives, educational institutions, NGO's, and other projects. Interviews with retailers, banks, textile companies, and larger businesses are summarized in more detail in Napoleoni⁷.

Much of the information presented below is preliminary. Our interviews with Ger residents and potential Ger District SME clients are only the first step in an on-going process of registering and assessing new clients, most of which will take place during the implementation phase of the Darkhan office over the next six months. Therefore, the summary below of potential SME clients and priority businesses represents our best current estimate, but is subject to revision as we assess new clients and gain experience with Darkhan SME's. More detail on potential clients will be provided in the SEED Program Annual Work Plan, due Nov. 15, 2002.

3.1 Small and Medium Enterprises (SME's)

The goal of the SEED Program is to promote SME business development for the benefit of residents of the Ger District. However, in Darkhan it is clear that the relevant SME's are generally not located in the Ger District. Darkhan's Ger District economy is an integral part of

⁷ John Napoleoni, "Darkhan Business Survey", USAID/CHF Support to Enterprises and Economic Development (SEED) Project, Darkhan, Mongolia, October 2002.

the Darkhan city economy and vice versa. The Ger District provides labor, products, and services to Old Darkhan, New Darkhan, and the Darkhan industrial park. While poorer than the residential districts of Old and New Darkhan, Ger residents are important consumers of Darkhan city's goods and services. The SME's of the Ger residents are often located in the city. The buyers of Ger services and the employers of Ger residents are mostly in the city and industrial park.

During the early implementation phase of the SEED Program, we will determine criteria for selection of clients. These criteria will ensure that Ger District residents receive the major benefits of program activities, even when the client's residence or business is not physically located in the Ger District. Criteria will include, by order of importance:

- location of business
- residence of business owner
- residence of employees
- location of business's clients

A partial list of potential clients interviewed is provided in the Potential Client List in Annex 2. This table describes each potential client's type of business, number of employees, years in business, potential activity or business service needed, and the next steps we need to take. As a preliminary contact and follow-up sheet, this table will be used to add future potential clients as part of the client recruitment process.

Based on these potential client interviews, other interviews on the Darkhan SME business environment, and other reports (see Bibliography), the Potential SME List in Annex 4 summarizes our subjective evaluation of the potential SME's that the SEED program is most likely to work with. This table groups potential SME clients by the following sectors:

- Construction construction, renovation, and building materials manufacture
- Manufacturing woodworking and metalworking
- Agribusiness agriculture (farming, animal production) and food processing
- Trading general retailing, food retailing and other trading
- Textiles/apparel clothing, leather goods, and handicrafts
- Services repair, computer, technical, and hotel services
- Transport trucking, shipping, and taxi

The Potential SME List in Annex 4 also describes the key subsectors within each group, and subjectively evaluates the potential of each on the basis of eight criteria:

- **Export potential**—there is limited potential for export generation in Darkhan. Potential SME clients include textiles, handicrafts, food processing, and gold processing.
- **Value-added**—value addition in many informal sector enterprises, such as marketing trading and kiosks, is generally low. Greatest value-added potential is in construction, textiles, food processing, and greenhouses.
- **Employment generation**—value-added and employment potential are linked. All SME's generate employment, but unless there is a substantial value added component, innovative technology, more efficient production method, or regional trade component, the SME just tends to employ people in low wage activities that often add little to overall economic growth or incomes. The greatest potential for real employment growth is in textiles, construction, light manufacturing, food processing, and vegetable production.
- **Off-season employment generation**—seasonality of employment is a major problem in Darkhan, because the key industries of construction, agriculture, and food processing are seasonal. Even the meat-processing factory closes from January until July. Thus, activities that can employ workers in winter are priorities: textiles, furniture and cabinetry, apartment renovation, handicrafts, and greenhouses.

- **Employment generation for retirees**—a significant number of Ger residents are retired⁸. By western standards, retirement age is low and pensions are minimal. Activities that provide work, even part-time, for retired persons have great impact on Ger District welfare and incomes.
- **Potential for organizing a business association**—we prefer to work with SME clients that can be grouped into business associations. This permits development of new group activities, such as group marketing, joint production, or advocacy. It also permits more efficient use of program resources, particularly business training and consulting services
- **Potential for organizing micro enterprises into a cooperative or group**—same justification, but cooperatives and informal groups work better for cottage industries and single owner micro enterprises, permitting economies of scale. Examples include a cooperative of home textile micro-enterprises or an informal group of kiosk owners who organize group purchases of supplies from Ulaanbaatar.

The following summarizes the criteria above:

- **Overall priority for SEED Program activities**—based on all the above criteria, our first priority will be SME clients in small and medium construction firms, textiles, food processing, vegetable production, and some key new startups. Construction, textiles, and food processing have good potential for employment generation and increasing value-added, textiles and food processing have export potential, and vegetable production has great employment potential among retirees, who are a large proportion of Ger District residents.
- **Client Target**—the numbers of potential clients are highest in micro-enterprises, such as vegetable production, kiosks, and home sewing, but textiles and construction probably have more potential impact in terms of value-addition, overall employment generation, and real income growth.

The construction industry is beginning to recover from the economic doldrums of the 90's, but is hampered by a lack of long-term mortgage credit and outdated equipment. We also need to understand how the large construction firms interact with the small construction companies and suppliers of building materials. See the discussion of the construction sector in the Large Businesses section (below).

We were surprised by the large number of Ger District residents that produce vegetables, largely for home consumption, but with a small surplus sold to the market. In Derevin, the water table is relatively high (3-4 meters), so many residents have open wells for garden irrigation. There were problems of obtaining good vegetable seed, poor soil, lack of knowledge of gardening techniques (composting, irrigation, mulching), and room for expansion of home canning, drying, and processing techniques. While vegetable gardening is largely a subsistence activity and increased market surplus will quickly glut the local market, there still is room to improve the quality, variety, storage, canning, and drying of vegetables. Gardening development would most directly benefit retirees, both in terms of nutrition and income, and could have potential to produce surplus for local food processors (canning and dried vegetables for soup mixes) and for marketing in Ulaanbaatar.

A similar, but smaller, need is for technology for chicken and pig raising at home. Chickens and ducks are currently raised, but chicken production for meat or eggs would benefit from better

⁸ While formally retired persons (aged 55 or over for women, 60 for men) represent only 9% of Ger residents, "effectively retired" persons describes the majority of the 5,372 Ger residents age 40 and over who cannot compete on the employment market. This older group makes up 29% of the Ger population and 24% of registered unemployed.

breeds, hatchery services, veterinary services, feed supplements, and training in animal production techniques and feeding. Home pig production needs similar services, plus training in sausage production. Poultry and pig production would benefit retirees and generate surplus for local food processors and regional trade, such as sales to Ulaanbaatar. While there is great potential for dairy processing and meat processing (dried meat, smoked meat, sausage, and broiler processing), there is little regional potential for feed production—an essential component of livestock, egg, and dairy production—except for wheat bran.

Because of the large heating plant in the industrial district, there is also potential for new startups in heated greenhouses for production of off-season vegetables. Darkhan has inexpensive heating, very good road and rail transport connections to Ulaanbaatar and Russia, and excellent winter sunlight. High value horticultural crops grown in the winter have excellent potential for regional trade to Ulaanbaatar and export to Russia, particularly Ulan-Ude and Irkutsk.

On the retail trade side, it is not clear what we can do to assist market traders or kiosk owners. Kiosks employ (or rather under employ) many Ger District residents, but it is not clear that this form of retailing has a future. We may organize a group of kiosk owners into a purchasing coop to reduce costs. Also, there is potential for a local construction company to build a better, easier-to-heat kiosk building, such as the “super kiosk” currently imported from China. However, the future of micro kiosk retailing seems bleak. There is potential for other retail shops selling items such as furniture, office equipment, and computers.

Development of other SME's requires additional information, much of which we will gain from the assessment of new SEED clients during the implementation phase. For example, there are numerous micro flourmills that we need to know more about. A knowledgeable miller estimated 200 micro flourmills in the Darkhan region, of which half are not operating. These low-cost (\$200 or so), low quality mills apparently developed in response to the temporary closing of the Darkhan flourmill and to former food aid wheat distribution programs, so their future is unclear. We need to investigate these micro mills in light of competition from competing medium and large mills, imports of Chinese and Russian flour, and the future of food aid wheat programs.

3.2 Startups and Entrepreneurs

During the initial implementation phase of the SEED Program's Darkhan Business Development Center (BDC), we will focus business development services on pre-existing SME's, generally with at least one year's operating experience. After Darkhan SEED staff have gained sufficient experience, we will begin assisting business startups and new entrepreneurs.

The Rapid Needs Assessment did not focus on new business startups. Information on the feasibility of new startup SME's in Darkhan and the identification of capable entrepreneurs will be collected during our implementation phase. However, our initial impressions are that there is good potential in Darkhan for several new businesses:

- Construction materials and services
- Housing renovation
- Low-income housing construction
- Vegetable gardening inputs: seed, fertilizer, irrigation equipment
- Animal feed and supplies
- Poultry hatchery for broilers and layers
- Computer support services: programming, office network support, web design
- Small manufacturing: stoves, small appliances
- Furniture and cabinetry
- Cooperative or group business that organize cottage industries: food processing, textiles, handicrafts, construction trades, food retailers, leather products
- Greenhouses for off-season vegetables

- Well drilling and potable water distribution
- Transportation and shipping services: regional and export shipping expedition
- Office supplies and services
- Services: travel/booking agent, insurance, business center

Based on our preliminary knowledge of the Darkhan SME business environment, we feel that the potential new startup businesses listed above either build on Darkhan's comparative advantage or fill important gaps in Darkhan's economy. Construction SME's benefit from Darkhan's potential as a construction center and the high local demand for housing. Apartment and building renovation will provide off-season employment and fits existing loan criteria better than new housing. Gardening and animal supply services support vegetable and livestock production. Small manufacturing can supply products currently purchased from Ulaanbaatar or imported. Greenhouses permit off-season high value horticulture, employment, and some possibility for export. Other SME's listed above produce goods and services not readily available in Darkhan.

Cooperatives or group business startups would provide economies of scale to micro enterprises. We would like to work with startup SME's that have potential as cottage industries—which employ people at home—and can be grouped into production companies or cooperatives, such as textiles, handicrafts, and some food processing activities. While Darkhan has plenty of internet cafes, there is a need to develop computer services for business—setting up office networks, computer maintenance, website development, and programming. We also need to develop linkages between local SME suppliers and local large companies, many of which currently purchase supplies in Ulaanbaatar. Water distribution is a big issue in the Ger Districts, so there seems to be potential for a new startup business in tube and open well drilling, both for potable water and irrigation linked to vegetable gardening.

3.3 Large Businesses and Major Employers

We interviewed 12 large businesses that, with over 100 employees each, are Darkhan's major employers. For a more detailed assessment of heavy industry, construction, textiles, agribusiness, and food processing, see Napoleoni⁹. Most of these businesses were previously state-owned, but privatized to varying degrees in the past five years. Large businesses that evolved from former centrally-planned industries often have uncertain futures. This is due to their large size relative to the Mongolian market, out-dated technology, lack of financial resources to invest in new equipment, and overall lack of competitiveness. While these businesses are not potential clients for SEED business development services, they are potentially major purchasers of the services and supplies that SEED SME clients produce. We will try to develop these supply chain linkages. Also, as Darkhan's major employers, they are potential clients for SEED employment matching services.

Darkhan's large businesses can be broken into four sectors:

3.3.1 Construction Sector

Darkhan has the reputation as a major construction center in Mongolia. The entire city and its industrial center were built only 40 years ago. In addition, Darkhan's industrial park originally contained three major construction materials factories: cement, bricks, and concrete forms (concrete blocks and reinforced slabs for building construction). Today, only the cement factory operates and concrete form building takes place on a more limited scale at another factory in Old Darkhan. The Darkhan region also mines cement, gypsum, and gravel. In the 70's and

⁹ Napoleoni, *ibid.*

80's, Darkhan was a thriving construction center, which not only built Darkhan, but exported construction materials and concrete forms by rail to Ulaanbaatar and the rest of Mongolia.

Unfortunately, this is not the case today. The construction industry died in the early 1990's. The cement factory was privatized and has recovered to operate at 50% capacity, although it reaches full capacity for 1-2 months during summer high season. Performance may further improve, but the factory is of such large scale that long-term competitiveness appears uncertain. The concrete form factory is not operating due to outdated equipment and has even more serious scale and technology problems. Darkhan's largest construction firm seems to be doing reasonably well in terms of adapting technology to the market. However, it is dependent on large construction contracts, whose availability is difficult to predict in Mongolia, is vulnerable to competition from lower cost Chinese construction firms, and operates only seasonally.

Also, there is not much evidence of construction activity in Darkhan. Except for a five story hotel and related office building completed this summer, we observed only a few higher-income, single family homes being built and some apartment roof repair taking place. The construction season ends in November, but we have seen little visible evidence of construction projects rushing to finish up before the ground freezes. Ger District residents work in small home repair and building, but typically in small, informal business. Some Ger home repair projects were observed, but not on a large scale.

There is hope because local construction companies also operate in Ulaanbaatar, where construction is recovering and where Darkhan's cement is used. Also, Darkhan clearly needs more housing, including new apartments, middle-income single-family homes (brick or concrete), low income Ger District housing (wood frame), office space, and old building and apartment renovation.

Companies Visited: Darkhan Ord Karsch Company, Zarubezhstroy, Darkhan Gravel Company, and Construction Cooperative.

3.3.2 Heavy Industry Sector

Darkhan's heavy industry sector consists mainly of the larger components of the construction sector mentioned above--cement factory, brick factory, concrete forms factory, insulation factory, Russian construction factory (concrete forms department), plus a metal factory, and the electricity and heating plant. The brick, concrete forms, and insulation factories are not operating. None of the other companies operates at full capacity. The state-owned metal factory has reasonably new technology to convert scrap metal into construction materials, but is oversized, energy inefficient, and running out of scrap metal. The state-owned electrical/heating plant is also very large because it was originally designed to serve Darkhan's industrial park, which was quite energy inefficient by today's standards. However, it sells electricity nationally, mainly to Ulaanbaatar, and has absorbed recent growth in electricity demand. It is a valuable Darkhan asset--it not only has capacity to support Darkhan's future industrial growth, but also its electricity and heating supply system are reliable. Electricity cost is the same as in Ulaanbaatar, but 30% higher than in China.

We are concerned that Darkhan is so dependent on heavy industry as a source of employment. Most of Darkhan's large employers operate under challenging economic conditions and some appear to have uncertain futures. If any of these businesses were to go out of business, there would be substantial negative consequences from lost jobs and reduced demand for inputs and services. Because Darkhan is on the edge of economic depression with a high proportion of the population already working in low-paid, near-subsistence, informal sector activities, the negative multiplier effect (direct and indirect reduction in local demand) due to failure of a large company could be quite large. However, SME development has and will continue to provide alternative employment. Darkhan is less dependent on large industries for employment than it

was even two years ago. The SEED Program, by promoting SME development, will reduce Darkhan's economic dependency on large industries.

Companies Visited: Erel Cement Company, Darkhan Metallurgical Company, and Darkhan-Selenge Electric Distribution Network.

3.3.3 Textiles Sector

Darkhan has experienced strong growth of its textile and apparel industries in recent years, largely from Chinese and Korean investors avoiding US textile quotas in their home countries. At least six ventures employing over 1,000 workers have begun in the last 18 months. In addition, one large Mongolian sheepskin/leather apparel company has successfully operated in Darkhan since 1972.

While these factories generate much employment, compensation is low. Workers are paid on a piecework basis and complain that pay is too low—apparently \$20-\$30 per month. As a result, they often seek other jobs and move on quickly. Foreign textile factory managers complain that productivity is low—about one-third less than Chinese textile workers—and that workers move on too quickly.

While Mongolia has preferential trade status and is not subject to US textile quotas, neighboring countries' quotas could end in the next few years, removing incentive for Chinese and Korean investors to operate textile factories here. Therefore, Darkhan's textile factories need to increase their competitiveness to ensure long-term viability. Another issue is that few of Darkhan's garment factories are Mongolian managed. Thus, most of Darkhan's textile factories would be unlikely to continue operation, if the foreign investor decided to pull out.

Companies Visited: Darkhan Nihii, Gobi Tex, Golden Eagle, others.

3.3.4 Food Processing

Darkhan has three large food-processing plants: a meat factory (51% state owned), food processing plant (100% private), and a flourmill (privatized, but government subsidized). The meat factory exports to Russia and other countries, but is currently unable to export because of restrictions placed on Mongolian animal products by importing countries due to the recent outbreak of hoof and mouth disease. The flour mill is fully privatized but did not get back into service until 2001. It is idle now—most wheat fields were not harvested this year due to local drought—and waiting for imported Russian wheat from this year's harvest due to arrive in November.

Companies Visited: Darkhan Flour Mill, Darkhan Meat Factory, and Darkhan Huuns.

3.3.5 Other Large Industries

Other large industries in Darkhan and vicinity, not interviewed for this Rapid Needs Assessment, include the railroad and mining industries. These are major employers, but not likely candidates for SEED business development services. Our future Erdenet office will work more closely with SME suppliers to the mining industry.

4 Potential Collaborators

There are a wide variety of organizations that are potential collaborators with the SEED Program. The following section summarizes the key institutions of the following types: credit

providers, private business development organizations, local training providers, local government services, other NGO's and humanitarian organizations, and collaborators in Ulaanbaatar.

4.1 Credit Providers

The following section briefly summarizes the credit programs currently available in Darkhan. This section draws heavily from Napoleoni¹⁰, which provides much additional detail on local banks and the Mongolian banking industry.

While the Mongolian banking system has increased the availability of 3-6 month term consumer credit and small business loans, interest rates are high and few investment loans are made beyond 6 month terms. Current interest rates run 3-5% on 3-6 month consumer, trading, herder, and small business loans, and 2.5% on less common 12 month investment loans. There is almost no long-term mortgage credit available for construction, except for a new Asian Development Bank (ADB) Housing Program—a subsidized interest, low- and medium-income mortgage program.

Banks generally loan only to clients with real estate collateral—typically apartments—but, to a lesser extent, provide cash flow lending to clients with long credit histories. Consumer loans to retirees guaranteed by pensions are also popular. While all the banks have similar loan products, there are exceptions noted below. See Annex 5 Bank Loan Programs for a summary of banks' loan programs.

Most banks are interested in providing longer-term investment loans (12 months or more) with lower interest rates (2.5%) for medium sized businesses, which dovetails nicely with SEED Program activities. However, high collateral requirements, clients' insufficient financial records, and lending agents' lack of experience with investment loans have limited banks' ability to expand their investment credit programs.

4.1.1 Ag Bank

Ag Bank has the most clients in the area, with its main branch office located at the entrance of the Old Darkhan market, and 2 other sub-branches around Darkhan. Ag Bank has been operating in Darkhan for 10 years and employs 50 people. The branch has 1B tugrigns in 2,000 outstanding loans, ranging from 100,000 to 1,000,000 tugrigns, of which 50% go to businesses. Interest rates run 3% – 4% monthly, with loan terms of 3 – 12 months. First time lenders are limited to a four month loan.

4.1.2 Xac Bank

Xac Bank has one branch in Darkhan. It is more flexible on its collateral requirements than other banks, accepting home appliances, inventory, and automobiles as collateral for micro loans up to 100,000 tugrigns. It also provides new clients an innovative pre-loan three-hour short course on credit, interest rates, bookkeeping and cash flow. It has five products: startup loans, growth loans, SME loans, household loans and herder loans. In Darkhan, most loans are household loans. Interest rates range from 3% - 5% depending on type of loan and the loan history of the client. In Darkhan, Xac Bank currently has 500 outstanding loans totaling 200M tugrigns. Average loan size is 400,000 tugrigns. Xac Bank also participates in several development-based lending programs.

¹⁰ Napoleoni, *ibid.*

4.1.3 Other Credit institutions

There are a number of other banks operating in Darkhan, including Golomt Bank, Trade and Development Bank, Hadgalamj Savings Bank, Post Bank, Zoos, and Erel Bank. Golomt Bank has a solid reputation in the financial industry. It has several financial products for large, medium and small businesses. It also participates in a variety of loan programs subsidized by the World Bank and the Asian Development Bank. Trade and Development Bank is a recently privatized bank that concentrates on large-scale loans, focusing on a short list of preferred clients, including gold mines and farmers. Credit Mongol plans to plans to reopen its office in Darkhan. There are also savings and credit cooperatives in Darkhan, but we lack information on the magnitude of their loan activity¹¹.

Darkhan also have many pawnshops that provide credit. For a client without an apartment for collateral, a credit history necessary for cash flow lending, or a pension (valid only for small consumer loans), the only alternative may be one of Darkhan's pawnshops, which charge 6-10% monthly interest and require that the collateral (rugs, appliances, etc.) be deposited. Since Ger residents often fall in the class of potential borrowers less likely to meet banks' collateral requirements, the SEED Program may try to work with banks and pawnshops to find a compromise solution on collateral and a way to reduce pawnshop interest rates.

In summary, there are eight banks and many small pawnshops in Darkhan that lend money. According to the banks, up to two-thirds of their loans are for consumer credit. Surprisingly, almost all SME's interviewed did not have outstanding business loans. However, most interviewees were from the Ger Districts and did not own an apartment, which is usually necessary as collateral. In addition, most felt that the loans were prohibitively expensive and needed to be repaid in too short of a time frame.

4.2 Private Business Development Organizations

4.2.1 Darkhan Chamber of Commerce

Affiliated with the Mongolian Chamber of Commerce based in Ulaanbaatar, the Darkhan Chamber of Commerce has been operating as an independent entity for 6 months. The organization is fairly young, receives limited financial support from a German project, and operates from member dues and profit-making activities. The Chamber has 43 members and employees 3 full-time employees, with expertise in SME development, import/export, and marketing. Three part-time employees specialize in law and economics. The Chamber's member base is diverse in size and type of business. Twelve member businesses have more than 100 employees and twelve members have less than 25 employees. The businesses range from trading and health services to food and clothing production.

The Chamber recently conducted a survey of its 43 members to determine user services. Currently, it offers the following services:

- Monthly business seminars on a broad range of topics
- Consulting services for business related services
- Export/import information and certificates of origins
- Organization of local exhibitions and trade fairs
- Translation services
- Negotiations on foreign aid and investment opportunities
- A small information center

¹¹ The Asian Development Bank operates its Employment Generation Project through Erel, Golomt, TDB, and Zoos banks, as well as five savings and credit cooperatives—CMC, Moncord, Tsetsegtvua, Soyombotulga, and Gorji-anh. This project provides up to \$5,000 US for 12 month loans at market rates to business that promote employment generation.

The Chamber staff includes a dynamic director and a US Peace Corps volunteer, both of whom are innovative and focused on results. We see great potential for working with them. Darkhan needs an effective business promotion organization like this to publicize Darkhan's business environment and attract new industries. The Chamber is a logical choice as a self-sustaining organization that can deliver the types of business development services after the end of the SEED Program. The Chamber is been enthusiastic about working with the SEED Program.

4.2.2 Union of Cooperatives

The Union of Cooperatives is an NGO that promotes, develops, and provides management assistance to 97 member cooperatives in the Darkhan and Selenge aimags. The cooperatives cover a wide range of economic activities. We met with cooperatives specializing in sewing, handicrafts, construction, and food processing, which run essentially like SME's and would make excellent clients for SEED business development services. Contrary to conventional wisdom that non-family groups do not work well together in Mongolia, these cooperatives seem effective for grouping micro-enterprises into a small business. The Union and its members are very willing to work with the SEED Program.

4.2.3 Other BDS Providers

We need to collect more information in this area. We have not yet identified private business consulting firms that are active in Darkhan, but have leads for Ulaanbaatar. There is some potential to develop private consulting firms in Darkhan by organizing private consultants now free-lancing while working at local training institutions. The former TACIS sponsored Mongolian Business Development Association (MBDA) apparently has a spin-off office in Darkhan, which has limited activities.

4.3 Local Training Providers

The assessment team met with Darkhan educational institutions to analyze the availability of specialized technical training, as well as to determine the availability of business trainers and local consultants. Educational institutions with most potential to sponsor training courses or provide business trainers are:

- **Darkhan School of Technology** (branch of the Mongolian University of Science and Technology)—university degree programs in construction and mechanical engineering, building materials, food technology, and construction business management. Some faculty members are willing to provide short-term training or consultancies.
- **Agricultural Teaching Center** (branch of the Mongolian Agricultural University)—university degree programs in agricultural production, agricultural business management, and accounting. Some faculty members are willing to provide short-term training or consultancies.
- **Vocational School** operates a high school with technical training in 13 professions including construction trades, food preparation and serving, mechanics and textiles. They can also offer 45 day vocational short courses, funded by the Employment Office, for a minimum of 10 – 15 adults.
- **Other Darkhan colleges**—several other colleges, most which opened in the past two years, provide training in accounting, food technology, and other areas. We will assess these institutions in the near future. These include:
 - Technical College—electrical and heating engineers
 - Darkhan College—language teachers
 - RGB College—accounting

- White Emblem College—food and biotechnology

4.4 Local Government Services

4.4.1 Darkhan Employment Office

Darkhan Employment Office, provides the following employment services: skills matching, employment subsidies, training, unemployment compensation, and loans. Since this program in principle provides the employment matching services planned under the SEED Program, we will collaborate closely with them. See the Employment Matching section below for a more detail on the Darkhan Employment Office.

4.4.2 Other Local Government Services

The Darkhan-Uul Aimag office has been extremely helpful in assisting the SEED Program with its Rapid Needs Assessment and the startup of its Darkhan office. In particular, we would like to thank Ms. Batdulam, Officer for Foreign Relations, for her assistance in organizing meetings, helping us make contacts, and her general support for our program.

The following are key offices in the Darkhan-Uul Aimag Governor's office with which the SEED Program will most likely work:

- **Agricultural Extension Office** operates an agriculture training and extension service in the Aimag office. A spin-off of the former TACIS Crop Development project with a very limited budget, it has only one staff member who recently trained 24 free-lance "associates" to provide extension services and training for fees. The office provides brochures and "how-to" information for agricultural development. We will collaborate on agricultural training and agribusiness development services.
- **Industry, Trade, Agriculture and Environment Policy Office** implements national policy and programs to support local industry. This seven person office is also responsible to nominate specific local companies for program benefits. This year's program promotes food processing and construction materials industries. This office will nominate local companies for preferential assistance, such as debt relief, tax benefits, or direct financing. This year, they plan to recommend financing the reopening of a milk processing plant near Darkhan under an ADB industry support program.
- **Tax Office** is responsible for initial business registration, issuing of SME patents (small enterprise registration which includes fixed tax), and tax collection¹². Changes in tax laws or issues in their application or enforcement will be monitored by the SEED Program and documented in the Business Information Center.
- **Other Business Registration, Regulation, and Inspection Offices** require a variety of registrations, certifications, and inspections that depend on the nature of the business. The local business registration, regulatory, and inspection process will be assessed by the SEED Program and documented in the Business Information Center.
- **Statistics Office** manages a large database of administrative statistics at the bhag, soum, and aimag level covering demographics, employment, registered businesses, etc. The local database is linked to the national database in Ulaanbaatar. This office has been very helpful to us by providing data and reports quickly and in the requested formats.

¹² Tax regulations for small businesses are described in John Napoleoni and N. Dorjdarj, Rural Businessmen's Guide To The Tax Law Of Mongolia, Gobi Regional Economic Growth Initiative, Ulaanbaatar 2002.

We will also collaborate with local government offices at the soum, city, and bhag level. The major offices are:

- **Darkhan Soum Governor's Office** is the administration office of Darkhan city. The Soum Governor is responsible for administering city services, programs, and policy. This office also manages the Bhag Governors. Bi-weekly Bhag Governors' meetings are a useful mechanism to disseminate information.
- **Bhag Governors** are responsible for administration of bhag services, welfare programs, resident registration, passports, administrative data collection, etc. In Ger Districts (bhags 1,2,3,6 and 7), their resident meetings are useful forums to disseminate information and discuss issues. Ger District bhag governors are very interested in working with the SEED Program to increase the living standards of their constituents. They have been very helpful in providing information, making contacts, and assembling data.

4.5 Other NGO's and Humanitarian Organizations

A variety of NGO's and humanitarian organizations operate in Darkhan. Even where there are few direct possibilities for collaboration, we have found their information about Ger District residents and local working conditions quite valuable. Also, future areas for collaboration may emerge. Below is a list of the key organizations that operate in Darkhan, with a brief description of services and current possibilities for collaboration

- **World Vision** currently provides services targeting children and social needs in the Ger District. They plan to introduce a business development program in Darkhan next year, as an extension of a similar program in Ulaanbaatar. We will meet with their Ulaanbaatar business program manager to learn about their activities and discuss future collaboration in Darkhan.
- **Norwegian Lutheran Mission** runs health, agriculture and handicrafts programs in the Darkhan and Selenge aimags. We will refer clients interested in participating in their handicraft program to them and they have offered to refer clients with business development needs to the SEED program.
- **Mongolian Foundation for Open Society (Soros)** runs an information center for young adults interested in receiving scholarships to study in Ulaanbaatar and abroad. The center also offers training courses for foreign entrance exams, such as TOEFL, and offers internet access at a cost of 1,500 tugriqs per hour. The center has been in operation for one year and has two full-time staff. We will collaborate on management of our information centers to learn from their experience and share information.
- **Change the World through Children** focuses on orphaned and abused children, as well as street youth from Ulaanbaatar. In the past, they ran a small microfinance program and business development program. Next year, they will open a construction business and a food production and processing business.

4.6 Potential Collaborators in Ulaanbaatar

Several organizations in Ulaanbaatar provide business development services and have great potential for collaboration with the SEED Program, not only with our new Darkhan office, but also in our Erdenet and Ulaanbaatar offices planned for 2003. Potential collaborators from Ulaanbaatar include:

- **Gobi Initiative (USAID/Mercy Corps)** has operated in southern Mongolia for four years and includes a business development and training program for herders and rural Mongolians. They have offered to collaborate on BDS and share information on their

business development and training experiences. Only preliminary meetings have been held, but we will meet with them in Ulaanbaatar in near future.

- **Competitiveness Initiative (USAID/Nathan Associates)** provides sectoral assistance, consulting, and training to the tourism, cashmere, and meat processing industries in Mongolia. There would be collaboration possibilities on meat processing, but that component is on hold due to meat inspection issues that make export risky. For example, meat importing countries have put a temporary import freeze on Mongolian meat due to hoof and mouth disease. Cashmere and tourism are sectors with less potential for Darkhan SEED clients.
- **Enterprise Restructuring Project (UNDP/Dutch funding)** provides business consulting services to large companies and is training a cadre of Mongolian private sector consultants. We may collaborate on consulting services when we open our Ulaanbaatar office.
- **Mongolian Cooperative Training and Information Center** is a Mongolian NGO based in Ulaanbaatar with 38 trainers who teach cooperative organization and management. We will collaborate on training and the organization of new cooperatives as SME's.
- **Center for Women and Employment "Mandukhai" Club** is a small sewing and handicrafts cooperative in Ulaanbaatar. The director--former executive director of the US Businesswoman's association--can collaborate on training and organizing a similar cooperative in Darkhan.
- **Various Universities in Ulaanbaatar** have potential to provide training, trainers, or consultants in accounting, finance, business management, marketing, etc. We have not had time to contact them yet, but will do so in the near future. These include:
 - Business Management School at the Technical University
 - Business School of National University
 - Mongolia Agricultural University
 - Ulaanbaatar College
 - Economy and Finance Institute
- **Other Ulaanbaatar contacts** with potential for collaboration on BDS, training, and consulting are listed in Annex 1 List of Contacts. We will develop these and additional Ulaanbaatar contacts in the near future.

5 Planned Activities

The following section summarizes our planned SEED Program activities in the five areas of our program: business development services, business training, business information center, employment matching, and capacity building. See our forthcoming Annual Work Plan, due Nov. 15, 2002, for greater detail on these planned activities.

5.1 Business Development services

The process of developing clients requires several steps to assess each client and determine the specific business services or training classes that are required. A variety of services will be available on a fee basis, but most clients will utilize only the set of services that fit their specific needs. This may be as simple as a single training course, or as complex as a three month program to complete a business plan, market study, and investment analysis. The normal progression of business development services can be summarized as follows:

1. **Registration**
2. **Assessment Interview**
3. **Assessment Review And Evaluation**
4. **Services**—usually some mix of the following:
 - 4.1 **Information Services**—library or internet search
 - 4.2 **Business Training Classes**
 - 4.3 **Business Plan**
 - 4.4 **Investment Analysis**—example: feasibility study of purchasing new equipment
 - 4.5 **Market Analysis**
 - 4.6 **Credit Application**—business plan, investment analysis, and market analysis
 - 4.7 **Strategic Management**
 - 4.8 **Business Research**—from library, internet, or government office
 - 4.9 **Legal Services**—from our library, internet, or referral to a lawyer
5. **Results**—we expect results from each level of service delivered

This process will be implemented for each client, but to the extent possible, via that client's business association, cooperative, or informal group. Each step in the process will generally require greater investment of time by the SEED technical advisor. Fees will be charged based on staff time commitment, be below market rates for initial contacts and tasks with general benefits to the sector or group, and increase more than proportionally due to complexity, individuality of task, and time commitment.

During the business development process, the SEED technical advisor will assist the client to investigate and analyze the specific business problem. During this process, both the client and technical advisor gain knowledge and data which will be shared (except for proprietary information) with other clients in that SME sector. This new knowledge about the local business environment and the specific business sector, plus client data (registration form, assessment form, etc.), will help us develop and focus our services.

Local business and client information collected in Darkhan as part of our business development services will also help us plan and implement the Erdenet and Ulaanbaatar offices in the coming year. Erdenet and Ulaanbaatar will each require a Rapid Needs Assessment, but using a more streamlined, locally staffed version of the assessment conducted for Darkhan. For example, the Rapid Needs Assessment for the Erdenet office will be conducted in March by Darkhan staff. This will allow staff to incorporate and contrast the Darkhan experience, as well as broaden their own skills and experience.

Insufficient use of investment credit—due to lack of investment credit (12+ month term), insufficient collateral, and high interest rates—is a major constraint to SME development. Helping SME clients obtain and effectively use bank credit will be a key component of SEED business development program. We will work closely with local banks to integrate our business development services, information services, and business training to help clients and banks achieve better credit relationships. For clients with weak business skills, little experience in business planning or financial analysis, or limited collateral, we will offer business training, consulting, and financial analysis to help them and their banks develop mutually beneficial credit packages. We will work with banks to encourage them to require certain clients to take our business training courses or develop business plans using our consulting services.

Banks typically prefer that clients use independent business development services, such as those that SEED will offer, to ensure that a client's investment proposal is reviewed by an

objective, competent third party or "honest broker". Once we have a track record, clients and banks will find that SEED services can ensure that business investments are profitable and creditworthy. This will improve a client's ability to obtain a loan and, more importantly, pay it back on time. In some cases, it will be in the bank's interest to require clients to use SEED services and training.

5.2 Business Training

Business training will be an integral part of the business development services—encouraged for all clients who need them and required for clients desiring higher levels of business development services. The SEED Program will encourage banks to require such courses for borrowers who need them. A preliminary list of potential business training courses is provided in Table 4. This list will be updated substantially over the next six months as we gain experience in clients' training needs and determine the local availability of trainers.

Table 4 Potential Business Training Programs

<i>Basic skills and introductory short courses (1-3 hours):</i>	
<ul style="list-style-type: none"> • Introduction to basic bookkeeping • Fundamentals of credit 	<ul style="list-style-type: none"> • Introduction to business planning • Introduction to investment analysis
<i>Core courses and workshops (4 – 40 hours):</i>	
<ul style="list-style-type: none"> • Bookkeeping and recordkeeping • Accounting • Writing a business plan • Applying for credit • Budgeting • Investment analysis • Financial planning • Marketing • Export marketing • Information resources • Business management • Human resources management 	<ul style="list-style-type: none"> • Cooperative management • Business association management • Restaurant and hotel services • Client services • Food processing and quality control • Registering a new business • Inventory control for retailing • Contracting, bidding, and proposal writing • Introduction to business law • Tax issues for small businesses • Supply chain management • Developing a new business idea
<i>Technical & vocational courses:</i>	
<ul style="list-style-type: none"> • Vegetable production • Poultry production • Pig production 	<ul style="list-style-type: none"> • Food processing at home • Home production of handicrafts • Home production of textiles

Specific course offerings will depend on client demand and the identification of local training resources. Identification of trainers and training institutions has only begun and is a priority for the next quarter.

5.3 Business Information Center

The Business Information Center will provide the following resources:

- Credit information—summary of locally available credit programs from banks, non-banking credit institutions, and special programs. Terms of each credit program will be outlined, as well as simple explanations for the novice borrower.
- Market information—copies of market price information from published sources, including Gobi Initiative's Gobi Business News, periodicals with information on products and markets in Mongolia, and leads on how to find export markets.
- Best practice and business development information—written resources on business development topics, such as marketing, accounting, strategic management, product identification, etc.
- Business law and regulations—reference material on Mongolian commercial law, tax law, business regulations, how to register a business, etc., including internet resources such as www.investnet.mn and www.mongolialaw.com.
- Internet search services—SEED staff will assist clients in searching for information on the internet. This might include as little as showing the client how to do searches on internet to conducting a major search for information on how to process export quality dried meat and where to buy the equipment to make it. Staff time for internet searches will be charged, plus fees for computer time.
- Website—the SEED Program website www.chf-mongolia.org will be developed in stages over the first six months of implementation. It is difficult to predict what this will contain at this point, but all the above Business Information Center resources are likely candidates.

5.4 Employment Matching

Under the objective of increasing employment of Ger residents, the SEED Program originally planned to assist in matching Ger District unemployed with the needs of potential employers, including both SME's and large businesses. However, this objective is already the responsibility of the Darkhan Employment Office, located in the Darkhan-Uul Aimag Governor's Office. We feel that the employment matching responsibility should remain in the Employment Office.

Representing the Ministry of Labor, the Employment Office provides the following services:

- Skills matching—the office maintains a computerized database of 970 aimag residents actively seeking work and includes information such as education, professional experience, and important baseline data. The office reports that it matches up to 40 employees per month. They currently list 317 job openings, including 272 in textiles and the remainder in manufacturing, construction, and food processing.
- Unemployment compensation—the office administers this government program, which pays for three months of unemployment compensation at a rate of 40 - 70% of salary.
- Employment subsidies—the office administers a government program, which provides a 60% salary subsidy to employers that provide at least six months employment to job seekers who have been unemployed for over a year. The fact that the Employment Office reports that over 50 local public and private employers have used skills matching and placement services is in part due to this subsidy program.

- Training--the office funds medium-term training of unemployed job seekers, as well as workers at risk of losing their jobs due to poor performance. All training is contracted out to local institutions and individuals. Training sessions are commissioned based on analysis of current market needs and weaknesses in the labor pool. Subjects include traditional trades such as construction and plumbing, as well as vegetable growing and computer skills.

One weakness of the Employment Office is that most job seekers do not register. It is also possible job seekers may feel that registration does not provide them any benefits, despite evidence to the contrary¹³. Many Ger residents interviewed said they were familiar with the Employment Office. Businesses also mentioned the Employment Office as the place to find employees. However, Employment Office recognizes that it needs more outreach resources to ensure that employers understand the program and its benefits.

The Employment Office is eager to work with the SEED program. However, we need to assess their capacity and work with them to develop their services. For example, if employers or job seekers are not using their services, we need to find out why, resolve problems, and increase outreach. While computerized databases are excellent for certain purposes, having employment bulletin boards in key public places, such as the Old Darkhan market entrance or the New Darkhan post office would greatly increase access and timeliness of job information. Also, job seekers now have to go to the Darkhan-Uul Aimag Governor's Office, located at the far end of New Darkhan (about as far from most Ger residents as you can get in Darkhan) to register monthly. Perhaps monthly registration could take place at the local bhag office or the soum governors' office in Old Darkhan.

To effectively strengthen the services of the Employment Office, the following areas need to be assessed:

- Assessment of clients--we need better information from employers and job seekers of their perceptions, experiences, benefits, and problems using Employment services.
- Outreach--according to the Employment Office, many employers are not fully aware of the benefits of using the services of the Employment Office.
- Insufficient registration by job seekers--only 970 job seekers are currently registered in Darkhan-Uul Aimag, when the actual number of unemployed is estimated at 7,773, or 26% of the labor pool, according to the national census¹⁴.
- Effective vocational training--are the job training programs effective and do they meet then needs of employers? As the SEED Program gains experience working with SME clients, information about the strengths and weakness of the labor pool, effectiveness of traditional vocational training programs (versus in-house training by the business itself), and the specific labor skills required by Darkhan business will provide valuable feedback to the Employment Office.

5.5 Capacity Building

There is a great need to develop self-sustaining business development services. This is also an area where the SEED Program has its greatest comparative advantage for capacity building. The institutions with the biggest potential for developing self-sustaining private business development services are:

¹³ Steidl, Michael. "Consultancy Report, Design of a Training Voucher System". UNDP, Ulaanbaatar. April 2002, page 8.

¹⁴ National Statistics Office. Mongolia National Census for 2000.

- Darkhan Chamber of Commerce—this is our best candidate as an institution that can provide long-term, sustainable, private business development services.
- Business Associations—these are an essential component of a business development program. They permit more efficient use of SEED business development services, group activities, and advocacy.
- Cooperatives—similar benefits to business associations, but better adapted to grouping micro-enterprises and cottage industries.
- Consulting Service Providers—SEED will contract and work closely with existing local consultants. Because of limited local business consulting services, particularly in Darkhan, SEED will develop and train new local consultants, including SEED staff, and promote the development of local consulting businesses. This will deepen the capacity of local business consulting industry beyond the term of the SEED Program.
- Training Services Providers—similarly, SEED will utilize and help develop local trainers and training institutions.

It is essential that the SEED Program charge fees for service in order to permit future self-sustainability, ensure that service users put value on the services, and motivate SEED staff to be effective. This commercial, fee-driven philosophy will also ensure that SEED attracts serious business customers that employ long-term thinking, rather than shortsighted profiteers that consider commercial activity a temporary activity.

Overall, we feel that program sustainability will be accomplished through:

- The development of local business development service providers and consultants that will continue service beyond SEED's term.
- The continued improved practices of SEED SME clients beyond the SEED term.
- The long-term activities of SEED supported SME business associations, cooperatives, and informal groups

There is also great need to work with local government agencies that promote, tax, or regulate businesses. This can be a delicate area for collaboration because there is often an adversarial relationship between government and business. While local government agencies typically feel that they are promoting business, businesses often feel that government primarily taxes, regulates, and impedes them. Businesses need to pay taxes, meet government standards, and abide by regulations, but the regulatory and enforcement process needs to be transparent. Also, the real cost of implementing specific regulations needs to be proportionate to the benefits. Our goal will be to work through the Chamber of Commerce and business associations to develop dialogue with local government agencies to ensure that there is open discussion on issues, that tax and other regulations are transparently and objectively enforced, and that businesses and government officials have a forum to share ideas and debate differences of opinion.

6 Issues and Recommendations

The following section summarizes major issues concerning the SEED Program that were identified as part of the Darkhan Rapid Needs Assessment:

1. The USAID/CHF Support to Enterprises and Economic Development (SEED) Program provides small business development services, information, and training to the peri-urban "ger districts" of Darkhan, Erdenet, and Ulaanbaatar. However, Darkhan's Ger District economy is an integral part of the Darkhan city economy and vice versa.

Recommendation: that the SEED Program in Darkhan focus on SME's located in the Ger District, but also include businesses that employ Ger District residents or purchase their products and services.

Recommendation: that SEED Program develop criteria to prioritize potential clients by the degree to which they benefit Ger District residents.

2. Darkhan's banks do an excellent job extending credit to Darkhan citizens and have made a solid recovery from the bank failures of the late 90's. However, most credit is for short-term consumer loans—typically micro loans with three month terms. In addition, Interest rates are high (3 - 5% per month), investment credit (12+ month term) is rare, and collateral requirements are severe for Ger residents—real estate, typically an apartment, is generally required as collateral, except for micro loans under 100,000 tugrigs.

Recommendation: that SEED work closely with banks to find creative collateral solutions, help SME clients develop more creditworthy investment credit applications, and work with banks to fund more investment loans with longer terms and lower interest rates.

Recommendation: that SEED work with pawnshops and banks to find a compromise solution on collateral and ways to reduce pawnshop interest rates.

3. To ensure self-sustainability, the SEED Program will charge fees for its business development services, but it is unclear whether clients, particularly micro enterprises, are willing or can afford to pay fees set at the full cost of services.

Recommendation: that business development service fees be based on staff time commitment, be below market rates for initial contacts and tasks with general benefits to the sector or group, and increase more than proportionally due to complexity, individuality of task, and time commitment.

4. The employment matching services proposed in the SEED Program are already provided by the Darkhan Employment Office.

Recommendation: that the responsibility for employment matching should remain with the Employment Office. However, the SEED Program must assess their capacity and work with them to develop their services.

5. Darkhan's economy is vulnerable to the possibility of failure of any of its large industries, which are major local employers.

Recommendation: that employment generation by SME's be given a higher priority for the SEED Program than employment matching with large, financially weak employers.

6. A surprising amount of information about the Darkhan business environment is murky. Examples include a wide range of types of information, such as the definition of unemployment, what a specific ADB or World Bank loan program is supposed to fund, what a specific local government office does, procedures for using Employment Office services, what bank loan products are actually being used versus what is claimed, which SME's and large industries actually employ Ger residents, the degree of interdependence between the Ger and city economies, etc.

Recommendation: that SEED business development staff closely monitor and assemble information from new client assessments over the next six months in order to provide a better profile of Ger SME's, Ger residents, and the overall Darkhan business environment.

7. Textiles have great potential for generating exports, employment, and value-addition. However, despite recent growth, we are surprised to find that neither Ger residents nor

factory managers seem happy with each other. Textile workers complain that wages are low, while their managers complain that productivity is low. The Employment Office lists 270 textile factory jobs that are unfilled. Also, as discussed in this report, few Darkhan textile factories are Mongolian managed and most are vulnerable to closing if foreign investors pull out due the removal of quotas in China or Korea.

Recommendation: that SEED investigate problems in the textile industry and evaluate the potential for expansion. If Darkhan staff recruitment does not find a local textile specialist, we should bring in a textile consultant to address this problem.

8. Value-addition and employment generation are linked. Popular SME's, such as trading, kiosks, and seasonal informal sector jobs tend to under employ Ger residents in low-paid economic activities without generating much real income growth for Darkhan. Such SME's are more symbols of poverty than real indicators of SME development.

Recommendation: that SEED focus on SME's with higher potential for increasing value-addition and employment, such as construction (particularly off-season renovation), textiles, food processing, and greenhouses.

9. New startups require different and more complex business development services than existing SME's. Problems include inexperienced entrepreneurs, unrealistic business plans, and complex feasibility studies. However, many basic services and products are lacking in Darkhan, which would make prime candidates for new SME startups.

Recommendation: that the Darkhan SEED Program, particularly during its initial implementation phase, concentrate its business development services on SME's that have at least one year's operating experience. Exceptions may be made on high priority new startups.

10. Darkhan has several advantages--good local services, reliable utilities, low cost housing, and lower labor costs--that could motivate businesses in Ulaanbaatar to move or put branches here. However, no one is recruiting new industries to Darkhan.

Recommendation: that SEED work with the Darkhan Chamber of Commerce and local government agencies to develop a Darkhan website with information advertising the benefits of investing here.

11. One of the information gaps is lack of information on business registration, inspection, and regulatory processes.

Recommendation: that SEED work with the Darkhan Chamber of Commerce, existing Business Associations, and the relevant government agencies to inventory, monitor, and discuss business registration, inspection, and regulatory processes.

12. The SEED Program has other miscellaneous issues and unknowns about the future. For example, it takes time to develop business consulting expertise in areas like Darkhan where there is little private consulting experience. The SEED Program was originally planned with few resources to bring in outside consultants, which may prove necessary to help train local consultants. Also, the deliverables in the original SEED Program proposal may not have been realistic, given the local business environment and availability of local business consulting services.

Recommendation: unknowns about SEED Program design, resources, and implementation need to be closely monitored over the next six months. The first step in this process will be a review of these potential problems in the SEED Annual Work Plan, due Nov. 15, 2002.

This report is the first step in setting up the SEED Program Darkhan office. The Darkhan Rapid Needs Assessment was able to assemble much relevant information in a short time period, but there remain several information gaps, particularly in the areas of potential clients, local training resources and consultants, Ulaanbaatar collaborators, and new startups. During the next six months' implementation phase of the Darkhan Business Development Services Office, the SEED Program will assemble additional information from clients and other sources to fill these gaps. In turn, the Darkhan experience will be instrumental in streamlining the startup of the Erdenet and Ulaanbaatar in the next year.

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ANNEX

Annex 1 Contact List

Annex 2 Potential Client List

Annex 3 Government Structure

Annex 4 Potential SME List

Annex 5 Bank Loan Programs

Annex 1 Contact List
USAID/CHF SEED Project, Darkhan, Mongolia

Name of Contact Person	Title or Function	Name of organization	Type of Business	City
Amarjargal	Prof, Mechanical Engineering (contact for Darkhan Builders' Assoc.)	Darkhan School of Technology	University	Darkhan
Amgalan	Chair, Building Materials	Darkhan School of Technology	University	Darkhan
Andres Dominguez	Consultant	Gok -- Erdenet Copper Mining Company	Consultant	Ulaanbaatar
B. Batsaikhan, Ph.D.	General Manager	Darkhan Nekhii	Leather apparel--sheepskin	Darkhan
B. Enhhuyag Harchin	Director	The Bank of Mongolia	Bank	Ulaanbaatar
B. Mandalbayar	Executive Director	Darkhan Power Plant	Electricity & heating plant	Darkhan
B. Tserenminjin	Darkhan Branch Director	Mongol Post Bank	Bank	Darkhan
Baatarjav Chultemsuren	Executive Director	Darkhan Ord Kharsh Co. Ltd.	Construction	Darkhan
BAIGALMAA, S.	Executive Director	Mongolian Cooperative Training and Information Center	NGO	Ulaanbaatar
Baldoo TEMUULEN	Acting Executive Director	Market Watch LLC	Market surveys--Mercy Corps	Ulaanbaatar
Batsaikhan	Director	Gravel Company	Gravel company	Darkhan
Bayar BUDRAGCHAA	Managing Director	ELC-Economic & Legal consultancy LLC	Lawyer	Ulaanbaatar
Berzsuren MUNKHJARGAL	Darkhan-Uul Provincial Office Director	Mongolian Chamber of Commerce and Industry	Chamber of Commerce	Darkhan
Bjom Steinar Hauge	Health Development Project Leader	Norwegian Lutheran Mission in Mongolia	NGO	Darkhan
Bold	Bhag #1 Governor		Government	Darkhan
Ch. CHULUUNTSETSEG	Director	Ag Bank	Bank	Darkhan
Christopher M. Finch	Consultant		USAID consultant	Ulaanbaatar
Chuluun GANHUYAG	Co-Executive Director	XacBank	Bank	Ulaanbaatar
D. SUKHGEREL	Program Specialist	USAID	USAID	Ulaanbaatar
Dagisuren	Accountant	Mongol Bank	Bank	Darkhan
Damdingiin HAYANHIRVAA	Governor of Darhan-Uul Aimag, Mayor of Darkhan city	Mongolia. Darkhan-Uul aimag	Government	Darkhan
Dashnyam Tsetsegee	Vice Director	Bayangiin Ekh Construction & Industrial Co.,Ltd	Construction Company	Darkhan
David Munro	Consultant	Xas Bank	Bank	Ulaanbaatar
Debra Boyer	Chief Operating Officer	Ag Bank	Bank	Ulaanbaatar
DENEVDORJ Chogzovyn, Ph.D	Director, Building Dept. and Science Secretary	Darkhan School of Technology	University	Darkhan
Dr. David R. Dyer	Program Director for Agriculture Development	Gobi Regional Economic Growth Initiative	USAID Project--Mercy Corps	Ulaanbaatar
Dr. Franz-Volker Muller	Project Coordinator	Ministry food & Agriculture Mongolian-German Development Cooperation GTZ	GTZ Project	Ulaanbaatar
Ekkehard Esser	Co-Executive Director	XacBank	Bank	Ulaanbaatar
Erdenchimeg	Chair, Business Management (building & construction)	Darkhan School of Technology	University	Darkhan
G. BATMUNKH Ganzorig	General Director	Munkhiin useg CO.,Ltd	Printing & Publishing	Ulaanbaatar
GENDEN	Director	Darkhan Builders' Association	Business Association	Darkhan
	Head of Darkhan Aimag Stats Office	Government of Darkhan-Uul aimag	Government	Darkhan
Gendenbaatar YADAMDORJ	Chairman	Union of Mongolian Production & Service Cooperatives	Union of Coops	Darkhan
Gendengonchig NARANGEREL	Head Department of Mechanical Engineering	Darkhan School of Technology	University	Darkhan
J. Badamhand	Director of Darkhan Branch	Golomt Bank	Bank	Darkhan
Jambodoo BATDULAM	Officer for Foreign relations affairs	Government of Darkhan-Uul aimag	Government	Darkhan
Jeanne Bartholomew	Consultant			Ulaanbaatar
Jeremy Stone	Peace Corps volunteer	Darkhan Chamber of Commerce and Industry	Chamber of Commerce	Darkhan
Jerry L.Smith	Director	Change the world ministries	NGO	Darkhan
Jivko Nenov	Chief of Party Mongolia Judicial Reform Program	KPMG Consulting Barents Group	USAID Project--Privatization	Ulaanbaatar
Jonathan S.Addleton	Mission Director USAID MONGOLIA	USAID	USAID	Ulaanbaatar
Jonathan Simon	Project Director	Enterprise Restructuring Project-Phase 2	Dutch SME Development Project	Ulaanbaatar
Ken Heldenfels	Country Director	US Peace Corps	US Peace Corps	Ulaanbaatar
Kyu Chang Lee	Factory Manager	Gobi Tex	Textile factory	Darkhan
Layton Croft	Acting Country Rep	Pact Indonesia	Consultant	Jakarta
Lkhamtsuren Setov	Director	Soros Education Resource Center	USAID Project	Darkhan
Luvsantseren OTGONTUGS	Program manager	US Peace Corps	US Peace Corps	Ulaanbaatar
Michael J. Layne	Commercial Officer	US Embassy	US Embassy	Ulaanbaatar
Michael Richmond	Commercial Advisor	US Dept. of State	US Embassy	Ulaanbaatar
Michelle Morgan	Program Director	The Competitiveness Initiative	USAID project	Ulaanbaatar
MIKHEICHUK Aleksandr Nikolaevich	Director	" Zarubezhstroy in Mongolia" company	Construction Company--Russian	Darkhan,Ulaanbaatar

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USAID/CHF SEED Project, Darkhan, Mongolia

Name of Contact Person	Title or Function	Name of organization	Type of Business	City
Amarjargal	Prof. Mechanical Engineering (contact for Darkhan Builders' Assoc.)	Darkhan School of Technology	University	Darkhan
Amgalan Andres Dominguez	Chair, Building Materials Consultant	Darkhan School of Technology Gok -- Erdenet Copper Mining Company	University Consultant	Darkhan Ulaanbaatar
B. Batsaikhan, Ph.D.	General Manager	Darkhan Nekhii	Leather apparel--sheepskin	Darkhan
B. Enhuyag Harchin	Director	The Bank of Mongolia	Bank	Ulaanbaatar
B. Mandalbayar	Executive Director	Darkhan Power Plant	Electricity & heating plant	Darkhan
B. Tserenminjin	Darkhan Branch Director	Mongol Post Bank	Bank	Darkhan
Baatarjav Chultemsuren	Executive Director	Darkhan Ord Kharsh Co. Ltd.	Construction	Darkhan
BAIGALMAA, S.	Executive Director	Mongolian Cooperative Training and Information Center	NGO	Ulaanbaatar
Baldoo TEMUULEN Batsaikhan	Acting Executive Director Director	Market Watch LLC Gravel Company	Market surveys--Mercy Corps Gravel company	Ulaanbaatar Darkhan
Bayar BUDRAGCHAA	Managing Director	ELC-Economic & Legal consultancy LLC	Lawyer	Ulaanbaatar
Berzsuren MUNKHJARGAL	Darkhan-Uul Provincial Office Director	Mongolian Chamber of Commerce and Industry	Chamber of Commerce	Darkhan
Bjom Steinar Hauge Bold	Health Development Project Leader Bhag #1 Governor	Norwegian Lutheran Mission in Mongolia	NGO	Darkhan
Ch. CHULUUNTSETSEG	Director	Ag Bank	Government Bank	Darkhan Darkhan
Christopher M. Finch	Consultant	USAID	USAID consultant	Ulaanbaatar
Chuluun GANHUYAG	Co-Executive Director	XacBank	Bank	Ulaanbaatar
D. SUKHGEREL	Program Specialist	USAID	USAID	Ulaanbaatar
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Ekkehard Esser	Co-Executive Director	XacBank	Bank	Ulaanbaatar
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Gendenbaatar YADAMDORJ	Chairman	Union of Mongolian Production & Service Cooperatives	Union of Coops	Darkhan
Gendengonchig NARANGEREL	Head Department of Mechanical Engineering	Darkhan School of Technology	University	Darkhan
J. Badamhand	Director of Darkhan Branch	Golomt Bank	Bank	Darkhan
Jambodoo BATDULAM	Officer for Foreign relations affairs	Government of Darkhan-Uul aimag	Government	Darkhan
Jeanne Bartholomew	Consultant			Ulaanbaatar
Jeremy Stone	Peace Corps volunteer	Darkhan Chamber of Commerce and Industry	Chamber of Commerce	Darkhan
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Jivko Nenov	Chief of Party Mongolia Judicial Reform Program	KPMG Consulting Barents Group	USAID Project--Privatization	Ulaanbaatar
Jonathan S.Adleton	Mission Director USAID MONGOLIA	USAID	USAID	Ulaanbaatar
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Lkhamsuren Setov	Director	Soros Education Resource Center	USAID Project	Darkhan
Luvsantseren OTGONTUGS	Program manager	US Peace Corps	US Peace Corps	Ulaanbaatar
Michael J. Layne	Commercial Officer	US Embassy	US Embassy	Ulaanbaatar
Michael Richmond	Commercial Advisor	US Dept. of State	US Embassy	Ulaanbaatar
Michelle Morgan	Program Director	The Competitiveness Initiative	USAID project	Ulaanbaatar
MIKHEICHUK Aleksandr Nikolaevich	Director	" Zarubezhstroy in Mongolia" company	Construction Company--Russian	Darkhan,Ulaanbaatar

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USAID/CHF SEED Project, Darkhan, Mongolia

Name of Contact Person	Title or Function	Name of organization	Type of Business	City
Monkhtsatsral	Senior Account	Trade & Development Bank	Bank	Darkhan
Munkhtur & Chintsetseg	Loan Officers	Xas Bank	Bank	Darkhan
N. DELGER	AEC Officer FDMON 9801Agroconsult-Transtec	Crop Development Mongolia		Darkhan
N. URANCHIMEG	Project coordinator	Center for women and employment "Mandukhai" club	Cooperative--Women's handicraft	Ulaanbaatar
N.SENDENHOROL	Executive Director	Darkhan Guri Tejeel company	Flour Milling	Darkhan
Namjildorj BAASANHUU	Dundgovi Program Representative	Gobi Regional Economic Growth Initiative	USAID Project--Mercy Corps	Dundgovi
Namkhajantsan DORJDARI	Program Officer for External Operating Environment	Gobi Regional Economic Growth Initiative	USAID Project--Mercy Corps	Ulaanbaatar
Naranueueg	Head, Dept. of Ag. Econ & Mgt.	Ag. Training Center, Mongolian Agricultural University	University	Darkhan
Navaantsend BATTULGA	Vice Director	Darkhan Metallurgical Plant	Metallurgical factory	Darkhan
Nimjab	Bhag #2 Governor		Government	Darkhan
Oyuntsetseg	CEO	UNIFEM Mongolia	UN Woman's project	Ulaanbaatar
Peter Morrow	Program Officer for Regional Coordination Unit	Ag Bank	Bank	Ulaanbaatar
Purev OYUNDELGER	Program Officer for Regional Coordination Unit	Gobi Regional Economic Growth Initiative	USAID Project--Mercy Corps	Ulaanbaatar
Purevjab	Director	Darkhan-Uul Aimag Employment Office	Government	Darkhan
Robert La Mont	Chief of Party Mongolia Judicial Reform Program	National Center For State Courts	USAID Project	Ulaanbaatar
Sanj BAT-OYUN	Representative	D.B Holdsworth Co.,Ltd,UK	Cashmere processor/trading company	Ulaanbaatar
Sanjaajamts ARIUN	Program Officer for Regional Coordination Unit	Gobi Regional Economic Growth Initiative	USAID Project--Mercy Corps	Ulaanbaatar
Ser-0d JARGALSAIKHAN	Program Director for Business Development	Gobi Regional Economic Growth Initiative	USAID Project--Mercy Corps	Ulaanbaatar
Sharav ODGEREL	WVI Mongolia Darkhan ADP Programme Coordinater	World Vision Mongolia	NGO	Darkhan
Stevan Buxt	Technical Advisor for Market News and Information	Gobi Regional Economic Growth Initiative	USAID Project--Mercy Corps	Ulaanbaatar
Sugar MONGONCHIMEG	SDP assistant manager	Norwegian Lutheran Mission in Mongolia	NGO	Darkhan
Terance G.Glossop	Term loan consultant	Ag Bank	Bank	Ulaanbaatar
Trogor	Chair, Food Technology	Darkhan School of Technology	University	Darkhan
Tsagaan	Prof. Food Technology (1st year)	Darkhan School of Technology	University	Darkhan
Tserenbaljir	Director	Erel Cement	Cement factory	Darkhan
Tserenminjin	Director	Post Bank	Bank	Darkhan
TSEVEL Samandaa, Ph.D.	Director	Darkhan School of Technology	University	Darkhan
Tumengiin TSEVEGMID	Executive Director	Darkhan Khuns	Food Processing	Darkhan
Wesley Nguyen	Peace Corps volunteer	Vocational school	Vocational high school	Darkhan
Zenemeder Yadamjav	Chair, IT Dept.	Darkhan School of Technology	University	Darkhan
Zou De Quan	Vice Director	Tianpeng Garment Co.	Textile factory	
Zuljargal	Vice Director	Darkhan Nekhii	Leather apparel--sheepskin	Darkhan
	Governor	Darkhan Meat Factory	Meat processing plant	Darkhan
		Darkhan Soum	Government	Darkhan
		Golden Eagle, Chinese American JV	Cashmere knitting	Darkhan
		Hadgalamj Bank	Bank	
	Bhag #3 Governor		Government	Darkhan
	Bhag #7 Governor		Government	Darkhan
	Bhag #6 Governor		Government	Darkhan

Annex 2 Potential Client List--Darkhan
USAID/CHF SEED Project, Darkhan, Mongolia

Size: S=0-20 empl.; M = 21-99; L = 100+

Type of Business	T1	T2	T3	Number of Employees or Members	Size S,M,L	Yrs in Business	Potential Activities	Next step
video game room	Computer services			03-Jan	S	?	Training, expansion	Assessment
Construction	Construction			100 seasonal	M	~20	Internet search for construction equipment and trade fairs; Equipment investment analysis	Internet search
brother works in 30 person roof repair company	Construction			30 seasonal	S	?	only spoke with sister; need to revisit	Assessment
Construction	Construction			750 seasonal	L	30	Work with small suppliers of construction materials and services	Contact building association to identify upstream linkages
Construction	Construction			self	S	2	Marketing his services, interested in joining association	
Construction	Construction			self	S	10		
Construction	Construction			100	L	10	Wants to export products	Assessment
Construction	Construction			10	S	11	Needs more equipment to keep up with demand. Assessment of creditworthiness	Assessment
Construction	Construction materials			100 seasonal	L	7	Was privatized and operates at 30% capacity. Wants to upgrade equipment. Is a subsidiary of corporation that owns a hotel and other businesses in area.	Assessments of parent and subsidiaries; financial analysis of equip. purchase
Food Processing	Food Processing			80	M	5	Was privatized from state. Makes an array of products. Wants to improve technology, equipment and marketing	Assessment--priority sector
gardening	Gardening			2 seasonal	S	4	want to improve gardening skills to permit sale of surplus; interest in poultry	See extension service; organize home gardening training
gardening	Gardening			2 seasonal	S	~5	home gardening training, compost, organize better seed and fertilizer services	See extension service; organize home gardening training
Farming and Boot makers	Gardening	Shoes		3	S	5	Family business; husband is teacher; son, daughter in law and mother work from home. Wants to diversify	Assessment
Variety of Handicrafts and Pickled Vegetables	Handicrafts	Food Processing		10	S	5	Works with NLM in felt production, needs marketing assistance	Assessment; possible handicraft assoc.
Slaughterhouse and Meat processing	Meat			370 seasonal	L	~10	51% owned by state - one of three meat factories. Considering diversifying into pig and chicken farms. Needs access to int'l markets - hampered by quality standards	Assess possible links as buyer of SME chicken & pig producers
Steel fabrication	Metal			380	L	8	State owned. Operates at 20% capacity needs to find input (scrap metal) and markets for products	Assessment of contracting possibilities for small businesses
Scrap Metal Collectors	Metal			3	S		Family business; sells to metallurgical factory; wants to diversify	Assessment
Flour milling, wheat farming, baking	Milling	Wheat Farming	Baking	25 fulltime + 25 seasonal	M	~10	Business planning	Assessment
flour milling, farming	Milling	Wheat Farming		?	S	1	Unrealistic client. Business training or planning? Need to assess organization of small flour mills	Assessment

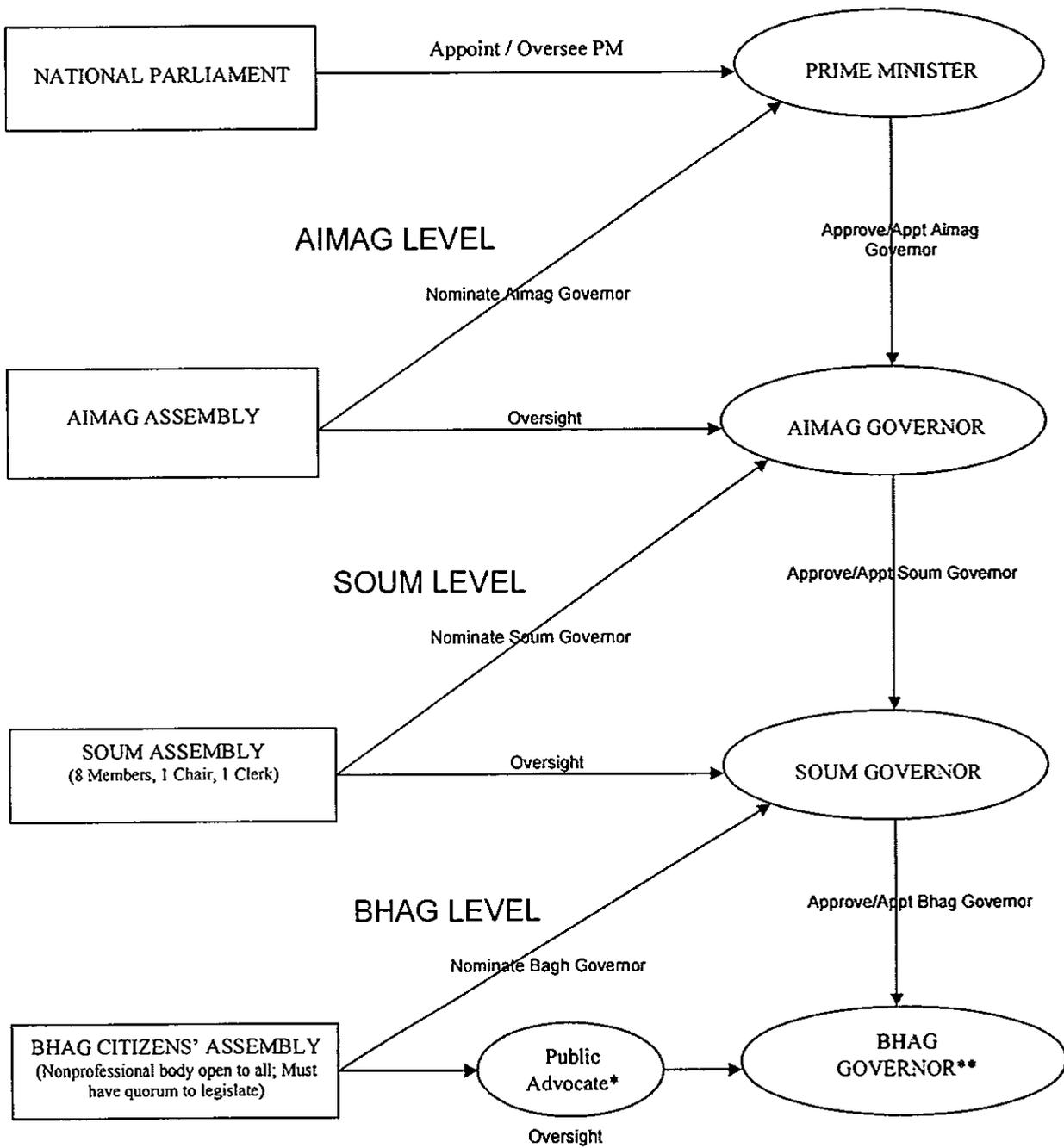
Annex 2 Potential Client List--Darkhan
USAID/CHF SEED Project, Darkhan, Mongolia

Size: S=0-20 empl.; M = 21-99; L = 100+

Type of Business	T1	T2	T3	Number of Employees or Members	Size S,M,L	Yrs in Business	Potential Activities	Next step
husband manager at flour mill, restaurant, hotel	Milling	Restaurant	Hotel	?	S	?	only spoke with wife; need to revisit	Assessment
flour mill	Milling			6	S	4	Assess creditworthiness, needs short term inventory loan if profits can cover interest	Assessment; credit application
flour mill	Milling			220	L	4	Was privatized and is now one of the three big flour mills in the country. Needs more retail and wholesale markets and good quality grain. Would be interested in contracting out services for packaging	Assessment of contracting possibilities for small businesses
gold waste cleaning; dairy products	Mining			6	S	~4	poultry or pig raising; assess potential for services to 20,000 gold cleaners and small prospectors	See extension service; organize home poultry & pig training
gold miner with claim	Mining			?	S	0	Assess creditworthiness; assist in bank credit for equipment rental	Assessment
Printing, Hotel and restaurant	Printing	Hotel	Restaurant	70	M	4	needs to lower input costs and find more markets. Also interested in improving quality of quick printing services	Assessment; marketing
Car repair and general welding services	Repair			self	S	5	Assess creditworthiness for new equipment	Assessment
Car insulator	Repair			1	S	?	Fashions insulation for cars to keep them warm in winter. Looking for more markets	Assessment
mobile soup vendor	Restaurant			2	S	~4	Feasibility of opening a café at bus station	Assessment
Retail food and drinking establishment	Retail, Grocery	Bar		9	S	11	wants to diversify products and go into restaurant business	Assessment
kiosk	Retail, Kiosk			1	S	?	organize kiosks for joint purchasing	Assessment
Sewing	Sewing			14	S	11	Needs marketing assistance and creditworthiness assessment	Assessment; links to UB sewing assoc.
Transportation	Transport			3	S	?	transports products from birch to bags. Lots of competition	Unsure what we can do with small transport
vetrinarian supplies	Vet. Supplies			3?	S	~5	Business planning; organize vet. supply retailers; trade credit	Assessment
Window and cabinet factory	Wood working			60 now, but 300 in 1-2 years	M	1	Organize vocational training in collaboration with vocational school	Assessment
Niche Furniture Making, Sewing and other handicrafts	Wood working	Sewing		37	M	7	Assessment of creditworthiness, markets	Assessment

Annex 3 Government Structure

NATIONAL LEVEL



Notes:

*Part-time; Performs oversight of Bhag Governor reporting to Citizen's Assembly

**Lowest administrative level of government; Nominated by Assembly and approved by Soum Governor; Strong party control; Typical responsibilities include: distribution of Bhag budgetary allocation, statistical data collection, social service provision, identification, etc.

Annex 4 Potential SME List--Darkhan
USAID/CHF SEED Project, Darkhan, Mongolia

SME Sector	Subsector	Description
Construction	Large	Construct large buildings, apartments, factories, etc.
Construction	Medium	Construct small buildings, single homes, major renovation
Construction	Small	Ger homes, apartment renovation, roofing, etc.
Construction	Micro	Single entrepreneur trades: carpenter, plumber, etc.
Construction	Building materials	Build bricks, slabs, lumber; make cement; gravel, etc.
Woodworking	Furniture & Cabinetry	Build wood furniture and cabinets
Metalworking	Scrap metal dealing	Trading in scrap metal
Metalworking	Welding	Welding services
Metalworking	Stove manufacture	Production of heating/cooking stoves
Agriculture	Wheat farming	Growing wheat
Agriculture	Milling	Milling flour
Agriculture	Vegetable gardening	Home production of vegetables
Agriculture	Poultry & pig production	Home production of chickens, eggs, or pigs
Agriculture	Greenhouse vegetables	Production of off-season vegetables
Food Processing	Dairy processing	Production of milk products, cheese, etc.
Food Processing	Vegetable canning	Canning and drying vegetables
Food Processing	Meat processing	Butcher fresh meat; product sausage & dried meal
Food Processing	Bakery	Bread and pastry baking
Food Retailing	Restaurant/café	Food services
Food Retailing	Soup, hoshuur, fast food	Micro food services
Food Retailing	Bar	Bar & disco services
Food Retailing	Grocery	Retail groceries, supermarkets
Food Retailing	Kiosk	Kiosk food retailing
Food Retailing	Trading	Food trading in market and with UB
Trade	Market trader	Wholesale & retail trade in market and with UB
Trade	Retail store	Retail shop (anything but food)
Trade	Firewood & coal	Trading in firewood, coal, etc.
Textiles/apparel	Clothing factory	Clothing factories
Textiles/apparel	Home sewing	Home production of garments (traditional or factory linked)
Textiles/apparel	Handicrafts	Higher quality handicrafts, some export quality
Textiles/apparel	Leather garments	Leather coats & garments
Textiles/apparel	Shoes/boots	Production of shoes and boots
Textiles/apparel	Knitting, weaving, cashmere	Wool and cashmere textiles production
Textiles/apparel	Mitten, glove, & hat production	Manufacture of mittens, gloves, & hats
Services	Water delivery	Transport water to homes
Services	Irrigation & gardening supplies	Retail sale of irrigation equipment, seed, fertilizer
Services	Well drilling	Tube wells and open well construction
Services	Veterinarian supplies/services	Retail sale of vet. supplies, medicines, and vet. services
Services	Internet café	Renting computer time
Services	Computer services	Programming, computer consulting for office needs, ISP's
Services	Car repair	Repair autos
Services	TV, radio, electronic repair	Electronic repair shops
Services	Auto & home insulation	Insulating cars & homes
Services	Hotel	Hotel services
Transport	Trucking	Trucking services--local or to UB
Transport	Taxi	Taxi or minibus services
Transport	Shipping services	Expedite train/truck transport to UB; export expedition
Mining	Gold and mineral mining	Large mining operations: gold, copper, minerals, gypsum, etc.
Mining	Gold processing	Cleaning gold from mining waste

Annex 4 Potential SME List--Darkhan
USAID/CHF SEED Project, Darkhan, Mongolia

Coding: m S M L
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SME Sector	Subsector	Size S,M,L	Export	Value Added	Employment	Off-Season	Bus. Assoc.	Micro Coop.	Employ Retirees	SEED Priority	Client Target
Construction	Large	L		■	■						0
Construction	Medium	M		■	■					■	5
Construction	Small	L		■	■	■					10
Construction	Micro	m						■			10
Construction	Building materials	SM		■	■			■		■	5
Woodworking	Furniture & Cabinetry	SM	•	■	■			■		■	5
Metaworking	Scrap metal dealing										
Metaworking	Welding										
Metaworking	Stove manufacture			■	■					■	3
Agriculture	Wheat farming	ML									0
Agriculture	Milling	SML	■					■		■	10
Agriculture	Vegetable gardening	m			■			■	■	■	50
Agriculture	Poultry & pig production	m			■			■	■	■	10
Agriculture	Greenhouse vegetables	SM	■	■	■	■				■	3
Food Processing	Dairy processing	SM		■	■					■	5
Food Processing	Vegetable canning	S	■	■	■			■	■	■	10
Food Processing	Meat processing		■	■	■			■	■	■	10
Food Processing	Bakery			■	■					■	5
Food Retailing	Restaurant/café									■	3
Food Retailing	Soup, hoshuur, fast food									•	3
Food Retailing	Bar										
Food Retailing	Grocery									■	3
Food Retailing	Kiosk							■	■	•	25
Food Retailing	Trading										
Trade	Market trader										
Trade	Retail store										3
Trade	Firewood & coal										
Textiles/apparel	Clothing factory		■	■	■	■		■	■	■	5
Textiles/apparel	Home sewing		■	■	■	■		■	■	■	25
Textiles/apparel	Handicrafts		■	■	■	■		■	■	■	10
Textiles/apparel	Leather garments		■	■	■	■		■	■	■	5
Textiles/apparel	Shoes/boots		■	■	■	■		■	■	■	3
Textiles/apparel	Knitting, weaving, cashmere		■	■	■	■		■	■	■	10
Textiles/apparel	Mitten, glove, & hat production		■	■	■	■		■	■	■	3
Services	Water delivery				■						
Services	Irrigation & gardening supplies									■	3
Services	Well drilling				■					■	3
Services	Vetrinarian supplies/services									■	5
Services	Internet café									•	3
Services	Computer services			■						■	3
Services	Car repair									■	
Services	TV, radio, electronic repair										
Services	Auto & home insulation			■							
Services	Hotel									•	3
Transport	Trucking									•	3
Transport	Taxi										
Transport	Shipping services		■		■					■	2
Mining	Gold and mineral mining		■		■					■	2
Mining	Gold processing		■		■			■	■	■	20

SME Sector	Subsector	Potential Activities
Construction	Large	Links with local SME suppliers of materials and services; employment
Construction	Medium	Large potential for growth
Construction	Small	Large potential for growth & off-season employment
Construction	Micro	Could organize into trade coops or associations
Construction	Building materials	Develop links with construction firms & UB market
Woodworking	Furniture & Cabinetry	One medium German window factor with potential; several small wood shops
Metalworking	Scrap metal dealing	Limited
Metalworking	Welding	Unsure; possible link as supplier to construction industry
Metalworking	Stove manufacture	Key sector; identify entrepreneurs & new businesses
Agriculture	Wheat farming	Develop links with suppliers of inputs?
Agriculture	Milling	Organize micro mills.
Agriculture	Vegetable gardening	Excellent for retirees
Agriculture	Poultry & pig production	Excellent for retirees
Agriculture	Greenhouse vegetables	New startup, next year. High potential for off-season, high value added.
Food Processing	Dairy processing	Develop home processing and small enterprise production
Food Processing	Vegetable canning	Excellent for retirees; value-added potential
Food Processing	Meat processing	Potential home industry
Food Processing	Bakery	Training; market may be flooded
Food Retailing	Restaurant/café	Market is flooded, but needs some training
Food Retailing	Soup, hoshuur, fast food	Develop growth to larger units
Food Retailing	Bar	Limited training--bookkeeping, restaurant services
Food Retailing	Grocery	Training
Food Retailing	Kiosk	Organize into buying coops. Unsure if this is productive.
Food Retailing	Trading	Links with food production activities, possible credit analysis
Trade	Market trader	Some links as suppliers to other SME's
Trade	Retail store	Possible credit analysis
Trade	Firewood & coal	Limited
Textiles/apparel	Clothing factory	Key sector; identify entrepreneurs & new businesses
Textiles/apparel	Home sewing	Develop link to factories
Textiles/apparel	Handicrafts	Develop handicrafts industry; organize micro producers
Textiles/apparel	Leather garments	Key sector; identify entrepreneurs & new businesses
Textiles/apparel	Shoes/boots	Organize micro producers; develop links to markets
Textiles/apparel	Knitting, weaving, cashmere	Organize micro producers; develop links to markets
Textiles/apparel	Mitten, glove, & hat production	Improve quality; organize producers, marketing
Services	Water delivery	Water is a big issue in Ger districts
Services	Irrigation & gardening supplies	New startup; linked to home vegetable production
Services	Well drilling	New startup; linked to home vegetable production & water issues
Services	Vetrinarian supplies/services	Important to herders and inked to home animal production
Services	Internet café	Develop links to growth into computer services company
Services	Computer services	Training; Darkhan needs better computer services
Services	Car repair	Limited
Services	TV, radio, electronic repair	Limited
Services	Auto & home insulation	Limited
Services	Hotel	Training;
Transport	Trucking	Develop links to producers selling to UB
Transport	Taxi	Market flooded
Transport	Shipping services	Service for UB marketing (supplies from & produce to) & exporters
Mining	Gold and mineral mining	Links with local SME suppliers of materials and services; employment
Mining	Gold processing	Unsure; possible coop for marketing

Annex 5 Bank Loan Programs

Bank Loan Program	Purpose	Size	Interest Rate	Term	Business History Required	Repeat Borrower Advantages	Application Requirement
Xac Bank							
Start-Up Loan	Trade and Production	20,000 to 1,000,000	5% monthly	Up to 12 months	N/A	Reduced interest, increased term	
Growth Loan	Fixed Assets/Expansion	Up to 2,000,000	3.5 to 4% monthly	Up to 18 months		N/A	
SME Loans	Working Capital/Fixed Assets	Up to 30,000,000	3 to 4% monthly	Up to 12 months for WC and 38 months for FA	Yes	N/A	Rigorous Business Plan, formal registration
Ag Bank							
Pensioner Loans	Consumption	Up to 3 months Pension	At least 4%	NA	No	Form	
Salaried Person	Consumption	Up to 3 months Salary	At least 4%	NA	No	Form	
Small Enterprise / Traders	Working Capital / Expansion	Usually Less than 10 Million	3% - 4%	Yes	Yes	Form / Plan	
Herder	Consumption	Limited by Collateral (herd)	3% - 4%	Yes	Yes	Form	
Golomt							
Salary	Consumption	Up to 3 months Pension	More than 4%	3 months	NA	No	Form
Pensioner	Consumption	Up to 3 months Salary	More than 4%	3 months	NA	No	Form
Small Business	Growth / Working Capital	Less than 5 Million	2.5% - 5%	Less than 6 months	Yes	Yes	Form / Plan
Medium Business	Growth / Working Capital	More than 5 Million	2.5% - 5%	Less than 6 months	Yes	Yes	Form / Plan
Housing Project (ADB)	Housing Mortgage	Less than 5 Million	1.5% (subsidized by ADB)	Long Term (Multi Year)	NA	No	Form
Trade & Development Bank							
Pensioner	Consumption	Up to 3 months Pension	4%	3 months	NA	No	Form
Salaried Person	Consumption	Up to 3 months Salary	4%	3 months	NA	No	Form
SME Loans	Limited Growth / Working Capital	Less than 20 million	3% - 4%	Less than 6 months	Yes	Yes	Form / Plan
Enterprise Loans	Limited Growth / Working Capital	More than 20 Million	2.3 - 3%	Less than 6 months	Yes	Yes	Form / Plan
Housing Project (ADB)	Home Mortgage	Less than 5 million	1.5% subsidized	Long Term (Multi year)	NA	No	Form
Hadgalam] (Savings)							
Pensioner	Consumption	Up to 3 months cash flow from Pension	More than 4%	No more than 3 months	NA	No	Form
Salaried Person	Consumption	Up to 3 months cash flow from Salary	More than 4%	No more than 3 months	NA	No	Form
Savings Secured	Consumption	Limited by collateral size / Savings	More than 4%	No more than 3 months	NA	No	Form
Post Bank							
Pensioner	Consumption	Up to 3 months cash flow from Pension	More than 4%	3 months	NA	No	Form
Salaried Person	Consumption	Up to 3 months cash flow from Salary	More than 4%	3 months	NA	No	Form
Small Business	Limited Growth / Working Capital	Less than 5 million	4% - 5%	Less than 6 months	Yes	Yes	Form / Plan
Medium Business	Limited Growth / Working Capital	More than 5 million (requires UB approval)	4% - 5%	Less than 6 months	Yes	Yes	Form / Plan
Housing Project (ADB)	Home Mortgage	Less than 5 million	1.5% subsidized	Long Term (Multi year)	NA	No	Form
Zoos (Coin) Bank							
Pensioner	Consumption	Up to 3 months cash flow from Pension	More than 4%	3 months	NA	No	Form
Salaried Person	Consumption	Up to 3 months cash flow from Salary	More than 4%	3 months	NA	No	Form
Small Business	Limited Growth / Working Capital	Less than 5 million	3% - 5%	Less than 6 months	Yes	Yes	Form / Plan
Medium Business	Limited Growth / Working Capital	More than 5 million (requires UB approval)	3% - 5%	Less than 6 months	Yes	Yes	Form / Plan
Pawn Shops (Lombards)							
Bailed Collateral (Carpets, Gold, Autos)	Consumption / Contingencies	Limited by no more than 50% of collateral	6% - 10% per month	Less than 60 days	NA	No	Bail Receipt

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