

Evaluation of the GER and Gobi Initiatives



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Abbreviations, acronyms, symbols and Mongolian terms used throughout the text

Aimag	:	Provincial level in Mongolia, also written as Aimak
Airak	:	Fermented mare's milk popular in Mongolia
Apartment area	:	The central district of a town or city where residences are primarily apartments.
Bagh	:	Lowest rural administrative level in Mongolia, also written as Bag
BDC	:	Business Development Center
BDS	:	Business Development Services
Dzud	:	Natural disaster that causes material loss, usually refers to winter storms, long periods of abnormally cold temperatures
Ger	:	A traditional Mongolian dwelling, which is made of a wood frame and covered by felt and canvas.
Ger Area	:	Peri-urban areas which surround Mongolian urban areas and are not serviced by public water and sanitation, many of the homes consist of <i>gers</i> .
IR	:	Intermediate Result, a component needed to achieve a Strategic Objective
K	:	Thousand
Khural	:	The lowest urban administrative level of Mongolian Government
Khashaa	:	Originally meant fence, now refers to housing lots
M	:	Million
MIT	:	Ministry of Industry and Trade
MNCCI	:	Mongolian National Chamber of Commerce and Industry
MNT	:	Tugrik, the Mongolian currency
Naadam	:	A national festival in Mongolia, usually held in early July
NBFI	:	Non-Bank Financial Institution
NGO	:	Non-Governmental Organization
PCV	:	Peace Corps Volunteer
SMEs	:	Small and Medium Sized Enterprises
SO	:	Strategic Objective, a high-level goal in a USAID Strategy that funds are obligated under
Soum	:	County-level in Mongolia
UB	:	The capital of Mongolia, Ulaanbaatar
VTIC	:	Vocational Training and Industry Center

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Indeed, this report—as the focus of the two subject programs should be—is dedicated to all rural and peri-urban Mongolians who are striving to find gainful employment in the private sector or develop private businesses. At the end of the day, these projects are about improving these individual lives.

Cover photos: Left: GER Initiative Business Advisor Zoltengel J. in Erdenet reviews A. Batcheral's employment placement application. He had just arrived there looking for work from the Uvs Aimag. Right: Master Herder Sodnomdorj Smdanshiirev stands in front of his Gobi Initiative-supported dairy production and sales facility in the Uvurhangai Aimag center of Arvayheer.

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I. Evaluation Executive Summary

A. Background

For one month in the summer of 2005, a team of one international and two Mongolian experts carried out an evaluation of two USAID-supported business development services (BDS) projects:

1. The Growing Enterprise Rapidly (GER) Initiative; and
2. The Gobi Regional Economic Growth (Gobi) Initiative, Phase II, or GI II.

Under a background of uneven economic opportunities faced by rural (often nomadic) and peri-urban (periodically transient) dwellers in a reforming Mongolia, USAID invested in these two projects under separate cooperative agreements (CAs) with CHF International (GER) and Mercy Corps International (MCI), to achieve results in expanding economic opportunities for disadvantaged economic players under its Strategic Objective to accelerate and broaden sustainable, private sector-led economic growth.

USAID's contribution to CHF's project was to be and has been \$2m for three-years of activity beginning in August 2002. The project was later allowed a no-cost extension until March 2006.

The CA for GI Phase II began in December 2003 and was valued at \$10m, of which USAID has obligated \$4m.

Both CHF and MCI have also received more than \$8.5m (\$5.8m and \$2.7m, respectively) in value to fund parallel and supporting programs from monetized US wheat commodities given to Mongolia by the US Department of Agriculture (USDA) under its 416 (b) surplus commodity program.

The primary purpose of this evaluation was to provide USAID/Mongolia with an objective external assessment of:

- The appropriateness and effectiveness of current Gobi Initiative and GER Initiative activities;
- Whether the Gobi Initiative and GER Initiative should be involved in additional activities; and
- The likelihood of sustaining Gobi Initiative and GER Initiative impacts after the completion of USAID funding.

The scope of work for the evaluation also requested the team to evaluate whether the amendments made from the previous phase of the Gobi Initiative (GI I) to its present second phase, or GI II were appropriate.

Although given the constraints on time—compounded by the fact that it can take eight hours to drive from one GI client to the next—in obtaining a complete picture, the evaluation team is confident that these two projects are uniquely providing business development services that contribute significantly to improvements of individual businesses and, although uneven, to lessening the market failure and transaction costs of

rural and per-urban micro-, small-, and medium- enterprises. Although both projects are significantly flexible and demand driven, the evaluation team did identify a few ways that they could expand activities. Although both projects require much of their clientele to pay (albeit minimally) for services, the current likelihood of sustaining cutting-edge BDS services after USAID funding ends remains slim. The team, however, is confident that both projects could leave behind important legacies to their efforts.

B. The Team's findings on the GER Initiative

The GER Initiative is a business development and employment services project to improve the livelihood of residents living in peri-urban (or *ger*) areas of the four largest cities of Mongolia. The main objective of the project is “to support and promote private entrepreneurship in peri-urban areas through strengthening and improving microenterprises, creating new businesses, and increasing employment of *ger* residents.” The project’s services fall under two main components: Business Development Services and Employment Services (training and employment matching).

Based on interviews and analysis of information provided by the project management, the evaluation team looked at how well these services are meeting the needs of clients, how well the GER Initiative has worked with partners, and estimated what could survive after USAID ends its funding.

To the team, the most salient findings were:

- ✚ Based on its own reporting, the project has exceeded the targets it feeds into USAID’s performance monitoring plan in business creation, business growth and employment.
- ✚ In total, the project collects an average of \$2,245 per month in fees, though there is reason to believe it could charge, and thereby collect, more.
- ✚ The loans it facilitates for clients are mostly for financing working capital for businesses with an average of 1.5 employees. Loan sizes were MNT 1,143,000 (\$952), with an average repayment term of 8.5 months. As of August 2005, of the 2,400 loans it has facilitated, 49 of them were in arrears. Only 11 of its 285 loans under its syndicated lending program are in trouble.
- ✚ The GER Initiative’s well-targeted vocational training has been successful, although there is no comprehensive way to evaluate these.
- ✚ The GER Initiative has supported the formation and maintenance of 165 business groups or associations, helping them reduce individual operating expenses through collective operations (such as collaborative purchase of raw materials and joint use of equipment).
- ✚ The project reports facilitating 72 one-off and on-going linkages, some in conjunction with the groups it has formed.
- ✚ The project had been supporting many trader businesses that have little estimated promise for business growth, though it is working to steer clients towards better opportunities in services and production.

- ✚ The GER Initiative is making inroads in behavioral changes of its clients, helping them become more confident in their pursuits. Comparative interviews conducted with both clients and non-clients of the project in one city revealed substantial differences in the confidence and competence (from training) between clients and non-clients.
- ✚ Through its partnership with banks, the GER Initiative appears also to be making, albeit slowly, inroads on commercial bank practices, promoting a change from collateral- to cash flow-based lending in Mongolia.

In conclusion, the team found:

- Overall, the services being provided by the GER Initiative are appropriate for its target population and are effective to lead to sustainable businesses. The team feels that there are significant ways the project is helping clients that are not readily captured through numbers. In addition to its collection of services, the project should consider promoting better safety and cleaner production practices of clients.
- From the strong cooperation it has engendered, the project could develop ways to influence local governments to support sustainable private sector development.
- While bank lending under the GER Initiative appears largely sustainable, work could be done on credit bureau-type operations, providing incentive-based training to banking staff and to clients on financial management.

The team also suggests the GER Initiative look at ways to improve its data management and further develop the skills of its staff, particularly in financial calculations.

C. The Team's findings on the Gobi Initiative

The Gobi Initiative evolved from a four-year cooperative agreement named the Mongolia Rural Civil Society Program (RCSP), begun January 1999, which fell under the overall management of Mercy Corps in partnership with Pact, Inc., and with implementing support from ARD (1999-2001) and Land o'Lakes (2000-2003). Early on, the name was changed to the Gobi Regional Economic Growth Initiative (also known as the Gobi Initiative Phase I, or GI I). The project was funded in the amount of \$10,036,641. The current version, GI II, remains with MCI but only in partnership with Pact (which implements the project's media operations, the Rural Business Network).

The GI I focused on accelerating and sustaining market-led economic growth with herder groups and cooperatives (primarily with livestock development), local consultants and other businesspersons, and local governmental authorities. Although GI II's target clientele are essentially the same in six Gobi Desert and Hangai Steppes *aimages* (provinces) its focus is on developing other business opportunities outside of traditional herding.

The team felt the most outstanding findings from its work on this project were:

- ✚ For tracking under USAID's performance monitoring plan, GI is also exceeding prescribed targets in new and strengthened businesses and access to and use of business information.
- ✚ To date, clients have paid a total of MNT 2,707,000 to service providers under GI programs.

- ☀ The GI beneficiary population is slightly skewed away from working with poor herders at a rate of 76.5 percent versus reported herder-wide rates of 85 percent. The team suggests the GI develop a “secondary herder support program” that would both help these herders, and provide an opportunity for GI to remain engaged in cashmere production.
- ☀ GI’s original “Cashmere Market Days” have developed into larger “state fair” type gatherings (Market Events) and are becoming financially viable without GI’s assistance.
- ☀ In interviews with both core clients and short-term clients, the team was consistently told of the efficacy of GI’s practical, field-based, one-on-one training on technical, rather than business, topics: “It is surely better than the old Soviet-style training we used to get.”
- ☀ Throughout its travels, the team regularly found that both GI clients and non-clients listen to RBN Radio. According to a survey conducted by the monitoring department of Mongol Radio, the RBN news radio program ranked 15 out of 96 programs regularly broadcast on Mongol Radio.
- ☀ Even though producers have experienced some difficulty, it is possible to conclude that vegetable, as well as other crop agriculture, production in the Gobi and Hangai regions of Mongolia is economically viable under certain conditions.
- ☀ All herders supported by the GI have a consistent cashmere base and cushion to build a foundation from and fall back onto. With help from the GI, they have the opportunity to reach for significantly higher economic returns from alternatives to livestock and generate significant surpluses.
- ☀ The project is consistently and sincerely praised by local authorities who recognize its contribution to economic development.
- ☀ Success of GI’s assistance to groups and cooperatives in succession plans and improving cohesion is vital.

Over the course of five years, the Gobi Initiative has evolved into an effective and unique donor project that has contributed to development in rural Mongolia. The evaluation team feels, that with some modifications, greater impact could be realized:

- The services being provided by Gobi II are generally appropriate for their target populations, and business entities created or expanded thus far by the Gobi appear, at this early stage, sustainable, or at the very least, clients always have a “cashmere cushion” to fall back on in the event their other businesses suffer losses. To further ensure this cashmere cushion and other benefits of livestock, the project should consider supporting Mongolia’s pilot livestock insurance scheme.
- Given that almost no Mongolian media outlet is profitable, the most problematic component for sustainability is the Rural Business Network, implemented by Pact.

- Gobi has been very effective in taking advantage of opportunities for expansion and improvement of its activities with local governments and other donors. Although most activities are appropriate, more targeted efforts could be made to help local officials play a facilitating role for private sector development.
- The transition in the goal, objectives and activities from Gobi Initiative-Phase I to Phase II was generally appropriate, although some legacy work should continue and rigidities in selection of beneficiaries should be lessened. Given what is already happening, GI Phase II focus' on the expansion and diversification of herder-led business opportunities (e.g., vegetable farming), and non-herder business development assistance is appropriate.

In addition, in order to improve the likelihood that businesses will be able to stand completely on their own, the team suggests that GI develop business planning systems that are entirely usable and owned by clients.

D. The Team's findings on the potential of other providers

As expected, the evaluation team found a potpourri of organizations (operational, transient, and defunct) that recently have been providing services to businesses. The lion's share of stable private business services providers are employed by well-endowed national and international businesses or foreign-funded entities (including the GER and Gobi Initiatives). Government-related institutions and officials are stagnating due to old ideologies or lack of empowerment (e.g. no budget) to rely on for providing progressive BDS. The most promising of these private institutions were:

- The 17 banks and non-banking financial institutions that provide micro lending in Mongolia; and
- The growing number of business consultants. Although the team estimates that none would supply their services at rates peri-urban micro entrepreneurs would pay, there is promise for rural-based consultants to continue to provide assistance to GI businesses as these are generally larger and opportunity costs faced by *aimag* and *soum* consultants are not so great.

Current efforts to develop Mongolian SMEs appear mainly to be provided by the internationally-funded donor projects. Nevertheless, given that only one is yet targeted (although one may soon start) on BDS and most are coupled with the same stagnant government-affiliated institutions, the team feels that neither of the two Initiatives could be comfortably relinquished to fall under another existing donor-supported program.

E. The Team's overall conclusions and lessons learned

The four most compelling recommendations that this evaluation team sees as important for both projects are:

1. They should work to phase out their loan guarantee/syndication facilities. As the major banks who lend in rural and peri-urban Mongolia have high liquidity, after the education effects of these guarantee programs have taken greater hold, a phase out is warranted.
2. The uniqueness and private sector focus, along with charging for the services of these two projects, should lend to at least partial privatization of some of their current activities. However, now is not the right time. Practically, this should happen over a period of time after both projects put forth "legacy" institution plans.

3. USAID/Mongolia should set funding on the condition that these projects develop step-by-step realistic progressive plans (with benchmarks) on developing legacy institutions through coupling of efforts with new and existing bodies that will continue their core work after funding from USAID and USDA end.
4. Both projects are well-positioned to assist in improving enabling environments with local governmental authorities where they work.

The team also found ways that the two projects can learn from each other. Specifically, the GER Initiative's monitoring and evaluation tracking systems could improve and one way to do this would be to use a home-grown and managed database system, as the GI has. GI, on the other hand, could learn more how to set a schedule of regular charges and provide more flexible, demand-driven, open door business development services.

Lastly, the evaluation team identified five overall important lessons learned:

- Even in Mongolia, with a progressive political system recognized by both USAID¹ and the Millennium Challenge Corporation, the government does not have a particularly good track record in supporting micro-, small-, and medium-enterprises;
- Cooperative agreements can be effective for USAID programming in Mongolia;
- Fee collection at the outset of services by a donor-funded project can face opposition, but this is easier to implement than to add fees after services have been free;
- Relevant baselines and flexible data management systems are needed if USAID's new evaluation agenda is to succeed; and
- There is a significant difference between the way USAID and USDA manage the assistance they provide to Mongolia although both, in the end come from US taxpayer dollars.

¹ See *Democracy Rising: Grassroot Revolutions*. September 2005, p. 23.

II. Introduction

After the fall of single-party Soviet dominated rule and an end to a command economy in 1990, Mongolia has made significant inroads into developing a market economy under a multi-party state. By 2004, she had done so well as to be one of only sixteen least developed countries to be invited to make a proposal to the USG's new flagship assistance program, the Millennium Challenge Account (MCA) managed by the Millennium Challenge Corporation (MCC). Despite this, competitive production beyond that of primary goods remains in doubt as this land-locked country's 2,906 mile southern border is shared with the world's largest producer of inexpensive consumer and industrial goods. Her climate also makes it difficult to develop a strong competitive advantage in agriculture versus China, a relatively agriculture poor state, as she also has only 1% arable land and its annual temperature patterns support only one cropping season a year.

Nevertheless, Mongolia enjoys very high rates of literacy (98.9 percent), even in distant rural areas. She also has a long history of successful livestock breeding and is the world's second largest producer of raw Cashmere (after China). Tourism remains promising: International arrivals have grown from a 10,000 average in the 1980s to just over 300,000 last year, which represented a 49 percent increase over 2003. Although a mixed blessing, her large land mass holds significant reserves of valuable minerals and metals.

Motivated by this background, USAID began promoting the growth of private enterprise, both to spur immediate, broadly shared growth and to lay a foundation for non-mining industries (including services), combating an easy trend towards "Dutch Disease." Two efforts contributing to this are its CHF-implemented Growing Enterprise Rapidly (GER) Initiative (see www.chfmongolia.org) and the Mercy Corps International/Pact-implemented Gobi Initiative (see www.mercycorps.org.mn).

The former works in the peri-urban *ger* areas around Mongolia's largest cities to provide a wide range of flexible business development services. The latter, in addition to providing business information country-wide via a newspaper and radio and television programming, focuses activities in six Gobi Desert and Hangai Steppes *aimags* (provinces) to promote both rural and town-centered business activities.

Both encourage producers to work in groups or cooperatives and both have developed webs of connections that serve to tie client businesses to both foreign and domestic buyers. Both also face special challenges in reaching and maintaining their client base. *Ger* area residents often face ridicule² as they totter over a crack in Mongolian society between modern urbanites and traditional Mongolian herders. This latter group, GI's main clientele, is nomadic and spread across a broad expanse—it can take more than eight hours to drive from one client to the next.

² One long-term foreign resident called them "ragamuffins" another expert argued that they should be relocated in planned communities.



Figure 1: The five Gobi Initiative Aimags appear in orange. The approximate location of the four GER Initiative cities of Ulaanbaatar, Eredenet, Darkhan, and Choibolson (far east) are denoted by pictures of a leather worker.

Both projects fall under cooperative agreements with USAID, with initial planned USAID buy-ins of \$10m (\$4m obligated thus far) for GI and \$2m (all obligated) for the GER Initiative. Both also receive funding from their own organizations, and particularly Mercy Corps and Pact, funding from other centrally and Mongolia-Mission-funded USAID projects. Most awkward for complete and consistent USAID management, however, is that together both MCI and CHF have received more than \$8.5m (\$5.8m and \$2.7m, respectively) in value to fund parallel and supporting programs from monetized US wheat commodities given to Mongolia by the US Department of Agriculture (USDA) under its 416 (b) surplus commodity program.³

In order to get an initial picture of the results—including those that may at least be partially the result of USDA's investments—of these two projects to help inform future funding decisions, USAID/Mongolia commissioned this evaluation, which was carried out by a three member team in Mongolia, July 18-August 12, 2005.

a. Mongolians Striving to Succeed in a Market Economy

i. Population and rural/urban changes

With 2 persons/km², Mongolia has one of the lowest population densities of the world, rivaling Western Sahara and Greenland. During the recent decade of market-driven economic development, Mongolia experienced a substantial shift in population from rural to urban areas, even further reducing the extremely low densities found in Gobi regions which in some areas were as low as .22 persons per kilometer in the early 1990s. Since 1999, urbanization has rapidly taken place mostly in *ger* areas of the major cities.

³ To the knowledge of the evaluation team, there has been minimal direct monitoring of these projects by USDA nor has an evaluation of the impact of USDA-funded programs has taken place in Mongolia.

In 2004, there were 1,498,200 urban residents, accounting for approximately 59.22 percent of the country's total population. As Table 2 indicates, growth in urban areas (except for in 2001) has significantly outpaced that in rural areas due to rural-urban migration.



Picture 1: A typical *ger* area scene in Erdenet where homes are a mixture of *gers* and houses.

Urban growth is projected to continue in this manner. For the rest of the decade Mongolia's urban population is expected to grow at an average of 2.93 percent per year⁴. According to this forecast, during the next five years, approximately 3,470 to 4,174 households (or 16,325 up to 17,950 persons) will migrate each year from the countryside to urban areas.

The majority of these migrants will end up in peri-urban *ger* areas most similar to shanty-towns surrounding major cities throughout the developing world, where public urban services are minimal: *ger* residents must get their own water from private sources (often wells) and discharge wet waste in open ditches or septic pits. Though potentially living a more sedentary lifestyle from herders (particularly those who end up owning a *khashaa*), they are much more transient than core-urban or apartment dwellers.

⁴ Estimation of the urban population growth has been carried out on the basis of the following regression equation derived from the major key factors affecting the growth of the urban population:

$$P_u = 1.86 * P_t - 0.74 * P_r - 0.16 (+/-0.02);$$

where

P_u – Urban population growth rate;

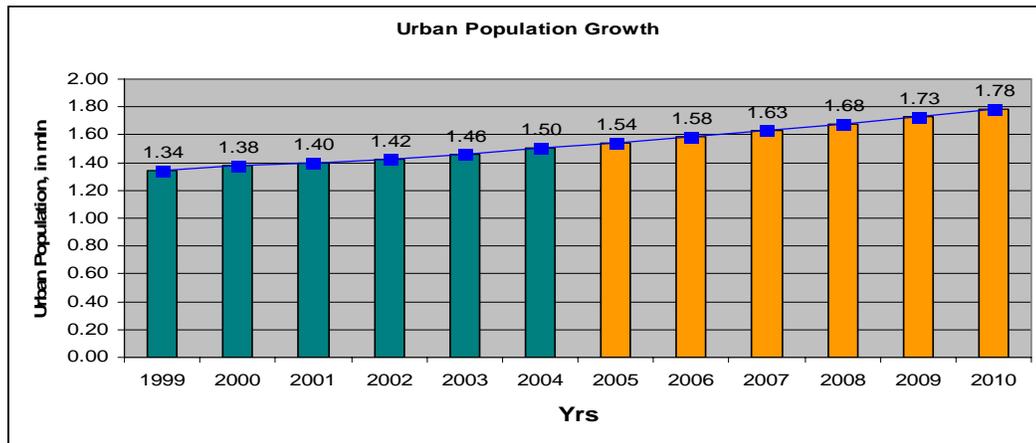
P_t – Total population growth rate;

P_r – Rural population growth rate;

Table 1: Mongolia's Population, 1999-2004

	1999	2000	2001	2002	2003	2004
Total population, in millions	2.37	2.41	2.44	2.48	2.50	2.53
Population annual change, %		1.69	1.35	1.35	1.16	1.16
Urban population, in millions	1.34	1.38	1.40	1.42	1.46	1.50
Urban population annual change,%		2.77	1.35	1.70	2.92	2.58
Rural population, in millions	1.03	1.03	1.05	1.05	1.04	1.03
Rural population annual change, %		0.28	1.35	0.87	-1.22	-0.82

Source: *Key Indicators of Developing Asian and Pacific Countries*, ADB, 2004

Chart 1: Urban Population Growth

Despite the rapid growth in urban populations, and indeed to keep it to sustainable increases, nomadic livestock producers are still critical to the Mongolian economy. Agriculture—dominated by the livestock sector—accounted for over 20% of GDP in 2000. Livestock products including animal fiber such as cashmere, accounted for 8.5 percent of the official recorded value of Mongolian exports in 2004 (minerals accounted for 40.5 percent). Textiles and textile articles (some of which are made from cashmere and wool), accounted for 27 percent of export value in 2003.

These fundamental demographic and economic developments provide fundamental reasons for an international donor, like USAID, to support diversified business development programs in rural areas to help stem the tide, and to provide employment and business opportunities for those who have already found themselves in *ger* areas.

ii. Effects of changes from communism to markets

Not long after the end of communism in Mongolia, in 1992 and 1996 the government undertook partial liberalization. The results affected input prices while output price ceilings remained under the control of the government. This in turn caused the collapse of most agricultural companies, which then in turn led to the first massive rural-urban migration.

The second stage started in 1996 when the government approved a new mass privatization program. Under this program all state-owned and parastatal companies were subjected to privatization mainly through auctions. By the end of 2000, state

controlled stakes of most of the wholly and partially state-owned enterprises were put in private hands, mostly of urban and wealthy citizens. However, Mongolia's wealthy class is not overly powerful (read oligarchs) as her .33 gini coefficient is lower—and thus inequality is lower—than the .35-.38 range of states from the former Soviet Union.

Mongolia continues to make gradual progress in its transition to a market-oriented economy. Although the country's recent economic performance has slightly improved thanks to private sector development, the prospects for sustainable growth remain bleak.

The country's export volume has been volatile due to fluctuations of commodity prices on world markets. The main Mongolian export products are limited to minerals, raw materials of animal origin, and a few consumer goods (such as leather, sheepskin and fur garments, carpets, and cashmere and camel wool knitwear).

iii. Small business climate

As in most developing countries, transaction costs for micro-, small and medium enterprises are relatively higher than they are for larger enterprises. Indeed, Mongolia's privatization process, urban infrastructures, and fixation on collateral-based lending by both banks and borrowers, make transaction costs faced by rural and peri-urban entrepreneurs much higher than for those in town centers. The latter are usually holders of an urban apartment (the preferred form of collateral for individual interests) and are relatively more likely to have ended-up profiting from Mongolia's privatization.

Nevertheless, Mongolia has made certain in-roads in providing a better enabling environment across the board for all businesses. In the past year she improved the process for starting a new business, cutting the time (51 days to 20), and cost by more than one-third.⁵

iv. Access to finance

In contrast to many other developing countries, Mongolian banks are flush with cash to lend, and they are reportedly succeeding in doing just that. Only four years ago the large majority of prospective borrowers went to friends and pawn shops for loans, and some nine percent received their loans from banks. This same latter percentage has grown now to 45 percent nationwide.

Nevertheless, this leaves up to 55 percent who have no other source for debt financing and face a lending rate offered by pawn brokers which is far greater than the average lending rate offered by the commercial banks⁶ with rates up to 9-10 percent per month.

Previous reliance on collateral has led to both a market failure, i.e. little lending to good risks in the *ger* areas and rural populations, and to greater risk to banks, as evidenced by the relatively higher default rates in urban UB.

Although a number of commercial banks and financial institutions are active in the country, only some of them offer micro-lending products,⁷ and their bank staff, particularly in branch offices, lack skills to analyze business plans and risks.⁸

⁵ World Bank *Doing Business 2005*.

⁶ By the end of the 2004 the weighted average lending rate of commercial banks constituted about 24.8 percent per annum.

⁷ As of end of 2004, 17 commercial banks, 110 non-banking financial institutions and more than 270 saving and credit cooperatives were active in Mongolia.

In addition to the commercial banks and non-banking financial institutions (NBFIs), the Ministry of Industry and Trade operates a SME Support Fund. Its loans, however, are disbursed according to criteria no different from commercial banks, including commonly used collateral requirements, which effectively make the fund inaccessible for the businesses of *ger* areas.

Given that Mongolia has an abnormally low credit registry (public and private) standing⁹, this situation is not likely to change in the near future. Without reliable credit information on individual borrowers, collateral will continue to be emphasized and the best risks will remain with those who are in closer knit communities.

v. Services and agriculture keep people employed?

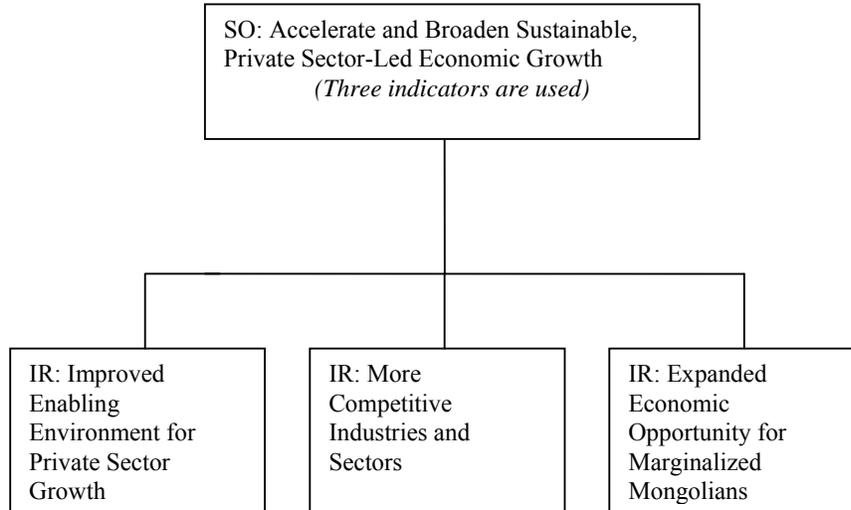
Throughout all of Mongolia, employment in services and agriculture account for 46 percent and 43 percent respectively. In rural areas, three-quarters of the employed (read primarily those from the 190,000 herder families) work in agriculture. In urban areas, three-quarters of the employed work in services. Although the official unemployment rate in urban areas of 9.1 percent is significantly higher than the rural rate of 4.1 percent, most herders are—based on the team’s interviews and observations—underemployed.

b. USAID’s Strategic Objective: Accelerate and Broaden Sustainable, Private Sector Growth

Recognizing the economic conundrum confronting Mongolians summarized above, USAID implemented this strategic objective under its five-year strategy, FY 2004-FY 2009, with a clear emphasis “on economic growth rather than welfare....The business of USAID in Mongolia over the five-year strategy period is business—dynamic, effective, private sector-led business.” Three intermediate results are designed to contribute to this Strategic Objective (SO), as shown below:

⁸ The team’s queries to bank staff for copies of their analyses of loans all ended in us receiving copies of loan applications.

⁹ World Bank, *Doing Business, 2004*. There is no private credit bureau in Mongolia and the public coverage is only 23 per 1000 borrowers.



The Economic Policy Reform and Competitiveness (EPRC) Project is responsible for achieving results for the first two Intermediate Results (IRs) and the GER Initiative and GI are responsible together for the third. Of the three indicators for the SO, the GER and Gobi Initiatives should impact on one: Private sector employment as a share of total employment. They are less likely to impact on the other two: The ratio of foreign direct investment (FDI) to gross domestic product (GDP), and the ratio of trade balance to GDP.

i. Intermediate Result (IR): Expanded economic opportunity for marginalized Mongolians

As this Intermediate Result (IR) sits firmly under the above SO, “marginal” exclusively refers to economic means, i.e. those who are “at a relative economic disadvantage.” The strategy proclaims (without providing detailed argument) that at least two groups fit this designation: those in the six Aimag of the southern Gobi region and those living in the peri-urban areas of the three largest cities—Ulaanbaatar, Darkhan and Erdenet. These are the target populations of the Gobi Initiative, and the GER Initiative, respectively.

In order to track whether these two projects are contributing to this IR, four indicators (two per project) are used:

1. Number of new and strengthened businesses in rural Mongolia (Gobi);
2. Increased availability, access to and use of business information by rural business clients (one component of Gobi);
3. Number of new and strengthened businesses in peri-urban Mongolia (GER); and
4. Increased employment in peri-urban Mongolia (GER).

ii. How should economic opportunities for marginalized populations be promoted?

If the IR above for which they are responsible were taken out of context (i.e. ignoring the SO it is contributing to), the two subject projects of this evaluation could appear slightly out of place. Granted, *ger* area residents are often looked down upon and have access to inferior urban services and herders enjoy fewer creature comforts, the target

groups of these two projects are not necessarily found at the bottom of the gunny sack, the absolutely economically marginalized.

Nevertheless, given that a significant number of GER Initiative asset-poor clients rely on its employment placement service, the majority of Gobi herder clients have fewer than 250 head of livestock¹⁰, and the businesses supported by both GER Initiative and Gobi are generating employment, these two projects are at least indirectly improving the lot of many economically marginalized Mongolians. Likewise, one could make a type of trickle-down argument, as is implied by USAID's poverty strategy, affirming that creation and growth of GER Initiative- and Gobi-supported businesses raises the general economic tide for all, including the truly poorest.

Still, given all else USAID/Mongolia has stated (i.e. "we don't do welfare") and the focus of these two projects is on business development, it appears that the strategy's word "marginalized" unnecessarily distracts from GER and Gobi Initiative goals—a better choice would be "disadvantaged." In other words, if USAID were to keep to the full spirit of targeting the marginalized, then it should be supporting projects like the one described below under World Vision.

c. Business Development Programs for Striving Mongolians

As expected, the evaluation team found a potpourri of organizations—operational, transient, and defunct—that recently have been providing services to businesses.

i. USAID projects' progeny banks

Two of the major banks in Mongolia have a strong US and indeed, USAID, imprint on them. Khaan Bank, the former state-owned Agricultural (Ag.) Bank, was rescued by a USAID-sponsored reform project implemented by Development Alternatives International (DAI).

The other, Xac (pronounced "khass") Bank, was constituted from a merger with UNDP's MicroStart program and USAID's microfinance program. Xac has since received MNT 773m from US Embassy-managed USDA wheat proceeds, and a central USAID \$1.2m award for institutional strengthening. With its capital in Xac, Mercy Corps now has a 37 percent plurality stake in the bank.

1. Khaan Bank, the former Ag. Bank

Prior to August 2000, Ag. Bank was wholly owned by the Government of Mongolia. On the verge of complete collapse, USAID funded DAI to take control of the bank, implement reforms to make it profitable while still providing services to all of rural Mongolia, and sell it under an international tender. H.S. Securities of Japan's bid was accepted and it took control of Khaan in 2003. H.S. Securities, however, chose to retain DAI to continue to manage the Bank, which they continue to do to date.

Khaan Bank currently has over 2,000 employees—200 are based in Ulaanbaatar at the head office and local branches, and the balance in the 394 rural offices.

2. Xac Bank

¹⁰ Based on a search done by GI that revealed 76.5 percent of its 1,217 family clients had fewer than 250 animals.

Founded in 2000, Xac Bank is now one of Mongolia's largest bank, with 600 full-time and 500 part-time staff, covering 170 *Soums* serving 42,000 borrowers. A relatively new bank, Xac puts forth a strong image of being innovative. Instead of the usual two-sided Mongolian-English name cards, the Director and other manager's cards have a statement of Xac's vision.

3. Sibling rivalry

What should, on the face of it, be applauded as a great USAID success story in Mongolia, the relationship between Xac and Khaan Bank, was in reality the most disconcerting finding of the evaluation team. Granted, this was not an item in the team's core agenda. Nevertheless, senior management of these banks seem to have gravitated towards their natural project ally, Xac to the Gobi Initiative (Mercy Corps) and Khaan to the GER Initiative.

The director of Xac told the team that he had a strained relationship with the GER Initiative, partially due to his claim that some of his staff were hired away by the GER Initiative. He also maintained that the GER Initiative is intentionally driving clients away from Xac bank. The team was likewise told that Khaan management had previously tried to have USAID's centrally-funded grant to Xac cancelled.

Despite this, Xac and Khaan do conduct business with both the GER Initiative and GI. And both Gobi and GER Initiative management have made some efforts to remain above this fray and focus on services that help clients find the best bank for their business proposals.

Fundamentally, controversy between Xac and Khaan banks is at least in part motivated by an increase in competition throughout the banking sector, as the director of Xac bank said his portfolio yield at the end of 2004 was 37 percent while it now stands at 30 percent.

ii. The GER Initiative

The Growing Entrepreneurship Rapidly (GER) Initiative was born as a three-year \$2m cooperative agreement and as a Support to Enterprises and Economic Development (SEED) project in August 2002. The project was based on an unsolicited proposal to USAID by Cooperative Housing Foundation (CHF) International, of Silver Spring, Maryland. USAID initially funded the project at \$700,000, with subsequent incremental funding of \$1.3m. In May of 2003, the project was renamed as the GER Initiative and CHF was awarded an additional \$2m from monetized USDA wheat commodities. In June 2004, CHF was awarded an additional \$699,000 from USDA wheat funds. Although the original project was to end in August 2005, USAID approved a no-cost extension to March 31, 2006.

The GER Initiative is a business development and employment services project to improve the quality of livelihood of residents living in peri-urban (or *ger*) areas of the four largest cities of Mongolia. The main objective of the project is "to support and promote private entrepreneurship in peri-urban areas through strengthening and improving microenterprises, creating new businesses, and increasing employment of *ger* residents."

The project's services fall under two main components: Business Development Services and Employment Services (training and employment matching). The latter begins with

an assessment by a client/applicant and an advisor (as on the cover of this Report). Depending on the results of the assessment, the client may decide to enroll in training, be immediately matched to a job, or decide not to obtain any services at the current time. Training comes in two types: (a) how to successfully apply for and hold a job (e.g. how to complete a job application, the rights and responsibilities of employers, and how to be a good employee), and (b) vocational skills training (sometimes in collaboration with large businesses who guarantee placement afterwards). Usually after a client has received the requisite training, he or she is matched to a job, although some clients end up finding their own jobs.

The GER Initiative's Business Development Services are broader and fall into five categories:

1. **Assisting microenterprises to access capital, linking clients under agreements with four lending institutions:** Primarily through Credit Mongol NBFI, Savings Bank, Khaan Bank, and Xac Bank, who provide loan products specialized to GER Initiative clients. The primary product is the GER Initiative's Loan Facilitation Program, where the banks depend on the GER Initiative to provide loan training, bookkeeping, and monthly monitoring services to assist clients to obtain the loans and make loan payments on schedule. Banks then pay the GER Initiative for this service with 10 percent of the interest on each loan. The Initiative assists banks to find new creditworthy clients who may not appear to meet the collateral requirements of banks, and/or have the knowledge of how to apply for (includes documentation) and manage a loan. For worthy clients who have limited assets for collateral coverage, in 2004 the GER Initiative inaugurated a new product with the four banks to provide additional capital (originating from USDA proceeds) in a syndicated lending program termed the Capital Augmentation Fund (CAF).
2. **Providing one-on-one consulting to existing and new Ger Area microenterprises.** Using a one-on-one advisory approach, GER Initiative Business Advisors give enterprises the opportunity to discuss their current business problems, consider new business ideas, and define their specific business goals. Consultations encompass all types of management issues and are based on the specific needs of individual businesses.
3. **Delivering general business and technical training that is customized to local business needs.** Usually delivered by GER Business Advisors and other expert trainers from local and international partner organizations, training sessions are often organized at a client's worksite so as to use the lessons of real life examples. Standardized training topics include: Starting your own business, planning business activities, marketing, bookkeeping, creating a financial statement and agricultural training (pig farming, chicken farming, home khashaa farming).
4. **Facilitating the development of business groups, associations and cooperatives.** GER Initiative advisors work with residents and micro businesses to identify areas of collaboration where they can benefit from working together. Through association development, the GER Initiative helps Ger Area residents and businesses develop the skills that are needed to start and grow a business as well as build trust. The GER Initiative has developed curricula, trainings, and advice to help groups work together to reap the benefits of scale.

5. **Disseminating information and promoting linkages to Ger Area residents and businesses.** The GER Initiative has implemented five main activities in this service area:

- i. Producing print materials, e.g. providing basic information on markets, latest technology, and government and banking services through a monthly newsletter and ad hoc printed materials;
- ii. Producing 16 two-minute “infomercial” portrayals highlighting the success of GER Initiative business clients in the Ger Areas;
- iii. Holding trade fairs to provide clients with an opportunity to sell their products, meet other producers, and get ideas about new products;
- iv. Conducting annual Khashaa (Land) Surveys to assist clients and financial organizations in better understanding the value of their khashaas;
- v. Developing business linkages to facilitate product sales channels, supplier relationships for product inputs, or other beneficial business relationships that increase the efficiency of business.

After the first hour of free consultation, all clients are charged a minimal fee based on a set project-wide schedule.

The GER Initiative’s Business Development and Employment Services are provided by its Business Advisors and Resource Advisors, a large subset of its more than 125 local staff members, through 13 Business Development and Employment Centers (BDEC) located in Ulaanbaatar, Darkhan, Erdenet, and Choibolson, where a total estimated population of *ger* residents stands at 570,000. The project’s overall management is under a director and deputy, both US nationals, and has US Peace Corps volunteers supporting its Erdenet and Darkhan Offices, along with a VSO expert in its Choibolson Office.

On its own initiative, CHF commissioned a midterm evaluation from a locally-based international expert who put forth some 16 recommendations, nearly all of which were favorably, with some modification, agreed to. Most of the evaluator’s recommendations can be summarized as a need for improved participatory services and better initial and follow-up data collection and interpretation on clients. The only apparent significant point of contention between the evaluator and GER management was on collecting data on clients and tracking whether their “quality of life” had improved or not over time. GER management argued that with their open-door flexible service policy and focus on business results, the recommended scope and duration of data collection was not a valuable use of project resources.

iii. From Gobi I to Gobi II

1. Gobi I

Inaugurated as a four-year cooperative agreement named the Mongolia Rural Civil Society Program (RCSP) in January 1999, the project fell under the overall management of Mercy Corps in partnership with Pact, Inc. and with implementing support from ARD (1999-2001) and Land o’Lakes (2000-2003). Early on, the name was changed to

the Gobi Regional Economic Growth Initiative (referred to as the Gobi Initiative Phase I, or GI I). The project was funded in the amount of \$10,036,641.

As the name change implies, the project evolved significantly from being a civil society support project to one focused on accelerating and sustaining market-led economic growth with herder groups and cooperatives, local consultants and other businesspersons, and local governmental authorities. By the final year, the project focused on:

- Providing new business start-ups with broad-based training, existing companies with “one-on-one” management, product diversification and marketing assistance, and new cooperatives with organizational, management and product and market development training and technical assistance.
- Improving animal breeding, feeding and product quality to provide better raw material for Mongolia's processing industry and to help ensure animal survival through the harsh Mongolian winters.
- Improving herder and local government awareness of the ecological need to protect pastures and the value of developing and implementing land and water use management plans.
- Supporting expanded business information dissemination through the Rural Business News magazine and radio programming.

Although little data remains in the GI’s data tracking system from Gobi I to understand results, Mercy Corps states the main results from Gobi I were:

- Creation of 300 new businesses through training for 2,500 “would-be entrepreneurs;”
- Increased company productivity/profitability through consulting to 300 rural businesses;
- Increased *aimag* -level business support capacity through "training of local trainers;"
- Formation of 250 herder groups comprising more than 10,000 individuals;
- Formation of 57 agricultural cooperatives involving more than 500 active herder families;
- Introduction of a systematic herder-managed “elite” animal breeding program;
- Held trade fairs and exhibitions to help herders sell cashmere and obtain and exchange high quality animals
- Produced the popular *Market Watch* program, providing timely and accurate commodity price information, thus significantly reducing discriminatory regional pricing differences
- Produced the *Rural Business News (RBN)* magazine, radio and television programming, delivering a regular stream of national and regional business information

The main business, as can be gleaned from the results above, was helping herders improve their goat stock and understand how to profit more from the production of raw cashmere.

2. Gobi II

As time progressed, USAID and Mercy Corps tired of giving away services and commodities to herders and focusing on a national cashmere industry that remains stunted by the inability of domestic producers to compete with the Chinese, beginning with high paying Chinese raw-cashmere buyers. More over, Mongolia's competitiveness along the supply chain remains inhibited by a state-owned company, Gobi Cashmere, which has a virtual monopoly on spinning capacity. In agreement with USAID, on December 11, 2003, Mercy Corps submitted a non-competed follow-on proposal that focused more on bank financing, fees for services, and helping herders diversify into other sectors outside of animal husbandry. Additional efforts were enlarged to provide business development services to non-herder businesses, mostly based in Aimag and Soum centers.

The resultant project goal was simply to develop and strengthen rural businesses, yet activities became much more complex:

- Agriculture and business training and technical assistance for herder groups and cooperatives to expand and diversify their businesses. Sought-after training and technical assistance topics include: animal health and nutrition planning; elite animal breeding; dairy and vegetable production and marketing; fodder and forage management; cooperative financial recordkeeping and reporting; cooperative law and taxation; human resource management; and market research, product promotion and marketing outreach.
- Assistance to herder groups and cooperatives with identifying and securing sources of raw materials, equipment and financing from non-Gobi Initiative commercial or non-commercial sources, including private vendors, financial institutions, local government agencies and/or foreign donors.
- Targeted "one-on-one" technical assistance for non-herder businesses to increase sales, profit margins and/or market share, add new profitable products/services, and/or identify and eliminate unprofitable products/services. Sought-after technical assistance topics include: accounting and financial management; business law and taxation; business planning; client/customer satisfaction; equipment sourcing and use; human resource development; market research and marketing; product promotion and distribution; and production technology.
- Capacity building for both qualitative and quantitative improvements in locally provided training and technical assistance delivered by private consultants, associations/NGOs, institutions and government offices.
- Assistance with linking rural producers to markets and with promoting local and regional market development.
- Capacity building for greater local dissemination of business information and communication of business interests and needs through private and state media, business associations/NGOs, private firms and government offices.

- Continued delivery of RBN magazine, and radio and television programming, including Market Watch and popular programs such as “Herder from the Future.”

3. Rural Business Network

The information component of the original Gobi Initiative arguably (although again, not a lot of reliable remaining data to prove this) delivered the greatest impact. Most prominent and remembered by many today was: by advertising cashmere prices around the country on its radio and newspapers, RBN eliminated cashmere traders’ opportunities at arbitrage across regions. Over the past five and a half years, this fact-implemented component has maintained its magazine and radio programming, but has progressively moved into more advanced ways to provide attractive business information—and this is not just “dull price data”. The latest effort is to produce a 26-episode television mini-series with Mongol TV, called *The Endless Labyrinth*, about a herder family with large livestock losses moving from the countryside to a rural town center.

4. Other supporting program: Forage, Civil Society, and Peace Corps

Similar to the GER Initiative, GI has also been able to engage Peace Corps volunteers (PCVs) in its field offices. Currently, there are two in its offices in Uvurhangai and Dzungovi. GI also had one Luce Scholar based in its UB Office and a Mickey Leland International Hunger Fellow, funded by the Congressional Hunger Center.

Beyond these “free” international staff members, Mercy Corps received one USAID grant to build local Mongolian civil society organizations, entitled the Training and Advocacy Network (TAN). Their activities began in Uvurhangai and Dzungovi in 2004 with an agenda to strengthen community service organizations and help local governments and communities mobilize resources. They are currently working with ten core NGO partners in the first two years, and 40-50 non-core NGOs.

Lastly, under USAID’s Global Livestock Collaborative Research Study Program (CRSP) with the University of California at Davis, in conjunction with Texas A&M University, Mercy Corps is implementing the Gobi Forage Project. This project intends to help Mongolia attain the capacity to predict where the best forage land will be 30 days in advance. It began its field work with 120 monitoring stations in three Aimags in 2004 and is funded until 2008. A linked component, funded by USDA, is being developed to passively determine forage quantity through near infrared spectroscopy on fecal samples to determine the protein intake of animals.

5. USDA-related funded work and RASP

Mercy Corps has, thus far, received three tranches of monetized wheat proceeds that have gone to support the creation of Goviin-Ekhlel, the micro-lending component of Gobi Initiative Phase I that eventually evolved into one share of Xac Bank, to finance the start-up of the “White Revolution” dairy farm in Tuv aim ag, to provide supplemental funding to the Gobi Initiative, and to fund its Rural Agribusiness Support Program (RASP), which carries out key Gobi Initiative-like activities in the other aimags of Khovd, Zahhan, Arhangai, Sukhbaatar and Dornogovi. Its RASP-only

offices are smaller in terms of staffing, with a stronger focus on producer-processor business linkages.

Fiscal year wheat-proceeds that were used by MCI in Mongolia were as follows:

- 2000 \$978,942 (MNT 1,514,577,825)—for “dzud” assistance and to support Goviin Ekhel and the Tuv Aimag “White Revolution” dairy farm.
- 2002 \$2,648,512 (MNT 3,157,026,202)—all of which went to support the final year of Gobi Phase I.
- 2003 \$2,171,807 (MNT 2,668,200,694)—entirely to support RASP.

MCI also received MNT 4,360,008,450 in the fall of 2004 yet will be expended for RASP activities in calendar year 2006.

Although largely separate, RASP has two components that are enjoyed by GI beneficiaries: (a) capital used in GI’s loan guarantee program (for both borrowers in GI aimags, and RASP aimags) comes from USDA funding; and (b) RASP has provided a subgrant of \$575,133 to Mongolia V.E.T. Net, a local public service NGO supporting veterinary services. The subgrant proceeds are being used to provide continuing education to veterinarians and vet technicians (in both GI and RASP aimags), and to operate a pharmaceutical and equipment revolving fund.

iv. Business Development Services of others

Although the Evaluation Team could not possibly identify the whole realm of service providing organizations and individuals in present-day Mongolia, we did learn about a number of private, government and donor-driven providers, which are described immediately below.

1. Private providers

The lion’s share of private business services providers are employed by well-endowed national and international businesses or foreign-funded entities (including the GER and Gobi Initiatives).

a. Banks and Non-banking financial institutions

Currently 17 banks and non-banking financial institutions provide micro lending in Mongolia. Among the leaders are Xac and Khaan Banks. In fact, the Xac Bank director reports that his bank has its own “Initiative,” based on the GER Initiative’s loan facilitation services. Reportedly, four branches in UB and one in Erdenet use local officials (on a volunteer basis) to bring loan officers closer to staff.

b. Employment placing

In preparation of this evaluation, the GER Initiative had identified five UB-based organizations that were doing employment placing. The team attempted to interview all of them, but only one was available to meet the team face-to-face. Even this one, who said she was about to close up shop, gave the team little confidence in current private employment placement services.

c. Consultants

The team found no effort to build a network of business consultants. Nevertheless, demand for qualified (read Western-trained) consultants is reportedly high and it is not

uncommon for large companies to offer sweetheart employment packages to former consultants, further reducing supply. One consultant also mentioned that he often enters

Box 1: *One case of worse services from government reform*

Before October last year, Mr. Enkhtaivan worked in the labor division in the Chingeltei District of Ulaanbaatar, where there used to be four labor specialists, now down to three. He has seen definite changes from before October when there was a specialization on job services. He commented that the new arrangement is worse for clients than before as their former focus has blurred.

into performance based contracts with his clientele, receiving a 15% cut on any increase in profits up to four months after the completion of his work.

As expected, a large number of consultants, providing both business and financial advice, and certainly those in technical fields, come from academia, earning extra income outside of teaching and research. One advisory service identified in the GER Initiative's Needs Assessment for Erdenet actually was a club of teachers providing short-term consultancy services, but has since disbanded.

2. Implemented by the Mongolian Government

a. Employment Service

Under a recent governmental structural reform, labor, social services and employment promotion have been combined, making a one-stop shop. The team found this "reform" may actually diminish the effectiveness of the government's employment placing services (see box), even if the Employment Law of 2000 dictates that the government pays 60% of the salary of a placed employee for the first six months of employment.

The Mongolian Chamber of Commerce and Industry (MNCCI) reports that it is also developing an online employment matching service.

b. Business promotion by MONEF and the MNCCI

Established in 1990, The Mongolian Employers' Federation (MONEF) is a self-financed, non-governmental organization representing the rights and legal interests of some 7,900 national and foreign employers operating in Mongolia. The Federation has served as a collective voice of the Mongolian business community, primarily employers to express their opinions and positions at the national level, addressing the needs of the newly emerging private sector. MONEF also provides various types of services to its members, such as dissemination of information and training (at least one session was done in conjunction with the GER Initiative).

MONEF has a nation-wide representation and currently operates through 23 branches in all 21 provinces and two major cities of the country. The Federation represents Mongolian employers in the International Labor Organisation and at other international forums such as the International Employers' Organisation and the Confederation of Asia-Pacific Employers.

MNCCI (www.mongolchamber.mn) takes a classical approach, primarily promoting SMEs. The Chairman is proud, however, to have started a microenterprise forum, and this has reportedly become one of the main activities of MNCCI. The Chairman maintains that MNCCI is one of the first organizations to generate policy-maker interest in micro enterprises. The MNCCI has also created and publishes a "red tape" perception index to highlight the troubles businesses must endure to remain legal. The Chamber is also planning to create a credit guarantee fund for its small enterprise members, looking for assistance from the Dutch.

Despite all that is advertised for MNCCI, both in written materials and on the website, the team found little evidence of any real business development services carried out by MNCCI for micro, small and even medium enterprises, beyond its occasional market events. In any case, it will be some time before this state-connected Chamber reforms its branches into a progressive provider of business development services. Its office which the team visited in Erdenet, in the corridors of an unkempt apartment building with Lenin's profile on one face, only provided basic translation and photocopy services.

3. Implemented by donors

Current efforts to develop Mongolian SMEs (including the training of local consultants and service providers to help SMEs) appear to be provided mostly by the internationally-funded donor projects. In the subsections below, the key—by no means an exhaustive list—donor projects identified by the evaluation team are briefly described, with two purposes: to show opportunities for collaboration and what components of the Gobi and GER Initiatives could be relinquished to another donor, yet also to set the stage for showing clear contrasts (below) to the ways the GER Initiative and GI function.

Despite the fact that UNDP's recent project formulation of *Enterprise Mongolia* (explained below) found 20 BDS projects, both the GER Initiative and GI stand uniquely focused on BDS in their target areas. Indeed, in its Project Appraisal Document for its Sustainable Livelihoods Project, the World Bank lists GI as the sole donor effort in Regional/Private Sector Development.

- a. Urban-based programs are mostly targeted to improve governance and/or targeted at larger entities

Once it begins implementation later this year, *Enterprise Mongolia* may be an exception to the title above and thus deserves further USAID and the GER Initiative tracking. In August 2005 this MIT-executed project will support “one village, one product”, selecting five products in five to-be-determined villages. Actual implementers will be selected on a tender basis.

Another project, slated to end in 2007 matches some of the efforts of the GER Initiative in Darkhan, Choibalsan and other areas. A joint loan from the Nordic Development Fund and the Asian Development Bank (ADB) supported an “incubator” sub-component under a Social Security Sector Development Project (MON-L 1836/1837) entitled “Skills Training and Entrepreneurship Development,” and targeted potential and existing entrepreneurs, who can be classified as poor, unemployed or likely to become poor. The government continues to support these incubator centers, which are, however, more tailored for spawning small retail trading businesses.

At the higher end are GTZ and Dutch supported programs. The latter comes out of a project for large privatized companies which started in 1998. After two previous versions, the Private Sector Development Project now works with 29 companies, nine of which are in the leather industry. For these latter nine, significant technical assistance is provided in cleaner production. With its client companies, the project initiates a contract and then starts with a diagnostic that identifies ways to improve.

Most companies find two to three areas of need, although some companies merely contract to receive only a diagnostic.

The GTZ Small and Medium Sized Enterprise Promotion Project describes its project as “acting on the Government level... it focuses on the elaboration of the regulatory institutional environment which is beneficial for the export-oriented business sectors” (their language, not ours). On the ground, this project has supported businesses and provided technical assistance to and through six national technical institutes:

1. ARMONO Forest and Wood Research Center in the wood processing industry;
2. The Infrastructure Training Institute in the construction Industry;
3. The ARMONO Leather Institute in the leather and fur industry;
4. Print and Publishing Education Center at the Mongolian University of Science and Technology in the printing industry;
5. The Textile Institute at the Mongolian University of Science and Technology in the wool processing industry; and,
6. The Institute of Tourism and Management in the eco-tourism sector.

- b. Rural projects are often more targeted at the poor and/or natural resource management issues

GTZ also has a veterinary project in Mongolia which has developed and launched a rural advisory program with a focus on animal health issues. The program was initiated in 2000 in Tuv, Dornogobi, Uvs and Zavkhan *aimags*. Materials are developed centrally in collaboration with the Mongolian National Veterinary Association (MNVA). A trained "herder advisor" from each *soum* in the project area is responsible for conducting sessions with 25-30 groups over two months, two times a year, to disseminate the animal health information. The program is designed to provide herders with important information about livestock disease.

UNDP's Sustainable Grassland Management Project attempts to both work like Gobi I and influence government and information providers:

1. Like GI, it has activities at the herder community level and upwards, designed to develop informal community-based pastoral resource management, strengthen herder institutions at the grass roots level and build herder technical competence in pasture management. The project attempts to strengthen the ability of community associations to deal on a more equal footing with outside service providers;
2. Less like GI, however, it has activities at the national level and downwards, designed to support and strengthen the ability of central and local government, in addition to private sector service providers, to provide relevant and useful resource information and services to herders, and to create and manage an appropriate legal and economic environment for sustainable herder and grassland development.

The World Bank's Sustainable Livelihoods Project (SLP) is in the first phase of a proposed 12-year program, with a total funding of \$20 million with three components: pastoral risk management, micro-finance outreach, and a community investment fund. In addition to the nation-wide activities of policy reform and institution building, it is pilot-testing new approaches in the selected *soums* of eight provinces: Bayan-Ulgii, Uvs, Bayankhongor, Ovorkhangai, Omnogobi, Dundgobi, Tov and Dornod. Later phases of the overall program intend to support scaling up to the national level as results of the pilots are refined. Some areas of intervention are:

- Support to integrated risk forecasting, management and contingency planning;
- Pasture and grazing management, including preparation of *soum* land use maps;
- Herder organization and local self-help, including establishing and building capacity of around 200 herder organizations at the community level (10-20 households);
- Hay and fodder development and management, including household hay making;
- Micro-finance for herders; and
- Pilot testing of emergency restocking models.

Originally a component of the SLP, the World Bank and the Mongolian Government recently approved a new index-based livestock insurance program (see Gobi recommendations and conclusions below).

4. The special case of World Vision targeting the needy

With ample self-source resources (reportedly \$28m annual), World Vision has programs targeted towards the most needy. All local government officials, GER Initiative and Gobi staff, as well as clients uniformly recognize this niche of World Vision's current portfolio as distinct from a BDS program, although a core WV activity is a group-based lending program for micro household-based production with initial loans at MNT 150,000 and amounts progressively increasing. Group size of the current 275 groups is 10-20 members. Interest rates are set at a 3.5 percent flat rate.

World Vision will also implement a USDA-funded Gobi-clone project that was designed by the previous Gobi I Deputy Chief of Party entitled the *Herder Livelihood Diversification Project*, working in different areas from Gobi. The Project's managers recognized a need for reducing herders' focus on a single industry, so designed their interventions to reduce food and income insecurity, adding value to herders production of wool and meat (sounds like Gobi to me). They are, however, venturing beyond the scope of the Gobi Initiative by introducing basic literacy and business education skills such as math, reading and learning about what people are capable of producing. They are also making activities "very *soum* specific."

5. What happened to MBDA?

One project, the Mongolian Business Development Agency (MBDA) that should have made mention above, is given its own subsection here as it has now stopped effectively functioning, i.e. it should be a good lesson for USAID on what should be avoided for the future for the GER and Gobi Initiative.

Although its beginnings appeared highly promising, securing a government decree to establish it, after Tascis-EU funding ended, it began to unravel. The Evaluation Team made numerous attempts to find reported remnants, but failed.

On a web search, the Team did find an outdated description:

The MBDA was established in October 1994, and was the first of its kind in the country: an independent, non-profit, non-governmental organization to promote private enterprise development in Mongolia.

MBDA generates and promotes projects, provides information and advisory services, and offers business, technical, and managerial support. The MBDA serves as an intermediary between private sector and governmental organizations. It assists in preparing training packages in support of business development. The MBDA is supported by private and governmental agencies and was established at the initiative of business organizations, international donors, and the Mongolian government to provide one-stop shopping for private enterprises.



Picture 2: Despite claims on this prominent billboard in UB, MBDA appears to be working for no one.

III. Evaluation Purpose and Methodology

A. Scope of the Evaluation

In the Scope of Work (for a full version of the SOW, see Annex III) for the original team leader, the following summarization of the purpose of the evaluation was delineated:

The purpose of this evaluation is to provide USAID/Mongolia with an objective external assessment of: (1) the appropriateness and effectiveness of current Gobi Initiative and GER Initiative activities; (2) whether the Gobi Initiative and GER Initiative should be involved in additional activities; and (3) the likelihood of sustaining Gobi Initiative and GER Initiative impacts after the completion of USAID funding. USAID/Mongolia also is soliciting concrete, implementable recommendations for improvements to the Gobi Initiative and GER Initiative.

This was further defined in greater detail under ten separate items to be evaluated. Nevertheless, in the evaluation inception meeting, these ten were discussed and all agreed there was significant overlap, and that one should really fall under the purview of the USAID Mission Director, i.e. to assess projects with respect to the political realities facing USAID.

B. Simplifying the ten original questions to five

Thus, in an attempt to make explicitly clear the questions for review, the resulting four questions for both projects and one question for the Gobi Initiative are written concisely below. For all, USAID/Mongolia asked the evaluators to propose implementable additional means to improve the impact and effectiveness of these Projects:

1. Are the services being provided by Gobi II and GER Initiatives appropriate for their target populations and effective to achieve project objectives in development of sustainable businesses?
2. Review and evaluate the appropriateness and effectiveness of these projects to work with other partners:
 - Donor agencies, non-governmental organizations, private organizations (e.g. private financial institutions and large businesses).
 - Local governments. Are there other activities which could/should be undertaken? Should this work be expanded?
3. Assess the capacity of local trainers and other local people to continue their activities, and the willingness and capacity of the private sector (e.g. financial institutions) and government entities to facilitate or carry out these same activities.
4. Assess the sustainability of outstanding loans and bank lending operations for new loans after the end of the two projects, and propose realistic ways to strengthen relations between project clients and the banks that lend to them.

And for the GI alone:

5. Determine whether the transition in the goal, objectives and activities from Gobi Initiative-Phase I to Phase II was appropriate. Determine whether the Phase II focus on (1) the expansion and diversification of herder-led business opportunities (e.g. vegetable farming) and (2) non-herder business development assistance is appropriate.

Sections III. and IV. below on findings for the two projects follow these four (for the GER Initiative) and five (for GI) questions.

C. Methods used

The evaluation team made its best effort to source reliable information on these two projects as well as issues related to their target populations. The team also attempted to test claims of success during its field visits. Nevertheless, our findings can at best be described as semi-scientific, since neither project has designed baseline information that also contained control groups. More relevant, we were only able to see a small number of non-clients and, given the distances required, we had little choice in selection of Gobi clients. In addition, given the lack of available reliable public socio-economic data and time for the team to complete a well-targeted survey, the team had to rely on rapid assessment techniques and was subsequently left with little to statistically analyze.

GER Initiative's rapid needs assessments did, however, provide some basis for understanding the lot of those who had not yet received its services.

Although the GI (phases I and II) has been operational for more than twice the amount of time of the GER Initiative, no extensive records of client information remain from GI I, nor did the GI conduct formal needs assessments prior to inaugurating GI II.

1. Informants interviewed

The primary source of information on these two projects came from approximately 170 semi-structured interviews with permanent staff, retained consultants, beneficiaries and non-beneficiaries in the target areas, related businesspersons, relevant Mongolian officials, other donors, and others. A complete list of these appears in Annex I below.

2. Data analysis

Initially it was hoped that some analysis could be made on the performance data of all GER Initiative business clients. After wrestling with reports generated from the project's Project Reporting System (PRS), it was clear this could not be accomplished. Still, we were able to carry out some analysis of sales data from Gobi II clients and from GER Initiative clients' loan application analysis tables.

3. Other appraisal methods

In each visit to target areas, team members also made an effort to see the physical results of the support they received from the two projects. Some of these observations were used to help form questions and some were recorded among the more than 250 photographs taken.

The team also made two attempts at ranking exercises with multiple informants, although both were poorly executed and thus provided unreliable results. The first exercise was a variation on participatory wealth ranking. Informants were asked to rank small producers in a single industry in their neighborhoods by performance and growth potential. The second, a matrix ranking with non-beneficiaries on which services were most important ended up sourcing information from one informant.

IV. Findings on the GER Initiative

A. Results

Based on its own reporting, the project has exceeded the targets if feeds into USAID's performance monitoring plan:

Table 2: GER Initiative's results for USAID targets

Indicator	2003 Actual/Target	2004 Actual/Target	2005 Todate/Target
Number of new and strengthened business in <i>ger</i> areas	37/48	327/264	290/264
Number of employees placed in <i>ger</i> areas	387/125	1,983/1,010	1,516/865

Although this reporting and that done additionally by the project give some indication of the results this project is achieving, it should be noted that there are significant ways the project is helping clients that is not readily captured through numbers. Most prominently, over the time the evaluation team worked in the GER Initiative office, a steady stream of clients brought their wares into the office to get on the spot assistance from local and international staff on ways they could be better designed and marketed.

As of the end of last year, the GER Initiative had collected \$15,310 after an abnormally high level of bank collections in the last quarter. The results from the table below, for the most recent quarter gives a more expected amount from previous quarters, around the average of \$2,245 per month.

Table 3: Fees collected by GER Offices in the 2nd calendar year quarter of 2005

Service, fee source	April-June 2005, Amounts in Tugrigs				
	UB	Darkhan	Erdenet	Choibalsan	Total
1 Training	458,800	152,550	213,100	132,965	957,415
2 Consulting	560,300	322,900	315,600	75,950	1,274,750
3 Ten percent loan facilitation	3,168,279	252,103	639,402	131,800	4,191,584
4 Other ¹¹	782,300	199,900	489,400	135,000	1,606,600
Total	4,969,679	927,453	1,657,502	475,715	8,030,349

v. Appropriateness of services and sustainability of businesses

1. Loan facilitation

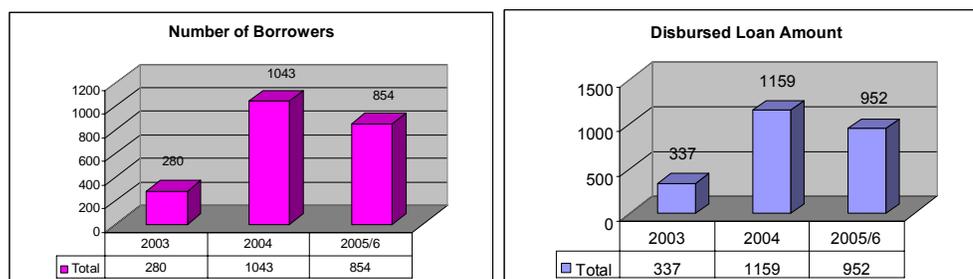
Loan facilitation is one of the GER Initiative services most in demand. Indeed, some interviewed clients were drawn to their local GER Initiative branch office after they had been rejected for a loan by a local bank. Also, it is not unreasonable to assume—and as some interviewees imply—some clients seek this service knowing that their interest payments will likely be lower, usually 2.8 percent rather than 3.0 percent if they went alone to the bank themselves. There are too, however, clients that are referred by the partner banks to apply for loans through GER's facilitation making the banks more comfortable with lending to these clients they have been trained, had their applications vetted by GER staff, and then repayments monitored by the GER Initiative.

More than 80 percent of GER Initiative loans were used to finance working capital (with trade representing the largest sector receiving loans). The average loan size was MNT 1,143,000 (\$952), with an average repayment term of 8.5 months. As of August 2005, there were 885 outstanding loans with 49 of them in trouble, specifically 20 are overdue, five are in default and the remaining are in jeopardy of becoming so. It is notable that nearly 61 percent of these poorly performing loans are on the books of Savings Bank whereas total lending through Savings Bank, as state owned bank, accounts for just over 39 percent of lending under GER Initiative facilitated loans. The GER Initiative is trying to improve this by both reducing the number of large loans and providing training to bank staff.

¹¹ Includes: books purchased, employment registration, employment matching, and information services.

Table 4: GER loans facilitated to date by bank

Bank	Loans	Amount	% by number	% by value
Savings	916	1,212,110,000	38.17%	45.23%
Khaan	1,020	1,030,660,000	42.50%	38.46%
Xac	268	143,170,000	11.17%	5.34%
Credit Mongol	92	79,900,000	3.83%	2.98%
Others ¹²	104	214,050,000	4.33%	7.99%
	2,400	2,679,890,000	100.00%	100.00%

Chart 2: Number of Borrowers by Year and Chart 3: Disbursed Amounts (m of MNTs), by Year

In June of 2004, the GER Initiative signed agreements with three of its four banking partners to begin the Capital Augmentation Fund (CAF) syndicated lending, where the GER Initiative finances a portion of the business loans. Although no CAF loans have been declared in default, a total of ten are in arrears.

Table 5: GER CAF Loans by bank (values in thousand MNTs)

	# of CAF loans	Total Value of Loans	CHF Capital Value of Loans	Bank Capital Value of Loans
XAC	3	1,200	950	250
Savings	89	71,180	58,155	13,025
Khaan	191	208,420	161,520	46,900
Credit Mongol	2	4,000	2,000	2,000
Totals	285	284,800	222,625	62,175

Not only does this lead to access to financial resources, but more importantly it lays a foundation for a longer-term relationship between *ger* area businesses and commercial

¹² Others are TDB, Anod, Mongol Post and Golomt Banks.

banks. Based on discussions with bank managers, through the GER Initiative, banks have begun to recognize the good risk and value of lending to *ger* area residents. Indeed, given a number of reasons (see below on the sustainability of GER Initiative supported lending), the main value of the CAF (and at least partially of its core facilitation activities) is educating banks on the profitability of lending to micro and small entrepreneurs in *ger* areas on a cash flow basis.

2. *Business consulting*

Entrepreneurs receive this service mainly in conjunction with loan facilitation. The whole package could include management advice, basic marketing strategies, and investment analyses tied to business plans (which, for loan applicants include relatively extensive financial tables, including all projected cash flows until the loan is fully paid).

Nevertheless, there is flexibility in the level of sophistication of consulting services allowing them to be accessible to clients who may have merely a basic education, yet can be tailored to those well-educated. For example, marketing assistance for Mr. Bayaraa in UB (See Box 2) has been appropriate to his level of education, whereas, for a noodle producer in Darkan, the GER Initiative has helped in adding suggested recipes to packages.

Similar privately provided marketing services would be out of the range of affordability for most GER Initiative clients. Nevertheless, clients interviewed maintain they would prefer marketing help from the GER Initiative, even if fees were doubled. Clients appear to be loyal, as they have gained a better understanding of principles of business planning, loan application procedures and financial management, leading to better

Box 2: *UB art teacher becomes artisan*

Mr. Bodbaatar Bayaraa, born in 1977, recently returned from Japan where his wife worked for a short time. From their savings, he decided to cut back on his teaching and begin producing handicrafts. In April of 2005, he approached the Sharhad BDC for help in marketing. Since then, the BDC has given him extensive assistance in design (including experimentation with colors that would be more appealing to foreigners) helping him present at fairs, and facilitating a loan. In addition to trade show fees, he has paid some 10,000 tgs for all of these services.



Here Mr. Bayaraa stands in front of one of his creative chess sets.

business performance.

3. *Business training*

Although basic business training is widely available from other providers, the team found them less effective, often too vague or less practical. And the GER Initiative's well-targeted vocational training has on balance, based on our interviews, been more successful, although the two fulfill very different needs. One example was a series of

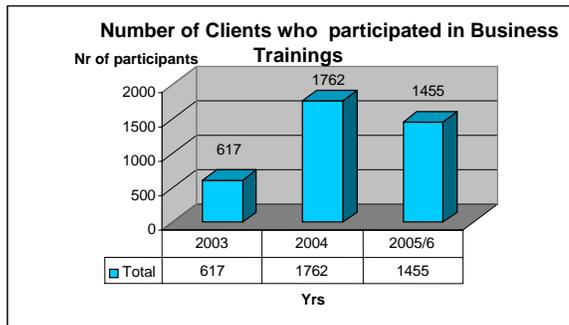
technical trainings by a foreign pig raising expert on cyclical production of pork provided to pig farmers.

Overall, GER Initiative training activities have enjoyed increased popularity as by mid-year 2005, the number of project participants was already 83 percent of the total for 2004 (see Chart). This is in part, at least, due to quality, including the practicality of content presented. Nevertheless, this may be partially due to a general perception that training provided by foreign donor-sponsored programs is of better quality compared to the same training provided by purely local entities. Clearly, in advancing plans to make the GER Initiative’s training activities sustainable, the GER Initiative should seek effective collaboration with local entities (e.g. local employment offices), the former taking advantage of the latter’s financial resource, and the latter taking initial advantage of the reputation of a foreign organization.¹³

Although the GER Midterm Evaluation had recommended six month follow-ups on all clients that received services, and this was agreed to by the GER Initiative, it appears, at least for those who received training, that this has only partially happened: After each training session, participants complete a questionnaire, declaring their employment status and responding to a number of questions about the quality of the training. The results from these questionnaires, however, are not compiled and the team did not find any comprehensive regular follow-up.

Nevertheless, the team sees little need for the GER Initiative to put extensive resources into this since training often accompanies other services that are monitored for results, e.g. 1,836 (44 percent) of the 4,099 business clients who have taken training received loans.

Chart 4: Number of participants attending business trainings



4. Business groups/associations development

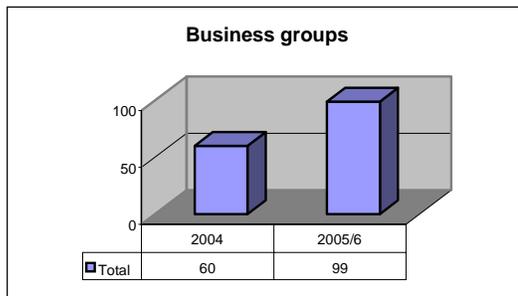
The GER Initiative has been supporting the formation and maintenance of business groups or associations, targeted towards assisting *ger* residents to jointly solve common problems, and reduce individual operating expenses through collective operations (such as collaborative purchase of raw materials and joint use of equipment).

¹³ With the purpose of addressing the needs of unemployed people in vocational trainings, the Employment Office distributes “training vouchers” to this category of people. A holder of such a voucher is entitled to attend any desired vocational training at any certified local training center. After service delivery, the training providers redeem the vouchers for cash with the Employment Office based on the number of the “collected vouchers”.

In late 2004, the GER Initiative added a grants component to the group formation efforts. These grants were designed to support successful groups with equipment or training that they need to effectively reach a higher level of production or organization. Although several groups have applied for grants and a small number of grants were provided with them the Project changed this to assistance through loans in September of 2005.

At this point, the outcome of this new service is unclear, differing from one group to another, although this seems to depend more on the nature of the business. In the opinion of interviewed group members, their group formation not only helped them increase the scale of the business through combined production, but it also allowed them to enjoy being a part of a group. According to interviewed group members, prior to joining a business group, they were virtually ignored. Now they have a sense of affiliation with the business group, and this comradeship has made them more confident and committed to striving for success.

Chart 5: Business groups created or supported



5. Business information and linkages

Over the past year, the GER Initiative has organized and sponsored six trade fairs in the four cities. The project also prepared its second Annual Khashaa (Land) Survey in UB. This exercise started a year ago, one year after the Government of Mongolia began titling land. Although many clients have title to their land, they are unable to determine the value of the property. In response to this need, the GER Initiative has conducted a *khashaa* valuation survey in Ulaanbaatar. Other similar surveys in Erdenet and Darkhan are warranted.

The project reports facilitating 72 one-off and on-going linkages, some in conjunction with the groups it has formed (see box) over the past year. The GER Initiative's trade fairs—often in conjunction with the local Chamber of Commerce branch—contributed to this. Participants of the trade fairs generally felt positive about them as some enjoyed an increase in orders. Nevertheless, there was one entrepreneur interviewed who said he would be much more careful in the future after paying MNT 30,000 to participate in a fair and making no sales.

Box 3: An Association and Link:

Ger linked the Uliastai Pig Group to the CIS catering company who supplies meals on-site to Boroo Gold Company outside of Darkhan. The Uliastai Pig Group is now providing a reliable supply of pork meat. The group formed in October 2004 with six pig farmers. In December 2004, an initial order from CIS to the Uliastai Group was completed. For the next four months, however, the relationship faltered as the group needed assistance in pricing, meat selection and packaging. The GER Initiative provided this help along with technical assistance that included a pig-raising specialist and a butcher to assist the farmers in learning about meat cuts. This revived linkage has resulted in over \$3,500 in sales for the production group. One GER Initiative advisor continues to meet with this group at least once a month.

6. Employment matching

With 46% (5,056) of this year's registered clients looking for employment – not to run a business – employment services are an important and highly demanded GER Initiative service. Consistent successful long-term matching of employees with employers has proven challenging. Based on a survey of 1,174 clients conducted throughout June 1 through July 31, 2005, the GER Initiative found 613 persons (52.3 percent) had remained on the job for 30 days, and only 129 (11 percent) people stayed for more than 180 days.

There are a number of factors that make this particularly difficult:

- For a variety of reasons, registrants may not really be physically or mentally prepared to hold down a job.
- Age discrimination is widely accepted. According to an employment official, women over 40 and men over 45 are effectively barred from their program.
- Formal recruitment by established employers for long-term employees is commonly done through targeted newspaper advertisements (though GER Initiative staff also monitor public announcements of job openings and attempt to help clients fill them).
- This leaves service providers like the GER Initiative with at least greater proportional influence over short-term placement opportunities (e.g. construction) than for long-term ones.

The evaluation team found cases where GER Initiative-placed employees stay longer or are more committed than other job-seekers, however, it appears more employers find them no different from others. In the five companies interviewed, two found them no different, although one did (see Table 5). Of the five, there was only a 41 percent retention rate. Employment Office officials report they have a similar rate.

Table 6: Job placement results of five firms

<i>Questions Asked</i>	<i>Firm interviewed:</i>	Minii delguur¹⁴	Ulemj¹⁵	Zig Zag¹⁶	Gan Khulug¹⁷	MMW¹⁸
How many GER Initiative clients have received jobs?		15	20	3	126	20
How many of these clients stayed stable with you?		10	10	None	53	3
Are there any differences between GER Initiative clients and other jobseekers?		GER clients have a more sincere eagerness to work.	No real differences, although GER clients are more reliable.			No, they quit their jobs as others.
Do you think that there is a need in job matching services?		Generally there is, particularly for identifying trained workers.	Very needed. It saves an employer's time.	Probably.	Very needed. Our training center cannot provide information on jobs available.	Needed. However, there is a need for employees to be trained according to employers' criteria and requirements.
What are your recommendations for GER Initiative to improve services?		Despite usually requiring a college degree, we accept GER clients with a high school education if they demonstrate the capacity to work under pressure. GER could find clients with better educations and able to cope in stressful environments.	The GER Initiative should psychologically prepare workers for intensive work. Workers need to learn first how to work hard, and perform required duties.	Could the GER Initiative provide a guarantee for its placements? We usually prefer to hire people either we know or with reliable references.	Could GER assist poor workers with a subsidy? e.g. MNT 10,000 Our meal and bus subsidies are not enough for these people.	GER could assist employers to ensure their requirements are well-understood.

Nevertheless, the team did find that the GER Initiative's results were not due to a lack of trying: The project has developed a process that works actively with medium to large employers, vets registrants through an interview, provides them with relevant training, and usually rapidly places promising candidates. Indeed, if one could point to places where the GER Initiative excels versus the State Employment Office, they would be the project's commitment to training and the speed in which people are placed.

No less important, however, is the GER Initiative's human resource training programs for employers (see Box 4). Instead of accepting, as many do, that employees were the cause of retention problems, the GER Initiative found that employers too were often at fault. Now as a matter of course, the GER Initiative provides obligatory training to its main placement target businesses on how to best manage employees.

7. How sustainable are the businesses supported?

In no case did the evaluation team on its own identify a failing or in-trouble business, although these do exist by the project's own admitted small loan default rate. Surely this is at least in part due to the fact that the GER Initiative's interventions are relatively new. After another year or so, it is highly possible that more businesses will eventually fail.

¹⁴ A supermarket network.

¹⁵ An operator of restaurants, supermarkets, and bakeries.

¹⁶ A diversified enterprise in trade, automobiles, and construction.

¹⁷ A construction company that also runs a vocational-technical center.

¹⁸ A carpentry factory.

In order to get some idea of this possibility, in addition to interviewing clients and discussing their constraints, the evaluation team took four example client business plans, as represented in their loan applications, and calculated their rates of return. It should be evident—and no surprise—from this that there are great risks to traders who operate on thin margins. This can be seen in one of four randomly selected examples of rates of return for four businesses below.

Case I: A trader selling shoes

This UB seller begins with an inventory of MNT 300k (also the size of the proposed loan) in shoes, buys a wooden box to hold and display them, and generates monthly sales from April to September of MNT 20k, 22k, 93k, 8k, 90k, and 102k.

Case II: Sewing dal, a traditional dress

This producer proposed to borrow MNT 200k to cover a portion of her fixed costs of MNT 387k and inventory of 96k. For six months, she generates cash flows of 78.5k, 33.4k, 39k, 28.1k, 20.3k, and 53.7k.

Case III: Sewing a variety of garments

This client also is a sewing producer, albeit a much larger operation. She intends to borrow MNT 1m to purchase additional material. She begins with fixed assets valued at 3,020,000 and generates cash flows of MNT 1.4m for the first three months and MNT 1.6m and 2m for the final two.

Case IV: Wood-working

This woodworker begins with MNT 2m in equipment and borrows MNT 1m for materials. He generates cash flows of MNT 350k, 85k, 24k, 18k, 54k, 34k, and 204k. A full return calculation includes assuming his equipment has a scrap value of 1,875,000.

Table 7: IRRs for four selected GER business plans

<i>Client</i>	<i>Business</i>	<i>Nominal annual calculated IRRs</i>
Gereltsulun	Selling shoes	25.1%
Suren	Sewing del (a traditional outfit)	103.9%
Lhagva	Sewing	41.6%
Oyuntunya	Wood working	52.8%

The low rate of return of the seller is also consistent with comments heard by the evaluation team that though popular, trading provides little promise for business growth, as one commentator said: “there are just too many people running off to China, where no visa is needed and customs control is weak, buying cheap Chinese products and bringing them back to sell.”

There is some indication that the GER Initiative is—albeit with minimal results—taking this into account. Based on the table below, new trader businesses account for 47 percent of all new businesses, whereas traders account for 49 percent of all clients. Although the project should not prohibit its offices from supporting the creation of new trader businesses, there should be a more persistent effort to help clients look beyond trading (especially that of consumer retail where more than half of traders deal) and working with them to spawn service and producer businesses. This simple comparison

by percentage weights (i.e. percentage of new businesses versus total clients) could be one way to monitor the progress of such an effort.

Lastly, also consistent with the above rates of return is that GER Initiative records show producers account for 40 percent of improved businesses whereas they are only 36 percent of total clients.

Table 8: Relative weights of business types

	Traders	Services	Producers
New Businesses	47.17%	22.64%	30.19%
Improved business	49.12%	11.31%	39.57%
Total Clients	49.00%	15.00%	36.00%

8. Overview of findings on services and businesses supported

Overall, as described above, the evaluation team found the GER Initiative's services appropriate to clients' needs. Furthermore, currently no other organization provides similar services at the scale, from easily accessible local branches, and with a progressive demand-based approach as does the GER Initiative.

The team also found the GER Initiative making inroads in behavioral changes of its clients, helping them become more confident in their pursuits. Comparative interviews conducted with both clients and non-clients of the project in Erdenet revealed substantial differences in the confidence and competence (from training) between clients and non-clients.

Although the evaluation team was not explicitly asked to determine the total direct and indirect impact of GER Initiative services, using simple assumptions one can roughly calculate this. The project records 22,694 clients to-date, 9,454 of which were business clients and 10,137 were people seeking jobs. The remaining 3,103 "other" clients sought business services although they were not business owners at the time of registration. Given that, as of August 2005, 7,790 persons (average age of 33) were placed in jobs, it may be assumed that beyond them, two other persons per client benefited from their income—a total of an additional 15,580 indirect beneficiaries. Likewise, for improved businesses (though these data are questionable, see below on management) 513 (average age of 46) owners directly benefited as well as an average of 1.5 employees per business and 3.5 additional family members—an additional 2,693 indirect beneficiaries. Thus, one estimate of total direct and indirect beneficiaries is 40,967 or about seven percent of the total target population of 570,000 and on average a cost of \$48.82 per beneficiary. In sum, the project has had more than a reasonable impact at a very acceptable cost.

Box 4: *Could an experienced weaver serve as a consultant in Erdenet?*

In the background below is the wife of a husband-and-wife team weaving business that employs seven people. In October of 2004 they went to GER Initiative to help them find five additional employees. As a matter of course to make sure these employees had the best possible conditions, GER Initiative gave them a training session in human resources management (at a fee of 5000 MNT). They also received assistance from GER Initiative to borrow twice from the bank, each time 1m MNT. The GER Initiative has also helped them access the internet to locate better designs. When asked what the husband would charge if he were to work as a consultant training others, they replied they were not sure, but at least 600,000 tgs a month.



Nevertheless, the GER Initiative should continue to push for improved and innovative—for the Mongolian context—practices of its clients, e.g. help them understand safety and environmental protection practices. Given that producers supported by the GER Initiative are operating on small margins in competitive environments, high demands on them to add more modern safety practices or cleaner production would not be effective.

Still, it was confounding to find that one of the project's most advanced wood workers had lost a finger after receiving assistance, and that a number of producers paid little consideration to the waste they created. Indeed, if done right, a small effort to promote better safety and cleaner production can actually help businesses increase output and reduce cost.



Picture 3: This GER Initiative client in UB could benefit from both safer and more cost effective spray painting practices. Much of his paint is lost along with the fumes that enter the air he breathes.

vi. Working with others

Although there is room for improvement, based on interviews with clients and local government officials, the GER Initiative is working well with local governments. One *bagh* governor interviewed in Darkhan complemented the GER Initiative's support to 500-600 clients. More importantly, he told of a trade fair organized with the GER Initiative in January where 60 Bagh residents participated and 20 different products were displayed. After the fair, a decision came to copy the exercise in other Baghs.

Still, he and likely others remain unclear about the importance of market-based business development services. He was very hesitant to support any further increase in the GER Initiative's fee structure and thought the GER Initiative should provide wells to his constituency.

Likely for this reason, CHF submitted a concept paper to USAID to fund related activities to create a stronger connection between the public and private sectors. Although this proposal was not accepted, the team recommends that USAID Mongolia reconsider it, and to see if perhaps some work can be done by GER in this effort.

From its UB contacts, the GER Initiative generally has a good reputation, except for Xac Bank—and a similar complaint from the Dutch-funded PSDP that GER Initiative is taking its consultants. When told that USAID may consider ending its support of the GER Initiative, the director of MONEF said: "That would be very no good."

To-date, although it has not signed any formal collaboration agreements with other donor programs, the GER Initiative has worked on jointly finding ways to market heat efficient stoves with no subsidy with the World Bank Stove Project; It has worked on trainings with the ADB Disability Project and the ILO and has reportedly influenced the activities of the ADB Incubator Project.

It also worked with VetNet, providing training to over 500 people in bookkeeping and other financial management.

The GER Initiative's network of large businesses has generally done well (despite all the associated difficulty) as described above in the sections on services.

vii. Potential legacies?

From the descriptions above of other service private and public providers, it should be evident that at present, local trainers and other local institutions will not be likely to replace the GER Initiative's services—particularly to the degree and cutting-edge ways of the GER Initiative.

Only financial institutions are showing some willingness and capacity to facilitate or carry out these same activities. As a semi-concrete example, the current director of Khaan Bank has toyed with the idea of acquiring the GER Initiative after its assistance funding ends: "Instead of having all the offices and equipment liquidated, this unique project that generates value could continue, particularly the services related to banks." Nevertheless, this is not necessarily an obvious long term strategy for all banks, as the director of Xac Bank affirmed that the costs for operating, as it is, are too high.

In most interviews with clients, one team member asked how high a fee they would be willing to pay for GER Initiative services. At approximately five times the current rate

clients became hesitant; below this, clients reported they would still demand the services they received. Nevertheless, even if the GER Initiative collected five times the fees it is collecting now, the calculated monthly average of \$11,225 would fall significantly short of the implied monthly cost (at 42 months) to USAID for this project of \$49,619. This implies, however, that with careful planning and cutting of costs, relevant portions of this project could survive after USAID ends its funding.

One alternative proposed by GER Initiative management should also be considered as a means towards legacy of the project's work: the ability of current Business Advisors to continue as independent consultants after the close of the project.

viii. How sustainable are GER facilitated loans?

Based on interviews with key bank officials, lending—as it has for the past years—is likely to grow in the *ger* areas after the end of the GER Initiative. Officials at Khaan Bank realize that GER Initiative clients are good risks.

Given the way GER Initiative loan facilitation most normally (outside the CAF) includes a 10% payment to the GER Initiative for administering the loan, banks clearly demonstrate that these are good risks.

Through its partnership with banks, the GER Initiative appears also to be making, albeit slowly, inroads on commercial bank practices cash flow based lending in Mongolia. Currently, based on views of borrowers and banks alike, loans for micro, small and medium sized enterprises are on the basis of collateral.

Thus ownership of assets becomes essential for the micro-business operators of *ger* areas. In addition, the situation becomes more complicated due to rigid requirements that allow for few forms of collateral mainly consisting of real estate or expensive equipment. Livestock, dwellings or land are not accepted by the banks as collateral.

In a more direct attempt to overcome and teach banks that they should be more flexible in their collateral requirements, CHF is implementing, very carefully, a syndicated lending program under its Capital Augmentation Fund (CAF, with all capital from USDA funds). CHF sees this as a way to provide real lessons to banks to demonstrate that they should take on well-founded business risks without being overly fixated on collateral. In this, the evaluation team agrees, i.e. the CAF should be used to ensure good loans for clients are made based on business plans, and as a tool to teach banks this. Once this has been achieved, and GER Initiative management appears to agree, the CAF should be phased out.

d. GER Project Management and Staff Capacity

Beyond the difficulty the evaluation team had in determining the effectiveness of GER Initiative interventions because these are relatively new, the team could not, with confidence, perform statistical analysis on data stored in the Project Reporting System (PRS). The problem was three-fold: a large set of client files lacked the key entries of sales, working capital, and fixed capital; the code did not allow for certain reports (as such services provided by types of businesses); and it generated inaccurate results. When baseline data were missing, the system appeared to have its own faulty process overriding divide-by-zero problems. In the case of records with no baseline sales and working capital recorded, “zero” percent appeared in the percentage change field.

However, for records with no baseline fixed capital figures “100%” increase was reported by default, potentially flagging businesses in this case as being improved. Fortunately, after discussing these issues with the GER Initiative management, CHF has taken measures to correct this.

In addition to improving its data management, the GER Initiative is well positioned to make even further inroads in developing the capacity of its local staff. Although the team did not carry out any capacity needs assessments of staff, it did notice there were areas where staff could learn more about analyzing business plans or providing services—based on the experiences of other BDS projects throughout the world. For the former, in our attempts to calculate internal rates of return, one of us gave a brief explanation of the theory and purpose of this calculation to one of the GER Initiative’s coordinators and its financial advisor. It seems, in addition to further exposure to workplace safety and cleaner production practices, GER Initiative business advisors need more extensive training in financial analysis, particularly related to the theory of interest and the time value of money.

e. Conclusions on the four questions and recommendations

In answer to the four key evaluation questions for the GER Initiative, the team concludes:

1. Overall, the flexible demand driven services being provided by the GER Initiative are appropriate for its target population and are effective in achieving project objectives in development of sustainable businesses. Business entities created or expanded under GER Initiative support have promise. Although this reporting and that additionally done by the project gives some indication of the results this project is achieving, it should be noted that there are significant ways the project is helping clients that are not readily captured through numbers. In addition to its collection of services, the project should consider promoting better safety and cleaner production practices of clients.
2. Work with partners has progressed and is generally appropriate and effective. Although there is room for improvement, the GER Initiative is working well with local governments. Again, here, the GER Initiative could further develop ways to influence local governments to support sustainable private sector development. Collaborative efforts by the GER Initiative with other donor agencies and non-governmental organizations have progressed unevenly and with mixed results. Work with financial institutions and large businesses has generally gone well.
3. Local trainers, consultants, and employment providers people will not likely take up the slack left behind if the project were to end in March of 2006.
4. While it depends upon a host of factors, bank lending thus far under the GER Initiative is sustainable and, given the educational effects of the GER Initiative, bank lending is likely to grow in the *ger* areas after the end of the project. In the meantime, work could be done on credit bureau-type operations, providing incentive-based training to banking staff and to clients on financial management. Lastly, CHF should put forth a plan toward divestment of its funds used under its syndicated lending mechanism, the CAF.

As detailed above, the team also believes that:

- GER Initiative data management could improve.
- Other targeted training of staff and partners to better understand financial calculations and BDS could increase.

- It is important for the GER Initiative to develop a realistic progressive plan that could put forth incremental increases in fees and development of legacy institutions that will continue the GER Initiative’s core work after its funding from USAID and USDA end.

V. Findings on the Gobi Initiative

A. Results from Gobi

For tracking under USAID’s performance monitoring plan, GI is also exceeding prescribed targets as follows:

Table 9: Gobi Initiative results for USAID Targets

Indicator	2004 Actual/Target	2005 To-date/Target
Number of new and strengthened business in rural Mongolia	295/250	415/250
Access to and use of business information	314,000/140,000	382,000/145,000

The overall results from Gobi up to June 30, 2005 are:

- Formal business planning undertaken with 182 groups comprising more than 6,000 members.
- Sales generated by herder group clients totalled MNT 856.1m (\$715,000) through June 30, 2005.
- Assistance provided to 182 clients to secure MNT 482.8m (\$402,000) in loan capital.
- More than 550 targeted training and technical assistance interventions provided to 267 herder and non-herder clients.
- Twenty-five local aimag-based training and technical assistance providers “mentored” and “certified,” bringing the total number of qualified in-country consultants to 73.
- Six provincial two-day “Market Fairs” conducted, showcasing local Gobi production, and generating MNT 125m (\$105,000) in sales.

To date, the clients have paid a total of MNT 2,707,000 to service providers under GI programs.

i. Appropriateness of services and sustainability of businesses

1. Support to herder and non-herder groups

At the inception of GI II, the GI put forth a process of selecting its long-term herder clients with the following primary criteria:

- Not less than six households (this was recently changed to eight);
- At least 800 head of livestock, in total;

- A commitment to form a cooperative out of an existing cohesive herder group;
- A business activity outside of animal husbandry—i.e. willing to work in a new way;
- Business profits to be shared by all members of the group/entity.

For non-herder groups, selection criteria begin with a requirement that a prospective client must already be involved in a business activity (no start-ups are accepted) and be willing and capable of covering 25% of the costs for technical assistance. Clients must also be able to identify a clear role for GI assistance and, with GI staff, define expected results from this assistance. Lastly, the management should have commitment and a clear vision of what exact business activity they wish to expand or develop with the assistance of GI.

Once aimag business officers identify potential clients, they complete a form called “company brief” that gives basic information on each business, including its current products and services, any plans for changes in these, and its financial position (past cash flows and loans). The form also includes a section on possible benefits the businesses bring to their communities and another section on next steps, e.g. whether a full business plan is needed or not.

Both herder and non-herder clients then enter into MOUs that are slightly, but significantly, different from each other. The non-herder MOU format has an additional provision that the client “Agrees to pay a percentage of the consultant or technical assistance provider's fee directly to the individual (cost share). The percentage of the fee paid by the client will be negotiated between GI and the client prior to delivery of any training/technical assistance services.” It also incorporates provisions of the loan guarantees:

- Gobi Initiative will provide a loan guarantee in agreement with the Mercy Corps Loan Guarantee program. Loan guarantee duration will be negotiated on an individual basis, but will not exceed 36 months.
- The client will be required to complete a Business Plan that is reviewed and approved by Mercy Corps; copies of these Business Plans will be provided to the lending institution. The client will also be required to complete and submit all documentation required by the lending institution. The client will also be expected to pledge owned assets as collateral.
- The client will select the financial institution from which they will borrow, based on best terms offered and other considerations. Mercy Corps will neither select nor influence the selection of the lending institution by the client.
- The client will use the loan for its intended purpose only. Mercy Corps will have the right to revoke the cash collateral in case of misuse of the loan.
- Collateral provided by Mercy Corps will not exceed the difference between the collateral supplied by the client and the amount required by the financial institution to secure the loan. The collateral provided by Mercy Corps will be "second recourse," provided only after the bank has exercised all of its rights against the client's collateral.

The standard herder MOU format appears below.

Memorandum of Understanding

..... on behalf of the Herder Group/Cooperative from aimag, soum (hereafter referred to as 'the Client') and, on behalf of the Gobi Regional Economic Growth Initiative (hereafter referred to as 'Gobi Initiative') hereby enter into this Memorandum of Understanding to cooperate in furtherance of the business objectives of the Client, as contained in the Client's Business Plan.

The Herder Group/Cooperative Business Plan dated is hereby incorporated as an integral part of this Memorandum.

1. Responsibilities of the Client

The Client hereby agrees to:

- Undertake best efforts to implement all activities described in the Business Plan.
- Discuss any changes to the Business Plan with Gobi Initiative prior to making those changes.
- Provide full cooperation, support and information necessary for implementation of Business Plan activities to Gobi Initiative Representative Office staff and Gobi Initiative-hired training and technical assistance providers.
- Commit its own financial resources, including any funds borrowed from financial institutions, to implement the activities described in the Business Plan.
- Provide "Business Plan Implementation Reports" in a form prescribed by Gobi Initiative, to the Gobi Initiative Representative Office on a quarterly basis.
- Provide a "Business Plan Results Report" in a form prescribed by Gobi Initiative, to the Gobi Initiative Representative Office in October 2004.
- Abide by all relevant laws of the Government of Mongolia in implementing all activities described in the Business Plan.

2. Technical assistance by Gobi Initiative

Gobi Initiative hereby agrees to:

- Provide the training and technical assistance interventions outlined in Section 3. Such training and technical assistance will be provided by staff, consultants and trainers chosen by the Gobi Initiative Representative Office, in consultation with the Client.
- Cover all costs associated with such training and technical assistance interventions, including consulting fees and travel and related expenses.
- Provide all trainers and technical assistance providers with (a) required information on the Client's business and (b) a Scope of Work for the planned training or technical assistance intervention.
- Work closely with the Client to (a) plan the trainings and technical assistance interventions, (b) participate in and/or deliver the planned training and technical assistance, and (c) undertake monitoring to document results and determine follow-on actions.

3. Planned training and technical assistance

- 1)
- 2)
- 3)

4. Other provisions

Both parties hereby acknowledge that:

- Gobi Initiative cannot be held responsible for failure to deliver the planned training or technical assistance if such failure was caused by reasons beyond its control.
- Gobi Initiative support to the Client is limited to the training and technical assistance interventions outlined in Section 3. Gobi Initiative will not be responsible for financing the purchase or transport of equipment nor for providing financial assistance in the form of loans or grants. Any additional training and technical assistance support requested by the Client will need to be described in an amendment to this Memorandum or in a separate agreement and may not be on a cost-free basis.
- They are in agreement with all terms stipulated in this document.
- This Memorandum of Understanding shall become valid upon signing by both parties.

On behalf of Gobi Initiative

On behalf of Client

Signed by:

Signed by:

Print name:

Print name:

Title:

Title:

Date:

Date:

The criterion of 800 animals for herder groups above applies to the group as a whole. Based on an analysis of their own data, the GI reports that only 286 (or 23.5 percent) of the project's 1,217 family clients own more than 250 animals, i.e. are above the poverty line standard used in rural Mongolia. Thus the GI beneficiary population is slightly skewed away from working with poor herders at a rate of 76.5 percent versus reported herder-wide rates of 85 percent. Therefore, the project is missing out on reaching poorer populations that could use at least a portion of its herder services to long-term clients. A suggestion from the evaluation team would be to develop a "secondary herder support program" that would both help these herders, and provide an opportunity for GI to remain engaged in cashmere production.

This would necessarily be less intensive than what GI is currently doing for its core herder and non-herder groups. GI enters into an MOU with them, and provides them with training on how to complete a business plan. Once a group's plan is approved by GI, it can apply for a loan in one of the project's partner banks and receive technical assistance (up to three instances free of charge and then as an individually tailored cost share) to both improve its production and its business and financial management. For an approved loan, GI deposits funds (originating from USDA) in the bank as a guarantee for any portion of the loan beyond what the bank identifies as acceptable collateral. These guarantee accounts also earn interest as to other deposit accounts at the bank. In the case of default, the bank is required to first exercise all its rights against the borrower's collateral and then only have "second recourse" to GI's deposited guarantee funds.

2. Market Events

GI's original "Cashmere Market Days" have developed into larger "state fair" type gatherings (Market Events) and GI has done well to slowly have them become self-supporting, overcoming the hurdle described by an international consultant¹⁹ who reviewed this component:

The Umnugovi Herders Producer Association NGO-driven model for the "Cashmere market Days 2003 Event" was a success. However, as the Gobi Initiative Umnugovi aimag office played a key role in the logistical and administrative work for this event, this raises the question as to whether and how this NGO-driven model will be replicated elsewhere with little or no more support from outside.

In 2004, these events exhibited wares from 628 interests and drew 38,000 visitors. They were organized and/or co-sponsored by a number of different organizations in addition to GI. These include:

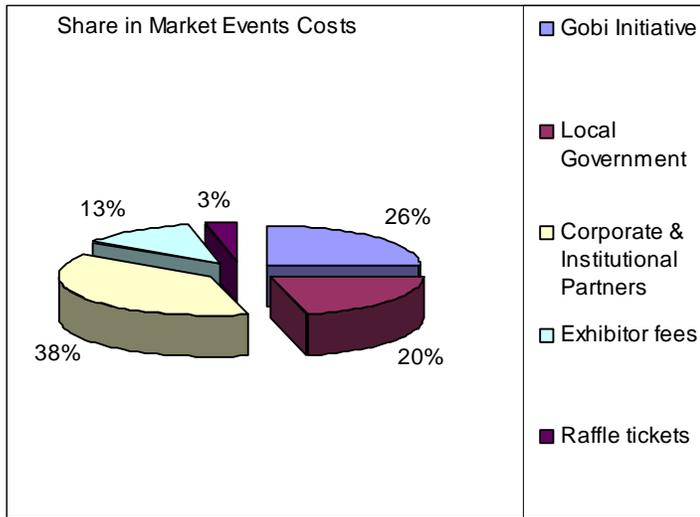
- In Uvurhangai: Chamber of Commerce and Industry, Aimag Governor's Office, Invalid People's Employment Generation Project, and the Herder and Business Support Association
- In Govi-Altai: Chamber of Commerce and Industry, Aimag Governor's Office, Employer's Association, and the Herder and Business Support Association
- In Bayanhongor: Aimag Governor's Office, Agricultural Broadcasting Center, Employer's Association, and the Aimag Agriculture Department

¹⁹ *Cashmere Market Days, 2003: Event Assessment* by James Hamilton.

- In Govi-Sumber: Aimag Governor's Office and the Aimag Agriculture Department
- In Dundgovi: Aimag Governor's Office, Aimag Agriculture Department, Animal Breeding Department, and the Herder and Business Support Association
- In Umnugovi: Aimag Governor's Office, Agricultural Broadcasting Center, and the Herder's Initiative Association

The financial costs to GI are now far less, as a percentage share than the costs it incurred in sponsoring the "Cashmere Market Days" in previous years. Total cost to GI for the six market events was MNT 2,967,870, (\$2,475) which was 26% of the total cost. Corporate and institutional partners now cover the largest portion of the event costs.

Chart 6



The Market Events recently held in 2005 had 1,034 businesses exhibiting products and services to 66,900 visitors (including the Prime Minister at the Dundgovi event).

3. Benefits of groups and continued help for livestock

The evaluation team agrees that stronger herder groups are key to better management of pastoral and business risks, allow for increased economies of scale for production by sharing resources, and provide an added—potentially no less important—benefit that there can be non-cash sharing of products among the members. In fact, in most cases visited and scrutinized by the evaluation team, a significant amount of production was used for “internal consumption.”

Although Gobi II may have put less stress on livestock, it has continued some activities from Gobi I in veterinary services, continuing to improve access to adequate veterinary care but now is moving upscale to support veterinarians and VetNet (through RASP), potentially having a greater impact for all herder groups (see also the box on the TMZA Partnership).

4. Training for short-term clients

As with the GER Initiative, GI trainings have been mainly focused on supporting business plans of clients, although a number of trainings have been available for “short-term” clients (for detailed data on these, see tables in Annex XI).

Cooperative development was still a highly-demanded topic participated in all provinces (54 trainings out of 220 trainings for 19 topics). Next came vegetable/crop production (42) and financial management (28). Uvurhangai had the highest total number of trainings (51) and Gobi-Sumber had the least (18). Uvurhongai training focused on financial management (16), vegetable/crop production (11), and cooperative development (7). Half of Gobi-Sumber trainings were on cooperative development (9). Bayanhongor focused on vegetable/crop production (20 out of 39). Umnugobi and Gobi-Altai spread trainings on most topics, ranging from one to nine trainings per topic.

In interviews with both core clients and short-term clients, the team was consistently told of the efficacy of GI’s practical, field-based, one-on-one training on technical, rather than business, topics: “It is surely better than the old Soviet-style training we used to get.”

Nevertheless, in at least two cases, GI’s financial management courses were described as “too short.” One in the Bayanhongor center reported:

After attending a one week accounting training from GI, my wife, who does my firm’s accounting, attended a three month training in accounting run by a college in the aimag center. We paid MNT 140,000 for this mediocre course but at least it got her “certified” which the GI course did not.

Lastly, as with the GER Initiative’s training, one of the finest indicators for effectiveness of this service is how much participants are willing to pay. In its most recent quarterly report (April-June 2005), except for an information technology training provided by a Peace Corps volunteer, participants paid from 39 percent to 100 percent of the costs.

5. Rural Business Network

Since GI I and the beginning of GI II, RBN has updated both the type of information it provides and the media which it uses. Information on commodity prices is collected on a daily basis in 20 aimags as well as the two large raw-material markets in Ulaanbaatar. During the second quarter of 2004, Market Watch began including primarily the prices for cashmere, wool, meat, skins, hides and intestines. During the cashmere-combing season, RBN Radio broadcast provided more detailed cashmere price information and a broader market perspective for herders to help them better understand global and local market dynamics and price trends. RBN Radio also provided pricing information, including vegetable seed prices and select agricultural machine prices. To determine which items should be added, a preliminary survey was conducted and items selected. The information was disseminated via three different media: RBN-509 (MobiCom SMS service), RBN Radio, and RBN Magazine.

Throughout its travels, the team regularly found that both GI clients and non-clients listen to RBN Radio. Distribution of the newspaper to clients and other subscribers (no copies are sold on the street) depends on each aimag office information officer (termed “Program Officer for Information and Logistics”) and part-time information outreach

officers who often work for local governments but are paid a monthly stipend of MNT 30,000-50,000 by GI.

Currently, RBN uses what it terms a Participatory Information Survey Analysis (PISA) tool to determine how much its programs are being read, heard and watched. The approach begins with selecting news items with potentially usable information and giving these to 40-50 respondents who are asked:

- 1) Was the article/program relevant to the person's needs?
- 2) Was the article usable, i.e. did it contain information that has practical usability?
- 3) Is there any constraint or obstacle to using this information (access to specific resources, training, etc.)?
- 4) Is the individual planning to act on this information?

More convincing to the effectiveness of RBN are results from more independent media surveys:

- According to a survey conducted by the monitoring department of Mongol Radio, the RBN news radio program ranked 15 out of 96 programs regularly broadcast on Mongol Radio.
- Production of the radio drama Herder from the Future has continued. In a survey conducted by the monitoring department of Mongol Radio the program ranked 31 out of the 96.

Nevertheless, without more complete and reliable data, the team cannot determine what level of popularity, or for that matter, the coverage, RBN's products have had. Fortunately, Pact has asked a media survey and monitoring and evaluation expert to review its procedures in the late fall of this year.

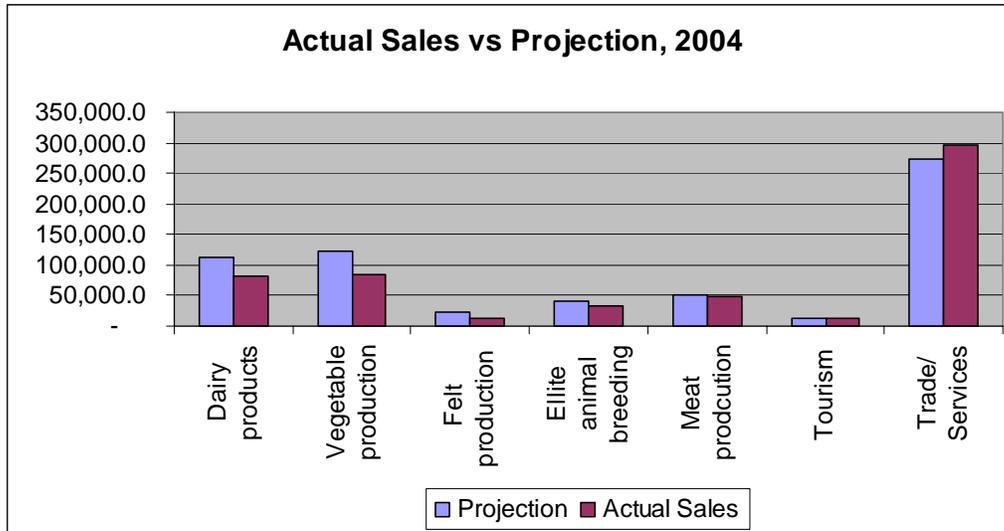
6. Sustainability of businesses created?

With just one year of experience, business entities created or expanded by the GI have shown a mixed record. For various reasons—primarily that plans were overly optimistic—most vegetable growers failed to produce according to their business plans. Even so, the recently GI-commissioned study by drylands-expert Gary Hickman argues that “it is possible to conclude that vegetable production in the Gobi and Hangai regions of Mongolia is economically viable under certain conditions.”²⁰ In addition, given results from a previous study commissioned by the GI²¹ and interviews conducted for this evaluation, consumers often prefer domestically grown vegetables over those from China.

²⁰ His report, titled *Report on the Opportunities and Constraints for Vegetable Cultivation in the Gobi Region of Mongolia* outlines these conditions.

²¹ *Report on Vegetable and Dairy Product Market Assessment* by L. Urtnasan.

Chart 7



In order to get a clearer idea of how promising GI-supported businesses are, the team selected four of those visited and calculated rates of return. The results are highly instructive about both what makes sense for producers and how their plans are actually implemented. Detailed results are in the table below.

Case I: Making *Airak* (fermented mare's milk)

Algiin Devish formed more than a year ago to jointly produce *airak* for consumption in UB and locally in northern Dugovi. Through August of 2005, the price of *airak* was higher than planned and, even with providing one third of its production for "internal consumption" among its members, its monthly internal rate of return for *airak* is projected this season to be 9.50%, but proceeds will be much less than what its members have earned this season on cashmere.

Case II: A new dairy start-up

Although it is just entering into the production of a variety of dairy products (indeed tasty!) the Shargaljuut dairy cooperative has secured at least one supply contract with a crèche connected to a nearby sanatorium. If, however, it were to follow its agreed business plan with GI, its IRR would not make production worthwhile. Fortunately, it has forgone the MNT 800,000 electrical butter churner in its business plan, opting for a 140,000 tgs hand-operated one instead, allowing it to have a potential monthly IRR of nearly 50%. In any case, given that the original churner made little sense (it would have required a generator to run), there is potentially more than mere oversight as to why its original business plan was inflated.

Case III: Making leather and felt products

The return of 2.63% monthly on this firm is just about at the normal cost of capital, though considerably higher than the cost of a GI loan.

Case IV: A non-herder business, woodworking

In this case as with Shargaljuut, the IRR is highly contingent (though both are reasonably high) upon a large purchase. In this case, the owner, after completing his business plan and receiving a loan, apparently realized he should not buy a building.

Table 10: IRRs for selected Gobi businesses

<i>Client</i>	<i>Business</i>	<i>Past 12 month Income and calculated IRRs</i>	<i>Estimated annual Cashmere income</i>
<i>Alagiin Devshih</i>	Airak	MNT 4.5m 9.50% monthly, 113% nominal annual	MNT 10.8m
Shargaljuut	Dairy	Newly formed. BP: 1.49% monthly, 17.82% nominal annual Potential: 49.82% monthly, 597.85% nominal annual	MNT 3.3m
<i>Utiin</i>	Leather products	MNT 3.0m (four months) 2.63% monthly, 31.51% nominal annual	MNT 3.3m
<i>Tebbe</i>	Wood working	MNT 18m (seven months) Building purchase: 7.9% monthly No building purchase: 17.1 % monthly	NA, a non-herder

7. Overview of findings on services and businesses supported

Box 5: Crop cooperative

Sixty-eight year old master herder B. Lhagvasuren stands behind his 17 member cooperative oat crop in Bayan-Ovoo suom, Bayankhongor. Before 1990, he was the director of the suom’s 750 family cooperative. Although he is thankful communism has ended in Mongolia, he worries whether this new cooperative of 2,744 head of livestock and 4.8 ha of well irrigated land, left from the previous time and whether it will survive after his passing, as the new generation “just does not seem to work as hard.” GI’s current work to identify succession plans for its clients will be critical to the sustainability of his operation.



Statistical tests on all of GI’s herder clients show that all families enjoy a “cashmere cushion” on which to fall in the case their non-livestock businesses experience trouble. For client business plans in 2005, the members earn an average of MNT 449,525 from their GI supported businesses and MNT 239,573 from cashmere. The standard deviations of these two income source are so significantly different, MNT 830,616

versus MNT 160,363 that t-scores comparing the two populations end up effectively zero. Overall per member income correlates well with per member income from the GI II supported activities ($r^2=.97$) whereas it does not with per member cashmere income ($r^2=.12$). There is, as these would indicate, no apparent correlation between per member cashmere income and per member income from the GI II supported activity ($r^2=.02$).

In sum, all herders supported by the GI have a consistent cashmere base and cushion to build a foundation from and fall back onto. With help from the GI, they have the opportunity to reach for significantly higher economic returns and generate significant surpluses: i.e. what economic development should be all about.

As with the GER Initiative, although the evaluation team was not explicitly asked to determine the total direct and indirect impact of GI's efforts, with more data on regional financial flows (e.g. based on household income and expenditure surveys), a model could be constructed to demonstrate multiplier impact on rural areas and towns.²²

Without this data, the evaluation team is hesitant to stand by a similar calculation of cost per beneficiary for this project for two reasons: a) The figure could be as low as \$25.19 per beneficiary if RBN is included, or as high as \$666.67 (based on 15,000 beneficiaries) if not, and b) The evaluation team deems the most salient goal of the GI, beyond helping individuals, is to support both the basis of production in rural areas (read livestock) yet begin to broaden this too-narrow rural economic base, lest Mongolia becomes a country with over-crowded peri-urban areas encircled by mining operations.

One substantive activity expansion GI could make in securing a more secure cushion for herders is to collaborate with the World Bank on a new program that will fill an important gap: providing livestock insurance. The project, approved in July 2005, will begin introducing a pilot scheme in September. Bayanhongor is one of the program's three pilot sites. According to the in-country manager of the scheme, there are a number of ways GI could support the scheme, including assisting in a public campaign in the pilot *aimags*, under its RBN operations.

ii. Gobi working with others

Gobi has developed an extensive set of partners, listed in the table below.

Table 11: Gobi Initiative Project Partners

Entity	Nature of partnership
Government	
Aimag Governors	Dissemination of information on project activities; ensuring that activities help the aimag priorities get accomplished
Aimag Agricultural Departments	Participation in programs and activities such as "Elite Animal Fairs"; exchange of information

²² A good example of a Keynesian local multiplier model can be found in *Economic Linkages Between Small Towns And Surrounding Rural Areas In Scotland*, March 2005. In this paper, the model calculates an average multiplier of 1.329, i.e. an economic gain of £1,329.38—distributed in varying ways depending on town and rural linkages—from an infusion of £1,000.

Aimag Tax Office	Assistance for its clients; exchange of information
Aimag Professional Inspection Agency	Assistance for its clients; dairy safety program in Govi-Altai
Training and Research Center of the Mongolian Tax Office	Provision of training and consultancy
University and Research Institute	
University of Agriculture	Exchange of information and reports on studies and research on agriculture and livestock sector
Livestock Research Institute	Exchange of information and reports on studies and research on agriculture and livestock sector
Plants Research Institute	Exchange of information and reports on studies and research on agriculture and livestock sector
NGOs	
Mongolian Women Farmers Association	Participation in training programs for local trainers and agricultural producers
Cooperative Training and Information Center	Participation in training programs for local trainers and agricultural producers
Mongolian Food Producers Association	Exchange of information and implementation of joint studies
Cooks Association	Exchange of information and implementation of joint training programs
Mon Ger Cooperative	Participation in training programs and exchange of information
Donor organizations	
World Bank	Information exchange and cooperation at the local level
UNDP Sustainable Grassland Management	Information exchange and cooperation at the UB and local level. GI has entered into a Memorandum of Understanding (MOU) that allows this project's clients to tap into GI Loan Guarantee Fund.
World Wide Fund	Participation in programs in Uvurhangai to combat desertification and stop sand movement.
ADB Ag Sector Development Project	Participation in programs in Govi-Altai to support rural business and herders.
TACIS EU Wholesales Network	Provision of grants to GI clients in Govi-Somber to purchase agricultural equipment and machinery. An MOU similar to the one with UNDP above is currently in negotiation between this project and GI.

Based on meetings with government officials, the evaluation team is confident that GI has been very effective in taking advantage of opportunities for expansion and improvement of its activities with local government, i.e. officials are genuinely positive about its work. Nevertheless, one *aimag* official reported that the *aimag* government was not consulted during GI's development of its plan for 2005.

Local officials too, even those who have supposedly been through GI training, still have little idea of what their role could be in promoting business. One *soum* governor mentioned that generally all officials should support business, and he does so by enforcing regulations, permitting businesses to operate, providing land permission, and

applying a consistent tax policy. When asked if he had an additional budget to support businesses, he mentioned that he would support the vegetable cultivation by buying equipment and providing irrigation from wells to farming groups. One reason that the GI's training appears to have had little impact on him and others was that it was not tailored towards government promotion of business; rather local officials have merely attended GI's business training for its business clients.

Fortunately, at least one official—the head of the Uvurhongai Hural—had a more sophisticated understanding of what GI has been striving for:

GI is the most productive donor project. Why? It supports rural businesses improving the capacity and independence of rural businesses from the aimag economy. From these efforts, the aimag potential will improve. Other projects mainly have a social direction---and not such a clear outcome. For some people, solving social problems is important, but the future is for development.

Although most activities are appropriate, more targeted efforts could be made to help local officials play a facilitating role for private sector development.

Under the 1992 Law on Administrative and Territorial Units of Mongolia and Their Management, with amendments in 1999 and 2000, local government has considerable powers relating to pasture management. *Aimag*, *soum* and *bagh khurals* are authorized to make decisions about economic and social development activities in their areas. Governors at all three levels have the authority to organize the sustainable use and rehabilitation of natural resources, and to control the implementation of relevant legislation. *Bagh* governors are specifically charged with organizing the participation of citizens in, and their control over, livestock development activities such as veterinary and breeding services. With little individual budget authority, it has been common for *aimag* and *soum* governments to ask businesses for donations to allow them to pay out awards (usually for horse races) during annual *Naadam* celebrations.

With its current and previous help in veterinary services and its prior work in Gobi I, the GI is uniquely positioned to provide targeted technical assistance to local authorities to better carry out their responsibilities for ensuring that the private sector is promoted, properly managed, and not siphoned from.

One specific example comes to mind. The Uvurhangai Aimag government has developed a strategy for the development of tourism that appears (since a full translation was not available) to be short on proactive ways to promote sustainable tourism in one of Mongolia's most exceptional historical tourist sites: the location of Chingis Khaan's son's capital and the country's oldest monastery. Already, tourist camps have spawned and land speculation was driving prices (until the government placed an edict to stop the buying and selling of land). GI has already invested in supporting one tourist camp. At least one evaluation team member felt that Harhorin (Karakorum) is on the cusp of becoming a tourist haven, particularly if an interested party finds a means to capitalize on the recent New York Times Bestseller *Gengis Khan and the Making of the Modern World*.²³

²³ By Jack Weatherford, printed by Three Rivers Press, 2004.

The GI has well-developed relationships with other donor agencies, non-governmental organizations and private organizations (e.g., private financial institutions and large businesses) as described in Table 8.

One other element that is no less important to the sustainability of these businesses is the long-term viability of their management of particularly since many are managed by

Box 7: TMZA Vet Partnership

On the left, Mr. Sh. Ulziibat and his daughter, who is in her last year of vet school, work at the counter of his clinic. He and she have received training, help with obtaining a 3m tgs loan from GI, and a lab equipment grant of 820k MNT (in use by one of his technicians on the right). He remains happy despite the fact that it is not clear to herders that the government, through him, only pays for vaccinations against infection. Although regulations exist for him to be able to charge herders for deworming, dipping and disinfection, herders do not understand this. The jars behind his head are filled with traditional remedies that he uses to treat animals.



progressive, hardworking elderly leaders. Fortunately, GI is currently carrying out a capacity assessment to determine how it could help groups and cooperatives with succession plans and improving cohesion.

iii. Opportunities for others to take on GI's work

Box 6: Where will RBN's advanced information services end up?

Under both Gobi I and Gobi II, Pact has implemented a variety of progressive information services without government interference. As most media in Mongolia is reportedly losing money, it is very problematic to predict how RBN can be spun off, as was already tried with Market Watch, into a private entity.



This RBN announcer begins the daily market watch program, providing a variety of market prices to an audience around the country from RBN's own studio equipped with advanced German sound equipment.

In some ways, the opportunities for GI activities to continue are similar to those for the GER Initiative's: From the descriptions above of other private and public service providers, it should be evident that at present, local trainers and other local institutions will not likely continue their activities to the degree and in the cutting edge-way GI provides its services.

Nevertheless, given that local consulting services in *Aimag*, and *soum* centers are not so developed and come out of communities more tightly knit, it is likely that some consultants may continue to provide services to GI clients, after GI ends. In other words, as opposed to consultants in UB, the opportunity costs for providing services to small and medium businesses for *aimg* and *soum* consultants are much less.

GI is also on the way towards making individual private veterinarians and VetNet more sustainable self-standing entities. Reportedly, GI phase I's former tripartite agreements among herders, vets, and GI have continued, with the local *soum* government replacing GI.

One of the most important questions for the team here was whether RBN's operations could be made sustainable. Reportedly, in the previous Gobi phase, real privatization of Market Watch was tested, and failed. The evaluation team has no ready practical answers other than requesting GI and Pact to investigate and put forth options as to how some of its work could continue under private financing.

iv. Sharing the risk with financial institutions is a subsidy

As of the date of this report, no loans are in default. The recent break down by bank and total capital is below.

Table 12: Herder and Non-herder loans under GI's loan guarantee program by bank

BANKS	Herder/ Non-herder	Number of loans	Amount of loans	% in number of loans	% in amount of loans	Collateral by MCI	%covered by MCI
XAC	H	171	398,199,000	70.08%	53.77%	321,303,100	80.69%
	NH	36	120,750,000	14.75%	16.30%	72,606,280	60.13%
KHA AH	H	18	67,650,000	7.38%	9.13%	37,925,000	56.06%
	NH	15	131,800,000	6.15%	17.80%	76,300,000	57.89%
ZOOS	H	-	-	0.00%	0.00%	0	N/A
	NH	1	6,000,000	0.41%	0.81%	2,036,000	33.93%
POST	H	2	10,200,000	0.82%	1.38%	3,320,000	32.55%
	NH	1	6,000,000	0.41%	0.81%	3,000,000	50.00%
SUB	H	191	476,049,000	78.28%	64.28%	362,548,100	76.16%
TOTAL	NH	53	264,550,000	21.72%	35.72%	153,942,280	58.19%
TOTAL		244	740,599,000	100.00%	100.00%	516,490,380	69.74%

The interest rate most GI clients get is 1.5 percent a month (sometimes 2.0 percent), or 18 percent annual, effectively a 12 percent annual subsidy on what a bank would normally charge in a rural setting. This much was confirmed by the director of the GI's largest partner bank, Xac Bank. Loans to its clients begin with the business plan, decided by the local bank and GI office, and then are sent to UB for approval. Once the loan is approved, the GI places some amount, of guarantee, with the bank making the

loan. The process, as demonstrated by the loan application of Mr. Sh. Ulziibat (which took more than six months to complete), can apparently take time while all parties agree.

Its guarantee is likely, as with the GER Initiative, to be leading to increased lending to those with no well-formed business plans that may not have the requisite 150 percent collateral coverage. However, there could be cases, as above with the Shargaluu Dairy, where clients see cheap credit and are not as prudent as they would be regarding expenses had they only been borrowing at a usual market rate. This is the danger of subsidized rates.

Given that bank loans are made by the banks after careful GI analysis, loans outstanding at the end of the GI are likely to be at least no worse than others in the rural banking sector.

Still, the team is even more convinced that GI's loan guarantee and effective subsidy should be progressively phased out as banks begin to allow for greater flexibility on collateral coverage, as Khaan Bank has reportedly done over the past year, by allowing its branches to waive collateral requirements for good loans. One official of the bank commented that it is no coincidence that good loan officers are regularly making loans when the value of collateral is exactly at 150 percent, the minimum required, effectively gaming with the banks normal rules for collateral coverage.

USAID's guidance on guarantees also argues they be phased-out in a relatively short period:

Partial guarantees can be useful in encouraging established financial institutions to enter into microenterprise lending, by sharing in the perceived risks involved in such lending. Assistance agreements should be structured so that guarantees are phased out over a relatively short period; by the end of this period, the institution should be expected to have developed the necessary skills in microfinance, as well as a realistic estimate of the underlying risks of microenterprise lending. In the meantime, the share of any loan defaults borne by USAID should not be so great as to deter vigorous efforts at loan recovery; in no case should 100 percent guarantees be provided. More generally, Missions should avoid offering guarantees to any financial institution that has not shown a strong motivation to move into the microfinance market; risk-sharing arrangements cannot make up for a lack of such motivation on the part of the institution.²⁴

v. Did the change from Gobi I to Gobi II make sense?

In addition to the team's support of the fact that GI is no longer giving away things and is actually charging fees, the team's answer to the above question is a qualified "yes." There are several reasons for our affirmative answer:

1. The GI is merely supporting a process already taking place as herders recognize the need to diversify their production against risks of livestock loss or a fall in prices of cashmere;

²⁴ USAID's guidance on *Microenterprise Development*. Mandatory reference: 200-203. p.28.

2. In fact, it appeared that Gobi's herder clients who decided to branch off into another type of production were among some of the most successful and progressive herders, i.e. they surely knew what they were getting into;
3. At a minimum, they understood that herders who concentrate on only animal husbandry have significant amounts of slack time. They might as well use that time to make extra money or goods for their own consumption;
4. Some key inputs for agricultural production (growing crops on land), and/or processing agricultural goods (making dairy products from milk from their herds) are very abundant and require little initial investment;
5. There is little more that Gobi can do with progressive herders to improve the yield and quality of their cashmere as long as the industry remains mostly a supplier to low quality Chinese garment production;
6. Without a unique competitive edge (e.g. a worldwide recognized Mongolian Cashmere brand) that international buyers are willing to pay a premium for, Mongolian producers are naturally weaker than the Chinese since the Chinese cashmere crop comes on the market first (warmer weather for combing), is generally finer, and most of the procurement funds of the large international processors are earmarked for China.
7. Even if this bottleneck in the supply chain to the Mongolian cashmere industry were opened, it could become even more compelling for USAID's flagship rural economic development project to limit being implicated in contributing to the environmental degradation that would likely increase with increased goat foraging, although GI could remain consistent on supporting only improved animal quality for "high-end" processing.

This said, the team found that cashmere remains the main economic game for herders and there are still many who have not benefited from Gobi I. Although GI offices do not keep records of inquiries or requests for services, at least one Aimag office manager reported that his office has received many requests for continuation of help that had been given under Gobi I to assist herders improve their cashmere production.

After constraints along the supply chain are relieved, Mongolia can strengthen its hand in exporting cashmere—which is generally longer than that of the Chinese making it easier to spin—by improving the quality and reliability of supply. The first is a question of selective breeding and doing some intensive work on salvaging as much of the good genes as possible, establishing nucleus herds, and doing controlled breeding of good quality animals as China did with Australian experts.

With offices well-placed and staff well versed in some of the technical assistance given to herders in Gobi I, the team recommends that some Gobi I legacy work continue and rigidities in selection of herder beneficiaries should be lessened, adding "secondary" herder groups to its clientele.

Beyond cashmere, Mongolia could be one of the world's key sources of meat for pet food (the EPRC Project is working on this) and/or meat products high in Omega 3 fatty acids, a real contender in wools (camel, red bayan-olgi sheep), and a recognized supplier of wool fiber for carpets. Continued efforts by the GI on its livestock improvement programs would at least provide incremental progress towards this.

f. Project management—need for greater decentralization and client ownership

The evaluation team found GI's operations to be well managed and records of clients relatively complete, but almost to a fault. There appears a danger of over and too advanced management of UB in all approvals. Currently only 25 percent of expenses are made in Aimag program delivery while the remainder of costs cover operations in UB and indirect costs. This is partly to pay for the estimated (since administrative staff are only partially funded under GI and work for other MCI projects) 47.4 percent of GI's staff work out of UB.

Even as loan and business plan approvals have become speedier than they were in 2004 when sometimes it took more than six months, the team recommends GI strive even more to give ownership to local offices, and more importantly, to clients themselves.

In its interviews with clients, in nearly every case there had been significant changes in the business plan, or the client did not fully understand all items in the plan.²⁵ After seeing several instances of this, the team began to realize that these so-called "business plans" were not so much living documents, rather they served more as client and loan guarantee applications.

In response to these comments by the team, the GI management maintained they were reluctant to "dummy-down" these business plans. Granted the plans should be well formed based on the best available market and financial analysis in order to evaluate the risks related with what a client wishes to do. The team, however, still finds it problematic if the clients either do not fully understand these plans or, for their long-term sustainability, are unable to have ownership to generating changes and future plans. Thus, the team sees a great need for GI now to create, with clients, a process whereby clients can initiate, and revise as needed, their own business plans, year-by-year.

g. Conclusions on the five Gobi Initiative questions and recommendations

Over the course of five years, the Gobi Initiative has evolved into an effective and unique donor project that has contributed to development in rural Mongolia. The evaluation team feels that with some modifications, greater impact could be realized:

1. The services being provided by Gobi II are generally appropriate for their target populations and business entities created or expanded thus far by the Gobi appear, at this early stage, sustainable, or at the very least, clients always have a "cashmere cushion" to fall back onto in the event their other businesses suffer losses. Nevertheless, the project should strive to work with greater numbers of less capable herders to help them find ways to build from their cushions and find ways to support Mongolia's trial livestock insurance program so all have more

²⁵ An easily misunderstood practice in all plans in Bayanhongor was presented to demonstrate market demand. An example from a business plan (*sic*): *Market capacity of Bayan-Ondor soum can be determined as follows,*

$Q=N*g*p$ where Q = Market capacity, N = Numbers of households in Bayan-Ondor soum, 646 households., g - Amount of one-time purchase, Vegetables - 0.3 Kg a day and, P = Average price / 250 MNT, $Q = 646*0.3*250 = 48,450$ MNT a day

secure cushions. Given that nearly no Mongolian media outlet is profitable, the most problematic component for sustainability is the Rural Business Network, implemented by Pact.

2. Gobi has been very effective in taking advantage of opportunities for expansion and improvement of its activities with local governments and other donors. Although most activities are appropriate, more targeted efforts could be made to help local officials play a facilitating role for private sector development.
3. The project's partial fee coverage by clients shows there is some promise for continued services after the project ends. At least the team finds this promise greater for consultants and trainers in *aimags* and *soums* since their opportunity costs are not as high as are those for urban-based providers.
4. The team believes that GI's loan guarantee and effective subsidy should be progressively phased out as banks begin to allow for greater flexibility on collateral coverage. Given that bank loans are made by the banks after careful GI analysis, loans outstanding at the end of the GI are likely to be good, although the significant subsidy GI provides may lessen a client's concern about how much he or she borrows and the potential moral hazard.
5. The transition in the goal, objectives and activities from Gobi Initiative-Phase I to Phase II was generally appropriate, although some legacy work should continue and rigidities in selection of beneficiaries should be lessened. Given what is already happening, Phase II focuses on the expansion and diversification of herder led business opportunities (e.g. vegetable farming) and non-herder business development assistance is appropriate.

In addition, the team suggests that the GI put into place usable business plans for clients. And as with the GER Initiative, the team finds it important for Gobi to develop a realistic progressive plan on developing legacy institutions that will continue its core work after its funding from USAID and USDA end.

VI. Overall Conclusions and Recommendations

The evaluation team is confident that these two projects are uniquely providing business development services that contribute significantly to pinpointing possible improvements of businesses and, although uneven, to lessening the market failure and transaction costs of rural and peri-urban micro-, small-, and medium-enterprises.

The team recognizes that efforts under these two projects reads as if coming straight out of reports that put forth USAID's best practices in business development services:²⁶

- *Project designs should not be overly prescriptive or micromanaged. They should clearly define desired results and then manage implementers against defined performance milestones.*

²⁶ Adapted from USAID's Handbook on *Enterprise Growth Initiatives: Strategic Directions and Options*, 2004.

- *More innovative linkages should be made between financial products that increase access to markets and business services to increase the productivity of enterprises for growth opportunities.*
- *Technical assistance to improve emerging growth enterprises and deal flow could be leveraged by working more closely with financial institutions.*
- *Private brokers and service providers operating through performance contracts based on commercial incentives are best positioned to help growing enterprises.*
- *Donor support should stimulate new business services that improve trade, market entry, and productivity for enterprises through commercial transactions.*
- *Donors should require that demand-driven service programs include provisions for monitoring inputs and activities (such as the number of local service providers, number of participants, fees paid for services) as well as for assessing program outcomes (increases in productivity, sales, and profitability).*
- *Projects should serve as brokers and facilitators for wholesale and retail business services. Direct firm-level assistance should rely on local service providers whenever possible.*

Outcomes from these two projects should also bode well for USAID/Mongolia in its input into the Agency's reporting for the "Microenterprise Results and Accountability Act of 2004," particularly on their comparative cost effectiveness and sustainability.

Also the team finds there is no compelling need for either project to invest in broad training of bank management or staff. Banks are already mostly learning by observing and participating in both Initiatives' well-founded application processes and monitoring that have led to relatively high repayment rates.

Nothing's perfect, and neither are these two projects.

The four most compelling recommendations that this evaluation team sees as important for both projects are:

1. Work to phase out their loan guarantee facilities. As the major banks who lend in rural and peri-urban Mongolia have high liquidity, after the education effects of these guarantee programs have taken greater hold, a phase out is warranted.
2. The uniqueness and private sector focus, along with charging for the services of these two projects, should lend to, at least partial, privatization of some of their current activities. However, now is not the right time. Practically, this should happen over a period of time after both projects put forth "legacy" institution plans.
3. USAID/Mongolia should set funding on the condition that these projects develop a step-by-step realistic progressive plan on developing legacy institutions that will continue their core work after funding from USAID and USDA ends.
4. Both projects are well positioned to assist in improving enabling environments where they work. Efforts in this respect with local governments should not be seen merely as a governance activity, given that it should all be to achieve results under the objective of growing private enterprise. Work in private sector promotion, particularly for micro-small and medium enterprises, around the

globe demonstrates that local regulations significantly shape the environment within which informal workers and enterprises operate.

Lastly, the team did find ways that the two projects can learn from each other. Specifically, the GER Initiative's monitoring and evaluation tracking systems could improve. One way to do this would be to use a home-grown and managed database system, as the GI has. GI, on the other hand, could learn more about how to set a schedule of regular charges and provide more flexible, demand-driven, open door business development services.

VII. Lessons Learned

The evaluation team felt there are at least five important lessons learned from its investigation.

A. Even the most progressive developing country governments can have problems with implementing business services

Despite the fact that Mongolia is one of the most shining examples based on MCA indicators, and that its World Bank Doing Business indicators are improving, BDSs for less than major companies is lacking. There are several ghosts from the past that show donor projects have not been very successful thus far. This should have real import to any remaining US Government officials who believe that, as Mongolia has qualified for MCA funding, other regular assistance funds should be cut.

B. Cooperative agreements can be effective for USAID programming in Mongolia

One reason for the poor performance of donor projects in developing BDSs is that many have been run through the government: MCC, beware! USAID's projects, under implementation of private voluntary non-profit organizations, have allowed its work to be closer to the private sector with less of a chance (of course down-playing the occurrence of some slanderous attempts to attacking them of questioning their motivations. More importantly, both Mercy Corps/Pact and CHF, with ownership of these two projects, have been willing to invest monies from other pots from their headquarters to advance flexible and cutting edge (sometimes trial) agendas that have arisen through implementation of their respective Initiatives.

This too is consistent with USAID's mandated movement under the *Microenterprise Results and Accountability Act of 2004* to support microenterprises through cost effective voluntary organizations rather than under large contracts.

C. Fees should be collected at the outset, however minimal

Both projects have implemented fees from their outset for many of their services, and despite the opposition, particularly in the GER Initiative's efforts, this has largely worked. In fact, with clients now understanding what help they can receive from the GER Initiative, those interviewed would be willing to pay much more than what it is presently charging. Based on the limited experience of the evaluation team, this is much easier than putting fees into place after providing services at no charge.

D. Relevant baselines and data are needed if USAID's new evaluation agenda is to succeed.

Beyond the lack of capacity of the team that carried out this evaluation, lack of quality relevant baseline data contributed to the mediocrity of this work. In the words of the USAID Administrator:

Accordingly, I expect you [USAID Missions] to plan for appropriate evaluations in the design of all activities and ensure that ongoing activities have an evaluation component. Also, I expect improvements in the quality of evaluations.

E. A taxpayer may ask: why are my contributions to help Mongolia treated so differently?

Consistently throughout this evaluation, evaluators were reminded that certain components were not funded under the USAID agreements of the GER and Gobi Initiatives—some were funded under centrally-awarded USAID grants, others have been funded by the USDA.

It is not clear, however, whether the USDA has any strong interest in ensuring its funds are effective, or at least an interest as strong as USAID's. While the latter has a full-time manager in Mongolia who is in contact on a day-to-day basis with the managers of both Initiatives, USDA's oversight is directed out of Washington and supported by a State Department official in the US Embassy in Ulaanbaatar. The most recent visit by a USDA official to the projects, and to Mongolia for that matter, occurred more than a year ago although the US Embassy has no record of his (?) or her (?) findings.

Beyond this, USAID has fairly rigorous rules on supporting financial institutions:

Before the Mission signs an agreement to provide assistance to any microfinance institution, the management of the institution must provide the Mission with a credible written commitment to (1) attain full financial sustainability on the MFI's financial service activities within no more than seven years of the initial provision of USAID assistance and (2) use USAID assistance to expand the availability of financial services to microentrepreneurs and other poor people. This commitment must be accompanied by a plan outlining the major steps to be undertaken in the process of achieving this goal, including a realistic timetable for undertaking those steps, and defining periodic benchmarks by which progress toward the goal can be determined.²⁷

The team was reminded that rules such as these do not apply to USDA's funds.

At the very least, this should be puzzling to any discerning US taxpayer who funds all of this work and who should ask: if there is a need for in-country managers and evaluations of significant US assistance programs, then where are the USDA managers and evaluators? Or, if there is not such a need for in-country management and evaluations, then is USAID wasting my money by supporting all of this oversight?

²⁷ USAID's guidance on *Microenterprise Development*. Mandatory reference: 200-203. p.17.



Picture 4: Thank-you for your help and visit says a dairy group in Bayanhongor as it waves good-bye.

VIII. Annex I: Persons Contacted

List of persons contacted

Name	Organization	Position	Contact (if available)
USAID/US Government			
Leon S. Waskin	USAID/Mongolia	Representative	Phone: 312390 Lwaskin@usaid.gov
Jeffrey W. Goodson	USAID/Mongolia	Senior Program Manager	Phone: 312390 jgoodson@usaid.gov
Megan T. Myers	U.S. Embassy	Economic and Commercial Officer	Phone: 329095 MyersMT@state.gov
Government, banks, NGO and donor organizations' officials			
Peter Morrow	Khaan Bank Agricultural Bank of Mongolia	CEO	Phone: 457880 Mob: 99113749 pete@khanbank.com
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Zolzaya	Khaan Bank	Loans Department Director	Phone: 460618
Batsaikhan	Khaan Bank	Branch Banking Division Director	Phone: 460618
Ms. Enkhsuvd	Darkhan Khaan Bank		
Mr. Tojil	Darkhan	7 th bagh governor	
Demberel Sambuu	Mongolian National Chamber of Commerce & Industry	Chairman & CEO	Phone: 324620 Mob: 99112509 chamber@mongolchamber.mn
Ganbaatar Kh.	Mongolian Employers' Federation	Executive Director	Phone: 325635 Mob: 91191008
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Soronzonbold L.	XacBank	Director of the Strategic Planning and Marketing Division	Phone: 318185
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	Consult		
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Ms. Dulmaa	Deputy Governor	Dundgobi	
S. Dashdeleg	Uvurkhongai Tugrug soum	Soum governor	
Ts. Tserendorj	Uvurkhongai Tugrug soum	Soum Representatives Hural	
	Uvurkhongai Saihanovoo soum	Soum governor	
Mr. Altangerel	Uvurkhongai Saihanovoo soum	Soum agriculture specialist	
Mr. Shoovdor	Uvurkhongai aimag	Head, Agriculture Department	
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J. Bolormaa	Bayankhongor	Senior officer XacBank	
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Myagmarjav	Erdenet Buyant Grocery	Non-client GER Initiative	
Uranbileg	Erdenet Tip Top car service	Non-client GER Initiative	
Erdenetsetseg	Erdenet Khairkhan grocery	Non-client GER Initiative	
Munkhtuya	Erdenet Naran bagh Grocery	Non-client GER Initiative	
Ulziibat Gan-Erdene	Erdenet Grocery	Non-client GER Initiative	
Damdinsuren Tuya	Erdenet Grocery	Non-client GER Initiative	
Dashmaa	Ulaanbaatar "Bridge" group	HR department Director	Phone: 450941
Jargalmaa	Ulaanbaatar "Gobi Corporation"	Gobi training center Director	Phone: 341381
Jargal	Ulaanbaatar "Minii Delguur" supermarket chain	Training officer	Phone: 681496
Ganbold	Ulaanbaatar "MMW"	Deputy Director	
Nyamaa	Ulaanbaatar "Zig Zag"	Deputy Director	
Oyungerel D.	"Magic Suit" Personal Manager	Director	Mob: 99149737
Sukhbaatar	Erdenet Michid Bakery & Construction company	Director	
Shirchmaa	Erdenet Jaran Us Construction company	Director	

Naranchimeg	Erdenet Chamber of commerce	Assistant to Representative	
Enkhtaivan	Chingeltei District Employment and Social Welfare Services Department	Officer	
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GER Initiative clients

Name, surname	Location/Business	Date of interview	Interviewer
“Gerelt chimeg” group	Ulaanbaatar Bayankhoshuu Construction&repair	July 21, 2005	D. Tsetsen
“Munkh Undarga” group	Ulaanbaatar Bayankhoshuu Sewing	July 21, 2005	James Carlson
“Undarga” group	Ulaanbaatar Tolgoit Vegetable planting	July 21, 2005	Ts. Oyunbileg
B. Boldbaatar	Ulaanbaatar Sharkhad Handicrafts	July 21, 2005	James Carlson
“Ochirt” group	Ulaanbaatar Yarmag Sewing	July 21, 2005	James Carlson
Dolgormaa Batburen	Darkhan Fitness club owner	July 22, 2005	James Carlson Ts. Oyunbileg
Battsengel Tserennadmid	Darkhan Hairdresser	July 22, 2005	James Carlson Ts. Oyunbileg
Baljinnyam D.	Darkhan Kiosk	July 22, 2005	James Carlson Ts. Oyunbileg
G. Bayarmaa Spouse of Mr. Tserenvaanchig	Darkhan Fodder & Grain production	July 22, 2005	James Carlson Ts. Oyunbileg
Adyabadrakh	Darkhan	July 22, 2005	D. Tsetsen

	Pig production		
Shijeeravdan	Darkhan Carpentry	July 22, 2005	D. Tsetsen
Bayarmaa	Darkhan Food products trader	July 22, 2005	D. Tsetsen
Altantuya	Darkhan Firewood trader	July 22, 2005	D. Tsetsen
Gantulga	Darkhan Canteen	July 22, 2005	D. Tsetsen
Nasanjargal	Darkhan Wood seller	July 22, 2005	D. Tsetsen
Urantsogt	Darkhan Uliastai pig association	July 22, 2005	D. Tsetsen
Enkhbayar	Darkhan Tsagaannuur group	July 22, 2005	D. Tsetsen
Davaasambu	Darkhan Mangirt group	July 22, 2005	D. Tsetsen
Oyun	Darkhan "Uran setgemj" sewing group	July 22, 2005	Ts. Oyiunbileg
Regzedmaa	Darkhan "Uilchin" sewing group	July 22, 2005	Ts. Oyiunbileg
Tuyatsetseg	Darkhan "Uran dol" sewing group	July 22, 2005	Ts. Oyiunbileg
Nyamsuren	Erdenet Noodle production	July 23, 2005	James Carlson D. Tsetsen
Orgil Purevdorj	Erdenet Agriculture	July 23, 2005	James Carlson D. Tsetsen
Otgonbuyan Samdan	Erdenet Agriculture	July 23, 2005	James Carlson D. Tsetsen
Erchim group	Erdenet Yak hair <i>ger</i> ropes	July 23, 2005	James Carlson D. Tsetsen
Daramsuren	Erdenet Agriculture	July 23, 2005	James Carlson D. Tsetsen
Uuganbayar	Erdenet Machine-knit clothing	July 23, 2005	James Carlson D. Tsetsen
Erdenechimeg Purevdorj	Erdenet Grocery, trade, farm	July 23, 2005	Ts. Oyiunbileg
Gazryn Ogooj group	Erdenet Jam and pickled vegetables	July 23, 2005	Ts. Oyiunbileg
Dulamsuren	Erdenet Fuel bricks made form cattle dung	July 23, 2005	Ts. Oyiunbileg
Davaajav	Erdenet Shoe repair service	July 23, 2005	Ts. Oyiunbileg
Baasantsoo	Erdenet Vegetable growing	July 23, 2005	Ts. Oyiunbileg
Narantuya	Erdenet Sewing/textiles	July 23, 2005	Ts. Oyiunbileg
Batjargal	Ulaanbaatar Felt product maker	July 24, 2005	D. Tsetsen
Narantsogt	Ulaanbaatar Shoemaker	July 24, 2005	D. Tsetsen
Selengemurun	Ulaanbaatar Leather&Felt souvenirs maker	July 24, 2005	D. Tsetsen
Altanjargal Galbadrakh	Ulaanbaatar Garments maker	July 24, 2005	Ts. Oyiunbileg
Ganbaatar	Ulaanbaatar	July 24, 2005	Ts. Oyiunbileg

Jigmedjantsan	Children's shoe maker		
Nasanbat	Ulaanbaatar Grocery shop	July 24, 2005	Ts. Oyunbileg

Gobi Initiative Herder and Non-herder Businesses, Local Consultants interviewed

Name	Location/Business	Date of interview	Interviewer
B. Bilegsaikhan	Ulaanbaatar CEO, Mongolia Research company Business management consultant	June 29, 2005	James Carlson D. Tsetsen
D. Bataa	Ulaanbaatar Pig breeding & husbandry consultant	June 29, 2005	D. Tsetsen
T. Enkhtuul	Ulaanbaatar Mongercoop LLC Director Finance & accounting consultancy	June 29, 2005	James Carlson D. Tsetsen
N. Togtokhbayar	Ulaanbaatar Agricultural University Livestock department Consultant	June 29, 2005	James Carlson
Ms. Purevnyam Mr. Gankhuyag Mr. Battulga	Dundgobi Herder Cooperative "Alagiin Devshil"	June 30, 2005	James Carlson D. Tsetsen Ts. Oyunbileg
Ms. Dashzegve	Dundgobi Certified aimag consultant on cooperative development	June 30, 2005	D. Tsetsen
Ch. Damba	Dundgobi Certified aimag consultant on vegetable production	June 30, 2005	Ts. Oyunbileg
Mr. Dashzeveg	Dundgobi Herder from Gobi I Goat breeder group	June 30, 2005	D. Tsetsen Ts. Oyunbileg
	Dundgobi "TEBBE" LLC Carpentry business	June 30, 2005	James Carlson
Baymba Jambyn	Uvurkhangai Saikhan Ovoo soum "Har Hairhan" Vegetable Partnership	June 31, 2005	James Carlson D. Tsetsen Ts. Oyunbileg
Sh. Ulziibat	Uvurkhangai Tugrug soum "TMZA" Vet partnership	June 31, 2005	James Carlson Ts. Oyunbileg
J. Purevjav	Uvurkhangai Tugrug soum "Mazarbayankhangai" Cooperative	June 31, 2005	D. Tsetsen
Ms. Altantsetseg Mr. Delgerbayar	Uvurkhangai Bat-Ulzii soum "Suun Dalai" LLC Dairy curd processor, trade & karaoke bar	August 1, 2005	D. Tsetsen Ts. Oyunbileg
Mr. Demberelsambuu Ms. Yumdorj and members of the cooperative	Uvurkhangai Zuunbayan Ulaan soum "Aviat Aman" Cooperative Fodder crop production	August 1, 2005	James Carlson

D. Pagma	Uvurkhangai Certified aimag consultant on vegetable production	August 2, 2005	Ts. Oyunbileg
Ms. Amarjargal	Uvurkhangai Aimag consultant on felt products making	August 2, 2005	D. Tsetsen
Ts. Ariuna	Uvurkhangai Certified aimag consultant on dairy production	August 2, 2005	D. Tsetsen
Mr. Sodnomdorj	Uvurkhangai Arvaikheer soum “Uguuj Chandman” Dairy production cooperative	August 2, 2005	James Carlson
Mr. Gankhuyag D. Ms. Batsaikhan	Uvurkhangai Arvaikheer soum “Itgel Uv” LLC Bread & Bakery	August 2, 2005	D. Tsetsen Ts. Oyunbileg
Mr. Sereenendorj	Uvurkhangai Taragt soum Gobi I goat breeding herder group	August 2, 2005	James Carlson D. Tsetsen Ts. Oyunbileg
Mr. Adyasuren	Bayankhongor Shargaljuut soum “Suun bulag” Cooperative on dairy production from yak milk	August 3, 2005	James Carlson D. Tsetsen Ts. Oyunbileg
D. Otgonkhand	Bayankhongor Certified aimag consultant on dairy production	August 3, 2005	Ts. Oyunbileg
Mr. Tuvshinjargal	Bayankhongor Galut soum “Uutyn urlal” Leather production cooperative	August 3, 2005	James Carlson D. Tsetsen Ts. Oyunbileg
Mr. Lhagvasuren	Bayankhongor Bayan Ovoo soum “Asgamba” Cooperative on vegetable production	August 3, 2005	James Carlson D. Tsetsen Ts. Oyunbileg
B. Bat	Bayankhongor “Munkh Burgas” Cooperative on meat processing & trading	August 4, 2005	D. Tsetsen Ts. Oyunbileg
Mr. Batdelger	Bayankhongor “Sulden Tenger” Bakery	August 4, 2005	James Carlson
Ms. D. Irina	Bayankhongor	August 4, 2005	Ts. Oyunbileg
	Bayankhongor “Bi Enkh Tuguldur” LLC	August 4, 2005	James Carlson
	Bayankhongor “Khongor Anduud”	August 4, 2005	James Carlson
	Bayankhongor “Unaga Trade” LLC	August 4, 2005	D. Tsetsen
	Bayankhongor “MC Enkh” LLC	August 4, 2005	D. Tsetsen

IX. Annex II: Selected Pictures



Picture 5: The GER yak rope group in Erdenet.



Picture 6: Kneading dough in Bayanhongor.



Picture 7: Master herder B. Lhagvasuren's kin and cooperative members surround him.



Picture 8: While Aimag staff stand by, this master herder shows his cellar.



Picture 9: An Aimag staff member heads to the door of a master herder's cellar.



Picture 10: The evaluation team interviews a GER Initiative client who grows vegetables in a greenhouse.



Picture 11: This is the inside of a greenhouse for vegetables in Erdenet.



Picture 12: Evaluation team member Oyunbelig interviews a GER Initiative client in Darkhan who started a fitness center.



Picture 13: This UB area carver stands behind his intricately crafted chess set. The pieces were later sold to the Speaker of the House of Representatives on a visit to Mongolia.



Picture 14: Milking time for livestock held by members of a dairy cooperative in Bayanhongor.



Picture 15: Already one can find entrepreneurs putting into place services, like the nightly show advertised here, for foreign visitors to Kharhoran.



Picture 16; This herder originally opted out of GI II from GI I as he did not have the time. He now plans to join GI II.



Picture 17: Team member Tsetsen inspects accounting records of a couple that makes noodles in Erdenet.



Picture 18; This is the house used by the TMZA vet partnership.



Picture 19: This UB GER Initiative branch abuts a popular bus station.

X. Annex III: Scope of Work for Evaluation

Background

A. The Gobi Initiative--Phases I and II

The Gobi Regional Economic Growth Initiative (Gobi Initiative) is a USAID/Mongolia -funded program that began in 1999. It works in six regions (*aimags*)—Umnugovi, Dundgovi, Uvurhangai, Govi-Altai, Byanhonger, and Govi-Soumber—and provides support to herder groups and cooperatives, non-herder enterprises, business associations, and local governments.

The principal grantee for the project is Mercy Corps International; PACT is a major sub-contractor to Mercy Corps, responsible for communications and outreach. The project is now just over one year into its second five-year phase (Gobi Phase II; January 2004-December 2008). Phase II builds upon the successes of Gobi Phase I, but focuses specifically on business development and promotion. USAID funding for Gobi Phase II was originally expected to continue through FY 2008; under a proposed operating year budget (OYB) scenario that would cut USAID/Mongolia funding by 25%, however, no additional funding would be added to the project after FY 2005.

Phase I of the Gobi Initiative began in early 1999 as a civil society program for the Gobi region of Mongolia, but over time it evolved into a program to assist the herders of the region to undertake comprehensive measures to accelerate and sustain market-led economic growth and development. The strategy was to target informational, structural, organizational, and policy constraints affecting the herder population. By the end of Phase I, the Gobi Initiative was organized around two major program areas: (1) regional economic development, comprised of the business development, herder management and livestock improvement, and rangeland and water management components; and (2) market and business communications and information.

Phase II builds upon the successes of the first phase, but expands the focus of business development services to all sectors of the Gobi economy, while still retaining a focus on the long-term economic viability of the herder population. Phase II is predicated on the belief that herders have largely succeeded in the production, valuation and selling of the raw materials from their herds, primarily cashmere. Phase II is also predicated on the business direction the herders, themselves, are initiating; many herders want to diversify and/or expand their production to areas other than herding. One of the lessons learned by the herders during the recent severe winters (*zuud*) in which many animals died was the importance of having other sources of income.

The goal of Phase II is therefore to “develop and strengthen rural businesses” in the Gobi region. Three key program objectives are: (1) An increase in the number of new and strengthened productive Gobi businesses; (2) An increase in the production and sale of marketable animal products and crops; and (3) an increase in availability, access to and use of business information by Gobi entrepreneurs. Phase II activities include the following:

- Agriculture and business training and technical assistance for herder groups and cooperatives to expand and/or diversify their businesses;

- Targeted “one-on-one” technical assistance for non-herder businesses to increase sales, profit margins and/or market share and add new profitable products and services;
- Production input and market linkage support for all new/expanding businesses to ensure that they can access production inputs and secure markets;
- Loan guarantees (through a program funded by the U.S. Department of Agriculture) for small producers to diversify and “scale up” their agribusinesses;
- Capacity-building of local training and technical assistance providers, including private consultants, associations, NGOs, institutions and government offices;
- Training and pharmaceutical/equipment support for rural veterinarians and veterinarian technicians;
- Development and institutionalization of key rural business support mechanisms including forage forecasting, animal nutrition monitoring, and dairy product quality assurance systems;
- Dissemination of business information and communication of business interests and needs.

B. The GER Initiative

The Growing Entrepreneurship Rapidly Initiative (The GER Initiative) is a USAID/Mongolia and U.S. Department of Agriculture (USDA) funded project. The USAID portion of the project is carried out through a cooperative agreement with CHF International. The project began in August 2002; it was originally slated to end in August 2005, but has since been extended to March 2006. As with the Gobi Initiative, under a proposed operating year budget (OYB) scenario that would cut USAID/Mongolia funding by 25%, no additional funding would be added to the project after FY 2005.

The project goal is to develop and strengthen the economy of the peri-urban areas of Mongolia, and the project now works in four *ger* districts—in Ulaanbaatar, Darkhan, Erdenet, and Choibalsan. Peri-urban *ger* (traditional Mongolian tent homes) areas are fenced-in, unserviced housing plots that surround Mongolian cities. Inside each fenced-in plot are *gers* and/or owner built houses that lack heat, water, and sanitation services. The program serves a peri-urban area population of around 570,000 people: 500,000 in Ulaanbaatar, 30,000 in Erdenet, and 20,000 each in Darkhan and Choibalsan.

The GER project has two objectives. The first is to increase the number of productive peri-urban area businesses. The second is to increase employment in the peri-urban areas. GER is a *demand-driven* business development and employment services activity that responds to the needs of clients based upon clients’ request for services. The target clients are generally considered the “working poor” that are either interested in obtaining a job, or improving a business.

The project focuses on

- Supporting microenterprises to strengthen and expand their activities;
- Supporting entrepreneurs who are creating new businesses;
- Providing the unemployed with training and job matching services;
- Promoting business linkages between microenterprise clients and larger businesses;
- Helping microenterprises link effectively to commercial financial providers; and

- Improving the quality and accessibility of local business development and support services.

Purpose of the Evaluation

The purpose of this evaluation is to provide USAID/Mongolia with an objective external assessment of: (1) the appropriateness and effectiveness of current Gobi Initiative and GER Initiative activities; (2) whether the Gobi Initiative and GER Initiative should be involved in additional activities; and (3) the likelihood of sustaining Gobi Initiative and GER Initiative impacts after the completion of USAID funding. USAID/Mongolia also is soliciting concrete, implementable recommendations for improvements to the Gobi Initiative and GER Initiative.

Detailed Statement of Work

With respect to the Gobi Initiative and GER Initiative, the evaluation team shall: (1) assess the appropriateness and effectiveness of current Gobi Initiative and GER Initiative activities; (2) assess whether the Gobi Initiative and GER Initiative should be involved in additional activities; (3) assess the likelihood of sustaining Gobi Initiative and GER Initiative impacts after the completion of USAID funding; and (4) make concrete, implementable recommendations for improvements to the Gobi Initiative and GER Initiative. The evaluation team will:

- Review previous evaluations conducted of the Gobi Initiative and the GER Initiative.
- Evaluate the appropriateness and effectiveness of Gobi Initiative Phase II activities with respect to program objectives. These activities include: business plan development and implementation; cooperative formation and development; herder training and technical assistance; acquiring critical inputs; long-term technical assistance to non-herder businesses; short-term training/technical assistance to non-herder businesses; local capacity-building for training and technical assistance; market development; local government support for business; veterinary service sector development; animal nutrition monitoring; dairy sector development/food safety campaign; business information dissemination; and building local capacity for information dissemination and communication.
- Evaluate the appropriateness and effectiveness of GER Initiative activities with respect to program objectives. These activities include: loan facilitation; business consulting; business training; business and civic information; business association development; employment matching services; and employment training.
- Assess how appropriate the Gobi Initiative and GER Initiative goals and objectives are in the light of current political, and USAID programming and financial, realities.
- Evaluate the appropriateness of the business development services models that the Gobi Initiative-Phase II and the GER Initiative have adopted with respect to the current Mongolian social and economic context. For example, are the services being provided by either program the correct ones to achieve practical and effective business development results? How well does the demand-driven

model for services of the GER Initiative work? Are there other business development models that would be more appropriate for either program? Are the employment services provided by the GER Initiative useful and necessary?

- Determine whether the transition in the goal, objectives and activities from Gobi Initiative-Phase I to Phase II was appropriate. Determine whether the Phase II focus on (1) the expansion and diversification of herder led business opportunities (e.g., vegetable farming) and (2) non-herder business development assistance is appropriate.
- Evaluate the effectiveness and opportunities for expansion and improvement of both the Gobi Initiative's and GER Initiative's activities with local government. Are these activities appropriate? Are there other activities which could/should be undertaken? Should this work be expanded?
- Review and evaluate the effectiveness of collaborative efforts by the Gobi Initiative and the GER Initiative with other donor agencies, non-governmental organizations, private organizations (e.g., private financial institutions and large businesses), and the local and national governments.
- Assess the sustainability of the business entities created or expanded by the Gobi and GER initiatives; the capacity of local trainers and other local people to continue their activities; and the willingness and capacity of the private sector (e.g., financial institutions) and government entities to facilitate or carry out these same activities.
- Assess how much bank lending is likely to endure after the end of the two projects, and propose realistic ways to strengthen relations between project clients and the banks that lend to them.
- Determine what will happen to the financial liability of MCI and CHF, if any, on bank loans that are still outstanding at the end of the respective projects.

Deliverables

- A. There are to be briefings with USAID/Mongolia, Mercy Corps, and CHF International upon arrival in Mongolia, at the half-way point of the evaluation, and prior to leaving Mongolia.
- B. Three copies of a draft of the final report shall be submitted to the Mission for review and comment two working days before the team leaves Mongolia. Three copies of the final report are due within ten days of receipt of comments from USAID. The final report should contain a table of contents, an Executive *Summary*, and should clearly identify the team's findings, conclusions, and recommendations. Appendices should, at a minimum, list the people and organizations interviewed.

Team Composition and Logistics

- A. Team Composition and Roles: The team will be composed of experts in conducting evaluations of this nature. A team leader will be assigned who has the ultimate responsibility for overall team coordination and development of the final report. The Team Leader is also responsible for ensuring that team members adequately

understand their roles and responsibilities and for assigning individual data/information collection and reporting responsibilities.

The team will have expertise in the design and/or implementation of donor-funded business development services (BDS) programs. The team should also have regional expertise, especially in Mongolia or other parts of Central Asia.

The team will be composed as follows:

Role	Source/Funding
1. Team Leader	Purchase Order
2. Senior BDS Expert	NEP
3. Mongolian BDS Experts (2)	Purchase Orders
4. Translator/ Logistics Coordinator	Purchase Order
5. Driver	Purchase Order

- B. Relationship to USAID/Mongolia Staff: The Evaluation Team Leader reports to Leon Waskin, USAID Representative, USAID/Mongolia.
- C. Logistical Support: USAID/Mongolia will provide work space and one dial-up connection for contractors' own laptops. The contractor is responsible for obtaining all of its other logistical support, including a translator/logistics person, driver and vehicle, in Mongolia. USAID/Mongolia can identify and provide recommendations for local hires.
- D. Performance Period: The team members will initiate work in Mongolia on or about July 18, 2005, or as soon as USG and USAID travel guidance permits. The performance period includes two preparation days in the States, two days for travel each direction, four weeks in-country (the last week of which is to be used to write the draft report), and two days in the U.S. to finalize the report after receipt of USAID comments on the draft. A six day work week is authorized. The initial draft should be submitted to USAID/Mongolia for review and comment two working days prior to the departure of the team leader, unless otherwise agreed by USAID/Mongolia. The final report is due to USAID/Mongolia within 10 days of receipt of comments from USAID.

XI. Annex IV: Data Tables

h. GER Initiative Training and Technical Assistance

Types of training are broken out at the service level. Participants are not broken out in a detailed training. However the total Number of participants for Employment and business trainings can be seen in the “Donor Report” Here is a subsection of the report:

TRAINING DATA	Services	Clients	Units (3 Hours=1 unit)	Hours	Male	Female
Total training provided (3 hours training = 1 unit)	8197	6276	13,269.84	39,809.52	3142	5055
Business related	5706	3840	6,458.24	19,374.71	2228	3478
Employment related	2491	2436	6,811.60	20,434.81	914	1577
Vocational Training	373	364	6,987.13	20,961.40	111	262

Trainings All - Program to date

Report date:	08/08/2005
Upon request of:	Auditor2
Period:	08/01/2002 - 08/08/2005

Type of Training	Number of Services	Total hours	% By Time	% By number of Services
EM - Soft Skills	2280	2,595.51	6.52	27.82
EM - Technical/Vocational	211	17,839.30	44.81	2.57
ME - Association	337	912.60	2.29	4.11
ME - Bookkeeping	1642	3,003.39	7.54	20.03
ME - Chicken production	81	254.79	0.64	0.99
ME - Customer Service	238	467.95	1.18	2.90
ME - Financial Statement Preparation	126	593.00	1.49	1.54
ME - Group Development Training	103	163.50	0.41	1.26
ME - Home-gardening	618	1,686.75	4.24	7.54
ME - Loan Preparation	639	1,778.45	4.47	7.80

ME - Management	150	472.03	1.19	1.83
ME - Marketing	290	655.20	1.65	3.54
ME - Other	594	2,651.40	6.66	7.25
ME - Other agricultural	427	2,141.00	5.38	5.21
ME - Other Technical/Vocational	162	3,122.10	7.84	1.98
ME - Pig production	154	1,073.60	2.70	1.88
ME - Start up Business	145	398.95	1.00	1.77
	8197	39,809.52	100.00	100.00

i. Gobi Initiative Training and Technical Assistance

Training and Technical Assistance provided to herder clients, Jan-Jul 2005

Table #1

General classification of TA		Number of TA provided in 1st half-year of 2005	UB consultant	Local consultant	GI officer ²⁸
1	Financial management - accounting, record keeping and banking	28		26	2
2	Tourism operations - guest services, client / customer satisfaction	6	6		
3	Sales and marketing - market identification, pricing, product packaging and promotion	7	4	2	1
4	General management - budgeting, human resource management, legal and tax issues				
5	Animal breeding - selection, breed characteristics, herd/flock record keeping, artificial insemination technology	4	2	2	
6	Dairy milk processing - types of milk products, processing technology, use and maintenance of equipment	13	2	11	
7	Vegetable/crop production - soil preparation, seed certification, planting methods, diseases and pests, harvesting, storage and processing	42	1	41	
8	Felt making technology	6		6	
9	Fodder/forage production - soil preparation, selection of suitable crops, diseases and pests, harvesting, processing, storage (hay/silage)	18	1	17	

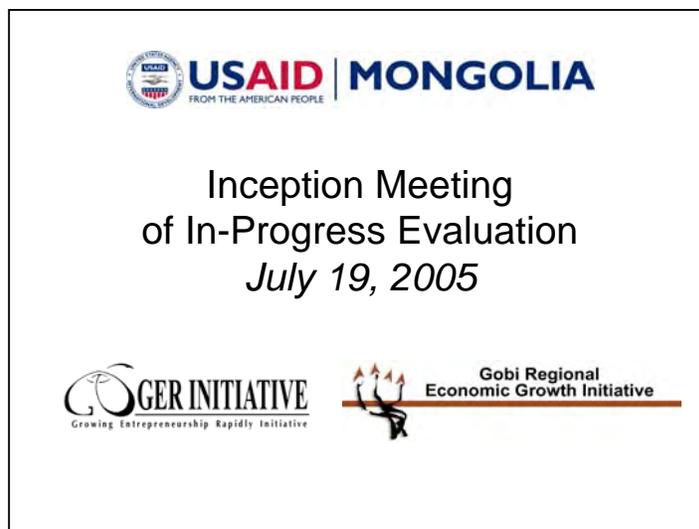
²⁸ Includes trainings/consultancies conducted by our program officers.

10	Cooperative development - management, structure, leadership, operations, marketing, record keeping and reporting, and regulatory compliance	54	1	39	14
11	Business start-up training - basic financial management, market research, sales methods, staff management, legal and tax issues	12	4	10	2
12	Veterinary training (weeklong course in UB) - modern pharmaceuticals, equine medicine and surgery, parasite control, zoonotic diseases, animal food hygiene and health (VET Net)	7	5	2	
13	Specialized technical assistance - compressed fuel blocks, well repair, fuel operations, etc	7	2	5	
14	Bakery/food processing - equipment identification, sourcing and maintenance, new product development	4		4	
15	"Buryat" boot/felt boot making - design, use of new materials, stitching, decoration	3	1	2	
16	Semi-settled livestock production - livestock intensification under Gobi conditions, design of livestock barns, supplemental feeding, grazing rotations for fenced pasture.	3	2		1
17	Meat processing technology	1	1		
18	Business plan development	3			3
19	Camel wool sorting, combing, spinning and knitting technology	1	1		
20	Chicken farming	1		1	
	Total	220	29	168	23

General classification of TA		Number of TA provided in 1st half-year of 2005	GS	GA	UG	BH	DG	UH
1	Financial management - accounting, record keeping and banking	28	1	8			3	16
2	Tourism operations - guest services, client / customer satisfaction	6			4			2
3	Sales and marketing - market identification, pricing, product packaging and promotion	7	1		2		3	1
4	General management - budgeting, human resource management, legal and tax issues							
5	Animal breeding - selection, breed characteristics, herd/flock record keeping, artificial insemination technology	4			4			
6	Dairy milk processing - types of milk products, processing technology, use and maintenance of equipment	13	2	4		4		3
7	Vegetable/crop production - soil preparation, seed certification, planting methods, diseases and pests, harvesting, storage and processing	42	1	3	6	20	1	11
8	Felt making technology	6		2	3			1
9	Fodder/forage production - soil preparation, selection of suitable crops, diseases and pests, harvesting, processing, storage (hay/silage)	18	1	3	9			5
10	Cooperative development - management, structure, leadership, operations, marketing, record keeping and reporting, and regulatory compliance	54	9	7	8	14	9	7
11	Business start-up training - basic financial management, market research, sales methods, staff management, legal and tax issues	12		2	9		1	
12	Veterinary training (weeklong course in UB) - modern pharmaceuticals, equine medicine and surgery, parasite control, zoonotic diseases, animal food hygiene and health (VET Net)	7	1	1			2	3
13	Specialized technical assistance - compressed fuel blocks, well repair, fuel operations, etc	7	1	2	1		2	1
14	Bakery/food processing - equipment identification, sourcing and maintenance, new product development	4		3			1	
15	"Buryat" boot/felt boot making - design, use of new materials, stitching, decoration	3			2		1	
16	Semi-settled livestock production - livestock intensification under Gobi conditions, design of livestock barns, supplemental feeding, grazing rotations for fenced pasture.	3	1				1	1
17	Meat processing technology	1				1		
18	Business plan development	3		3				
19	Camel wool sorting, combing, spinning and knitting technology	1		1				
20	Chicken farming	1		1				
	Total	220	18	40	48	39	24	51

XII. Annex V: Inception meeting

At the inception of the evaluation the team met with Mr. Skip Waskin, Jeffery Goodson, Margaret Herro, Sean



Subsequent slides contained the following information:

Team Members:

Jim Carlson, USAID NEP, 15 years development program experience has led evaluations in China, Vietnam and Mongolia.

TSETSEN Dashtseren, MARBIS Consulting Company, CEO, August 2003 – present, recently authored: REPORT ON THE BUSINESS REGISTRATION SYSTEM OF MONGOLIA Study on the Regulatory Framework Affecting Mongolian Businesses Oyunbileg (Oyuna) USAID Mongolia, Economist, 5-year experience of working with USAID

#1 Gobi Initiative: Effectiveness vs Program objectives

MCI: Field trip to aimags to interview the herder and non-herder businesses-questionnaire

meeting with local governor's office and aimag chief livestock and agriculture specialists

How effective is Information Dissemination? Spend ¼ of meeting, interviews on assessment of PACT

CA, AR, AWP, Quarterly reports, and USAID Monthly Monitor

#2 GER Initiative: effectiveness vs program objectives

Visit operating branches in UB (6)

Meet with clients

Meet with local bagh governor's office representatives

Meet with Savings, Xac, and other banks

Field trip to Darkhan and Erdenet

Meet with local trainers, clients and bagh governor's

#3 Effectiveness of GI and GER in light of USAID program and current political realities

Meeting with MP Zandanshatar, Bakei and Narantsatsralt

Meeting with VetNet, Mongolian Cooperatives Union, and Ag Universities

Meeting with USAID

#4 Appropriateness of Business development services models

Identify what are the key business development services models adopted by the Gobi and Ger Initiatives;

Identify what are the main services currently being provided by the two programs;

Analyze the social and economic context;

Undertake comparative analysis based on the preliminarily chosen criteria for so called effective business results;

Conduct interviews with potential benefiting groups;

#5 Transition from Gobi Phase I to Phase II

Identify the goals of transition and its rational

Conduct performance analysis based on the following criteria (whether Phase II focuses on the following):

The expansion and diversification of herder led business opportunities;

Non-herder business development assistance is appropriate;

Interview selected target groups;

Compare the results of interviews with the results of performance evaluation.

#6 Effectiveness of expansion

Conduct interviews with local government with purpose to reveal their expectations from the activities of the Gobi and Ger Initiatives;

Undertake external scanning to identify what are the social and economic context of the region and key factors affecting the economic and social development of the particular region;

Identify the role of the local government;

Undertake comparative analysis based on the results of findings interviews and external scanning.

#7 Effectiveness of collaborative efforts

Conduct interviews with selected representatives of

–other donor agencies (possibly all donor agencies providing similar services or undertaking similar activities);

–non-governmental organizations (at least with 3 or 5 NGOs);

–private organizations (preferably consisted of micro, small, and medium sized enterprises);

–Representatives of local and national government (on a selective basis);

Interviews will be designed to reveal the common understanding existing among the aforementioned organization regarding the activities of the Gobi and Ger Initiatives;

Responding to Question #8

#8 Assess Sustainability of business entities, the capacity of local trainers and others, the willingness and capacity of private sector and government to carry out same activities by:

- Reviewing data collected by program offices.*
- Semi-structured interviews of randomly selected business.*
- Sustainability ranking in two sites.*
- Semi-structured interviews of private and government entities.*

Responding to Question #9

#9 Assess how much bank lending is likely to endure after the end of the projects and propose realistic ways to strengthen relations between project clients and the banks that lend to them by:

- Reviewing data collected by program offices.*
- Semi-structured interviews of randomly selected business.*
- Semi-structured interviews of bank officials.*
- Through interviews, identify project and non-project champions, failures, and positive deviants.*
- Review other lending support programs to identify successful Mongolian models.*

Responding to Question #10

#10 Determine what will happen to the financial liability of MCI and CHF, if any, on bank loans that are still outstanding at the end of the respective projects by:

- Semi-structured interviews of selected business.*
- Review data on businesses and their sectors' growth.*
- Review bank portfolios.*

XIII. Annex VI: Bibliography

USAID/Mongolia Strategic Plan, 2004-2008

GER Initiative Reports

GER (Growing Entrepreneurship Rapidly) Initiative Work plans submitted to USAID

Ulaanbaatar Rapid Needs Assessment

Erdenet Rapid Needs Assessment

Darkhan Rapid Needs Assessment

Choibalsan Rapid Needs Assessment

GER Initiative Quarterly Reports Q2 2004 - Q2 2005

Gobi Initiative Reports

Cooperative Agreement #442-A-00-99-00016-00 Final Report submitted to USAID

Gobi Initiative Phase II Year One Quarterly Reports

Gobi Initiative Phase II Year Two First Quarter Report

Other references

UNDP Sub Sector Review of Micro finance in Mongolia

SOROS Foundation Harmonization of Activities in Small and Medium Business Development and Micro-Finance

NSO, World Bank, UNDP Main Report of “Household Income and Expenditure Survey/living Standards Measurement Survey”, 2002-2003

Government of Mongolia-UNDP. *Human Development Report, Mongolia, 2004*.
September 2003.

Tsetsen Dashtseren, *Report on the Business Registration System of Mongolia: Study on the Regulatory Framework Affecting Mongolian Businesses*. January, 2005.

April 20, 2006

Leon S. Waskin
USAID Representative
USAID Mongolia

Dear Mr. Waskin,

CHF International appreciates USAID-Mongolia extending us the opportunity to formally respond to the 'Evaluation of the GER and Gobi Initiatives' conducted in July and August 2005. The evaluation was performed three years after program implementation and more than one year after CHF commissioned its own mid-term evaluation. By August 2005, the GER Initiative had matured to the point where an evaluation of its core activities – strengthening microenterprises and increasing employment – was not only warranted, but welcomed by CHF. Accordingly, CHF provided the evaluating team with open access to staff, partners, clients, and data as well as detailed written feedback on the draft evaluation (please see Attachment A).

We awaited the final results so that they could inform our planning process for the extension of the GER Initiative. However, while the evaluators make several points in the report with which we agree, we have identified methodological issues, factual errors, and data that would benefit from a clearer context. We hope that our response will assist USAID/Mongolia in appropriately applying the evaluation to the future course of the GER Initiative and other USAID activities to develop economic opportunities in Mongolia.

CHF similarly appreciates the opportunity to formally respond to the final evaluation. Our response below is organized to first highlight the methodological issues which we have identified and then provide section by section clarifications, responses, and supporting evidence.

Methodological Issues

The assessment team faced a considerable challenge in evaluating two large USAID programs, each implementing a wide range of interventions in locations throughout the country within just four weeks. Their broad scope of work encompassed assessing the effectiveness of core program activities, work with local government, collaboration with other donor, non-governmental, and private sector entities, as well as of the future sustainability of GER supported enterprises, services, and bank lending. CHF understands that the evaluation methodology was not scientific, yet utilized available resources, combining quantitative data from project reports and databases with qualitative information from interviews of program stakeholders. Certain methodological issues, however, do affect whether or not statements contained in the evaluation can be substantiated.

First, the evaluation does not provide a list of consistent questions posed to clients and other interviewees. In the absence of this information, it is difficult to discern whether statements made and conclusions drawn in the evaluation stem from repeated responses to consistently conducted interviews or from the incidental observations and/or opinions of the evaluators. For example, in recommending that the GER Initiative promote safety and clean production, the evaluator provides only one example, that of a GER Initiative bookkeeping services client who was regrettably injured through a workplace accident. The evaluation does not state whether workplace safety was systematically considered in all 39 client visits.

Second, the evaluation team relied upon a very small sample of GER Initiative clients. On July 31, 2005, just before the evaluation, the GER Initiative had 20,422 clients, of which 8,690 were microentrepreneurs and 9,108 were seeking employment training and matching services. The evaluation team was only able to interview a total of 39 GER Initiative clients and business groups. This sample size represents less than .2% of GER Initiative clients. In addition, given the wide differences between microentrepreneurs and those participating in employment services, CHF feels a larger sample, divided into sub-samples, was warranted.

Specific Responses to Findings

The Team's Findings on the GER Initiative: Page 6 of the evaluation states the GER Initiative has been supporting many trader businesses with little estimated promise for business growth. This theme is further

mentioned on page 40 under the section entitled 'How sustainable are the businesses supported?' CHF understands that traders in Mongolia operate on low margins and do little to add value to the economy or generate employment. Regardless, support to these microentrepreneurs is important and valuable because the majority of the GER Initiative target population will fit into the trader category at some point during their lives. According to 2003 data from the Ministry of Trade and Industry, over 80% of registered private businesses are microenterprises and 42% of all private businesses conduct trade as a primary activity and 51% as a secondary activity. Informal businesses which lack investment capital or collateral for loans are even more likely to be engaged in trade. In addition, most businesses in Mongolia are highly seasonal and many business owners operate two or three businesses during the year, making it difficult to draw lines to separate traders from service providers and manufacturers.

Page 7 of the same section terms the GER Initiative's inroads in changing commercial bank practices as 'slow.' According to client loan data gathered by CHF, from 2003, when the project began working with banks, through 2005, fixed asset loans have gone from 9.2% in 2003 to 24% in 2005, interest rates have dropped from 3.29% to 2.78% on average, and loan terms have been extended from 6.36 months to 10.07 months.

Also on page 7, the evaluators conclude that the GER Initiative could do work on providing incentive-based training to banking staff and on financial management to clients. While the GER Initiative does not formally train partner bank loan officers, it does work hand in hand with them during the process of loan facilitation and in implementation of the syndicated lending product, the Capital Augmentation Fund. This process exposes bank staff to cash flow projections and analysis as well as to the characteristics of Ger Area businesses. The program also provides significant bookkeeping and financial management training to entrepreneurs.

Sibling Rivalry: While this section on page 19 of the evaluation focuses on Khaan and Xac Banks rather than on the GER Initiative itself, CHF reiterates, as originally voiced in our response to the draft evaluation, that the GER Initiative assists clients in choosing the most appropriate loan product and successfully applying to the bank which most closely fits the client's need and ability to access credit.

Appropriateness of Services – Loan Facilitation: Page 33 of the evaluation states that of 885 outstanding bank loans to GER Initiative clients, 49 were in trouble and five in default. At the current time, of 3231 loans facilitated, six have defaulted. As of December 31, 2005, the default rate on GER Initiative-facilitated loans was 1.3% in Ulaanbaatar and 0.7% in the secondary cities. This contrasts with an overall default rate of 8.3% in Ulaanbaatar and 1.4% in the rest of the country and provides evidence for the value added provided by the loan facilitation services, particularly in Ulaanbaatar.

Appropriateness of Services – Business Training: This section, on pages 35-36, could have benefited from greater detail and supporting evidence in three arenas. First, CHF questions how the evaluators came to the conclusion that the increasing popularity of GER Initiative trainings may be partially due to the perception that trainings by foreign organizations are of higher quality. In fact, the previous section on business consulting showed that GER Initiative clients were willing to pay even higher fees to the program rather than obtain free services from other providers. In addition, GER Initiative training participants frequently come back and pay fees to participate in other trainings. This more naturally leads to the conclusion that client demand and loyalty is based on demonstrated benefits rather than perception.

Second, the evaluators state that the GER Initiative should seek effective collaboration with local employment offices. The program does collaborate with the local employment offices, helping clients access training vouchers for those Employment Office-supported trainings which are of good quality and targeted to vocations with real market demand. At the time of the evaluation, clients had accessed 200 trainings funded by vouchers worth a total of \$8171. In February 2006, the employment office for the Ulaanbaatar Bayangol District recognized the Initiative as the District's second best employment generator.

Third, the evaluators correctly indicate that the GER Initiative does not do training-specific follow-up and also accurately state that significant investment in such follow-up is not necessary given that many training clients also access other services for which follow-up monitoring is conducted. Specifically, the GER Initiative methodology emphasizes client participation in more than one service. Of the 594 businesses improved through August 2005, 97% had received more than one service, making it difficult to directly attribute improvements to any single

service. The GER Initiative monitors all business and employment clients after six months and thereby captures most training participants in client-specific, rather than training-specific, follow-up.

Appropriateness of Services – Business Groups / Associations Development: This section could have also benefited from examples to support the evaluation team's conclusion that the outcomes of the GER Initiative's relatively new business groups/association development activities (introduced in July 2004) are unclear. The examples cited show positive outcomes including increased scale of production and 'soft' outcomes such as an increased sense of affiliation and confidence. These examples match what the GER Initiative has seen in action.

Appropriateness of Services – Business Information and Linkages: The GER Initiative would like to correct the statement that the program's trade fairs are often conducted with the Chamber of Commerce. Of 13 trade fairs organized, sponsored, or co-sponsored by the GER Initiative, two were in conjunction with the Chamber of Commerce while a local artisan NGO partnered on a crafts fair in Ulaanbaatar and the Agricultural Extension and Agriculture Departments of the Government of Mongolia partnered on the program's agriculture fairs. Further, in response to the example of a client who paid a fee to participate in a fair but made no sales, it is GER Initiative policy to charge all clients for trade fair participation. Such a policy not only enhances sustainability but also encourages clients to more thoroughly assess and leverage the benefits of trade fair participation. GER Initiative clients participating in the 13 trade fairs held by the time of the evaluation generated \$42,842 in sales as a result of participation.

Appropriateness of Services – Employment Matching:

These types of services are much more complicated than the evaluator documents. We feel the evaluator didn't understand our services or the Mongolian context of employment.

1. The employment survey referred to in the document between June 2004 and July 31, 2005 was not meant to detail our six month placement retention rates. The 11% retention rate referred to in the document was erroneous as the number included those clients who had been placed in their jobs within the previous six months (Feb – July, 2005) and were therefore could not possibly have stayed in the job for six months. Also, we began tracking 6 months placements in January 2005 after a USAID programmatic review in late 2004. Therefore all clients placed in temporary and seasonal work before January 2005 – work that lasts for less than six months – were not identified and could not be removed from the calculation.
2. It is inappropriate to compare us to the Employment office's numbers when they work with the entire population. Generally they choose to place people in jobs from the downtown or apartment areas who are easier to place in jobs because they have a better education (86% of all high school drop outs are from the Ger Areas from the 2004 urban poverty and in-migration survey report done by the UNDP and GoM) and are more likely to be on a career track. Also, the Employment offices don't monitor their clients so it is interesting that they commented on their retention rates at all. GER reports our numbers and retention rates to them.
3. Since January 2005 GER has not used newspaper advertisements to find jobs for clients as stated in the report. We have made several changes to our services over the 2.5 years that are improving retention rates including:
 - a. increasing training of potential employees. In 2003 we did not train any of our employment clients before placing them in jobs in 2005 we trained 46 %.
 - b. developing strong relationships with "good" employers. In 2003 we had 8 relationships with employers (no formal contracts established) by 2005 we now have 50 relationships (10 formal contracts established). These relationships have also helped lower the number of temporary and seasonal jobs our clients take.
 - c. training for larger employers on why and how to treat employees fairly. In 2005 we began training our employer partners in Human Resources Management and 59 employers participated.

These changes have increased our retention rates. For last quarter, our retention rates of 316 clients matched to jobs was 66% monthly (from FY 06 Q 1) and 37% for six months placements (523 clients from FY 05 Q4). These numbers allow for temporary less than one placements (8% of all placements for FY 06 Q1) and seasonal less than six month placements (18% of all placement for FY 05 Q4).

How Sustainable are the Businesses Supported?: Page 39 of the evaluation states: 'In no case did the evaluation team on its own identify a failing or in-trouble business, although these do exist by the project's own admitted small loan default rate. Surely this is at least in part due to the fact that the GER Initiative's interventions are

relatively new. After another year or so, it is highly possible that more businesses will eventually fail.' CHF agrees that, just as enterprises around the world fail, so will some of those participating in the GER Initiative. However, we question the appropriateness and helpfulness of the evaluation team's conjecture as to the reasons they were not able to identify a failing business. We would have welcomed specific findings and recommendations to increase the sustainability of the businesses we support.

Working with Others: CHF believes that Section vi entitled 'Working with Others' on page 43 and the related conclusion on page 45 of the evaluation inaccurately portray the GER Initiative's extensive collaboration with other organizations and institutions serving Ger Area residents. A detailed chart of GER Initiative collaboration with Mongolian government organizations, private sector companies, international and local non-governmental organizations, and other donor programs was unfortunately omitted from the final evaluation document. This chart is provided here as Attachment B. While we appreciate the evaluation team's recognition that the Initiative is working well with local governments, we would have welcomed further recommendations on the 'room for improvement' found by the evaluators. We would also have appreciated specific examples that led the evaluation team to determine that collaboration with other donor programs and nongovernmental agencies 'has progressed unevenly and with mixed results'. Despite not having formal collaboration agreements with other donor programs, the GER Initiative regularly exchanges information, shares lessons learned, opens GER Initiative training opportunities to outside participation, and encourages GER Initiative client participation in external training opportunities.

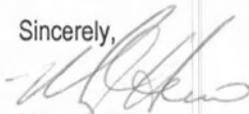
GER Project Management and Staff Capacity: The evaluators state that difficulties in manipulating the CHF-developed Project Reporting System prevented them from performing planned statistical analysis they had planned on GER Initiative client data. At the time of the evaluation, the Project Reporting System had only recently been completely customized to include the data fields and reports generation capabilities most relevant to GER Initiative staff and client management and monitoring of results. CHF staff were still in the process of inputting data on thousands of clients. CHF appreciates that the evaluation team found a formula error within the data management system; this error has since been corrected. The PRS now contains data on 28,000 clients.

The evaluation team also notes that, while they did not carry out a capacity needs assessment of GER Initiative staff, they did notice areas where staff could learn more. The supporting example is the request of two program employees for the evaluation team to explain the formula for calculating internal rates of return, a measure which is currently not used by the program. To place this in context, after phased expansion, the GER Initiative employs more than 125 people, 55% of whom are women and 33% of whom are residents of the Ger areas. While staff coming from Ger Areas may have less business skills, CHF has found that their level of motivation and understanding of the program's clients more than compensates. CHF project management has emphasized staff development throughout the life of the program and has also aligned job responsibilities with the amount of time employees have been with the program.

Conclusion

CHF once again thanks USAID/Mongolia for its support of the GER Initiative since 2002 and its interest in learning from the program's results. We look forward to continuing our cooperation in developing the economic opportunities of the residents of peri-urban Mongolia.

Sincerely,



Margaret Herro
CHF International

CC: Jeff Goodson
Scott Yetter

Attachment A

August 16, 2005

To: Jim Carlson, USAID Evaluator of the GER Initiative

Cc: Jeff Goodson, Deputy Director USAID Mongolia
Skip Waskin, USAID Representative Mongolia
Scott Yetter, Regional Director, CHF International
Margaret Herro, Country Director, CHF International / GER Initiative
Kelli Mullen, Program Officer CHF International

From: Neil McCullagh, Deputy Director, CHF International / GER Initiative

Re: Draft Evaluation Comments

CHF welcomes the opportunity to comment on the August 15th draft of the evaluation of the Growing Entrepreneurship Rapidly Initiative (GER Initiative) in order to inform its final form. CHF recognizes the challenge that the evaluation team faced in evaluating two large programs operating in distant locations within a month's timespan. Our comments and suggestions below are made with the understanding that the August 15th document is a draft which will be further refined and finalized. Given this understanding and the limited time available to respond to the draft, we have prioritized our comments to focus on facilitating the clear communication of GER Initiative's scope, activities, and impact. Some of the areas that CHF notes below as currently unclear to the reader may simply be of need of editing to make the statements clear. CHF's actual position on those statements will depend on how the statements are edited. Therefore, CHF respectfully requests the opportunity to review and officially respond to the final draft of the evaluation.

We have organized this response to first provide general comments and clarifications that pertain to the document as a whole and second to provide section-specific comments and clarifications. In addition to the responses and information provided here, CHF offers its assistance through the provision or review of text which could be added to the evaluation document in order to provide a more detailed introduction the GER Initiative.

We welcome any concrete, detailed recommendations for improvement of GER Initiative implementation, extension, and sustainability that the evaluation team can provide.

General Comments:

1. CHF requests that the document be edited to correctly refer to the name and abbreviation of the program – the Growing Entrepreneurship Rapidly Initiative (GER Initiative). CHF has branded the program as such, with the logo seen on this letterhead, as well as acknowledgements of USAID and USDA funding, appearing on all program outreach materials.
2. CHF also requests that the evaluation refer to CHF International, the appropriate acronym for the Cooperative Housing Foundation, which is our name of legal registration. Community-Habitat-Finance is a motto which we use to quickly summarize the major areas in which CHF works.
3. CHF believes that a more detailed introduction to the GER Initiative is needed if the evaluation will be available to external audiences unfamiliar with the broad reach and depth of services of the GER Initiative. We can either provide this introduction to the evaluation team or review an introduction written by the team. Within this introduction, CHF would like to see:

- A description of the scale of the program which speaks to the ability of the GER Initiative to respond to a large number of clients (we have offered training or consulting services to over 9000 clients in the last two years) located in four cities and served by branch offices in the vicinity of their homes and/or businesses;
- A description of the specific services evaluated in this document;

Section-specific Comments:

Executive Summary – given that the Executive Summary is typically finalized after all other sections, CHF provides the comments below in relation to both the draft Executive Summary and to the other sections from which the summary is drawn.

- 1) We are pleased to note the positive findings of the evaluation team concerning the satisfaction of GER Initiative clients and the usefulness of offered services. CHF hopes that the evaluation team will include mention of these positive findings in the final Executive Summary.
- 2) The Executive Summary states that the “GER could further develop ways to influence local government.” Later in the document, the evaluation team notes that the GER Initiative has developed, and submitted to the USAID/Mongolia Mission, a concept paper related to local government encouragement of private sector development. CHF requests that this second statement be also referenced in the Executive Summary, which currently provides the impression that local government is outside the interest of the GER Initiative.
- 3) The Executive Summary currently states that “at present, local trainers and other local people will not likely continue their activities after the project.” It is not clear what is meant by or included in this statement, therefore, CHF suggests that it be further expanded upon to describe what activities are meant and why it is believed they will not continue. While CHF agrees that sustainability of business development services is difficult worldwide, we have also found that high-quality local trainers and consultants are in demand in Mongolia and will continue to be in demand with or without the GER Initiative.
- 4) The Executive Summary currently states that “GER should not increase its financial support to clients and strengthen cash flow lending and other relations between project clients and banks.” With the current text and punctuation of this draft sentence, the evaluation team’s meaning is unclear. CHF believes that the evaluation team supports the GER Initiative’s ongoing efforts to strengthen relationships between clients and commercial banks and to encourage banks to move towards cash flow lending by demonstrating the credit worthiness of GER Initiative clients. If that is the case, then we suggest that the sentence be edited to make this more clear.
- 5) The Executive Summary states that “collaborative efforts by the GER Initiative with other donor agencies and non-governmental organizations have progressed unevenly and with mixed results.” While CHF is unclear under what standards of measurement this statement should be interpreted, we do believe that the GER Initiative has a good track record in this regard. For example, the GER Initiative has supported the initiation of new donor programs through the provision of information, advice, and referrals. Some of these programs include UNDP’s Unleashing Entrepreneurship, the Nordic Fund / GOM Incubator Project, ADRA’s Microfinance Project, and GTZ’s Training Centers. Additional information can be provided upon request.
- 6) The Executive Summary states that “only financial institutions are showing some willingness and capacity to facilitate or carry out these same activities. Government-related agencies have questionable capacity and willingness.” CHF believes this statement is currently inaccurate, despite the explanations later provided by the evaluation team. Specifically, we would like to point out that:

- Banks are interested in Loan Facilitation as well as Training and Consulting and information services because all of these services contribute to the development of a more educated business-savvy customer base.
- Employment Services – independent service providers have appeared and are offering GER-like employment matching services for a fee.
- Employment Services – The employment department is interested in the ongoing relationship with GER Initiative and, depending on the local area, the collaboration is often very close, thereby building the capacity of the local employment department to directly offer the service.

7) The funding streams for the GER Initiative are inaccurately represented, the following is a summary that should correct the inaccuracies:

Funding Source	2002	2003	2004	2005	2006
USAID	(August) \$2 million USD				
USDA (Wheat Funds)		(June) \$ 2 Million USD	(June) \$699 Thousand		(March) \$1.55 Million USD

8) Under the “Additional Comments” the statement that “Development of staff and partners to better understand BDS could increase” should be further qualified and if necessary split into two comments.

Introduction:

9) In the third paragraph of the introduction, the reference to linkages to “foreign” and domestic buyers currently could give the impression that the GER Initiative is focusing efforts on export promotion. Given the client base of the GER Initiative, an export focus is not practical at this time, though occasional linkages have been made. The current focus is on creating linkages in Mongolia.

Section B More competition or Mud slinging:

10) CHF believes that the attention paid to the relationship between Khan and XAC Banks is excessive and immaterial to this evaluation. Furthermore, we disagree with the assertion that the GER Initiative has allied itself with Khan Bank, to the detriment of XAC Bank. We request that the evaluators focus on describing the ability of the GER Initiative to assist clients in choosing the most appropriate loan product and successfully apply to the bank which most closely fits the client’s need and ability to access credit. Further information on the GER Initiative’s bank partnerships and loans facilitated per bank is available upon request.

Section C – Part 2 – GER:

- 11) Support to Enterprises and Economic Development (**SEED**) was the predecessor to GER Initiative. The evaluation currently incorrectly refers to the SEE program.
- 12) The introduction to the GER Initiative here should be expanded in order to provide the reader with the background knowledge to place the evaluator’s findings and recommendations in context. Particularly, a description of the scale of the program and of the services evaluated would be helpful.

For example, the section on results includes a subsection on the sustainability of GER Initiative-facilitated loans that would be more clear if an enhanced description of the USDA-funded Capital Augmentation Fund was either provided here in the introduction or within the section commenting on the CAF. The CAF can be described as:

The Capital Augmentation Fund (CAF) is a syndicated lending program that is run by the GER Initiative. The fund is used only to assist those successful businesses that have sufficient cash flow to support increased borrowing, but do not have the collateral requirements that are needed under the existing bank requirements. The fund lends only through banks and has multiple purposes: 1) to assist businesses to grow by increasing their available credit from existing banking institutions and 2) to encourage banking institutions to do some lending that is not 100% dependent on collateral.

- 13) Paragraph three of this section states that “the key characteristics of GERI makes it difficult to give a complete detailed description of all that it is doing to promote business activities in the Ger Areas.” CHF is pleased that the evaluators recognized and appreciated the multi-faceted, integrated approach of the GER Initiative. However, as currently written, the above sentence is unclear and open to varying interpretations. We suggest as one possible re-write:

“The GER Initiative offers a core set of services, listed above, however in addition to these services, the GER Initiative offers a wide variety of other services including providing Khaashaa valuation in all the Ger Areas in UB, tax and legal support, Community days to introduce Ger Area residents to commerce in their own neighborhood, etc. Because the GER Initiative services are 100% demand driven, the program is constantly responding to client needs with results focused solutions.”

- 14) The paragraph describing the staffing and office locations of the GER Initiative refers to service provision by business advisors and outreach workers. The official titles of these staff are Business Advisors and Resource Advisors.
- 15) The last paragraph of this section describes the external mid-term evaluation of the GER Initiative commissioned by CHF. We believe the current characterization of CHF’s response to and acceptance of the evaluator’s recommendations is generally accurate, with one exception. The GER Initiative does collect demographic information on clients, which is stored in our online reporting system. The GER Initiative also collects information on businesses that improve over time as an essential part of the reporting for the program. The evaluator’s recommendation was not accepted in full due to the scope and duration of the monitoring recommended.

Section 4 - Business Development Services of Others

- 16) The evaluation references that XAC Bank has “set up its own GER Initiative in four branches in UB and one in Erdenet.” While CHF is aware that XAC has opened branches in the Ger Areas, we are unaware of any services being offered other than regular bank services.

Section III. Findings on the GER Initiative - Results

- 17) This discussion and accompanying chart on fees collected by the GER Initiative for services provided needs further clarification regarding the distinction between service fees and bank interest fees. The chart currently in the draft evaluation shows only service fees and incorrectly labels the “Other” category as Bank Fees when they in fact include fees for Books Purchased, Employment Registration, Employment matching, Information Services. A corrected chart including bank interest fees for the same time period is provided below.

Service Income /April-June 2005/

		UB	Darkhan	Erdenet	Choibalsan	Total
1	Training	458,800	152,550	213,100	132,965	957,415
2	Consulting	560,300	322,900	315,600	75,950	1,274,750
3	Other	782,300	199,900	489,400	135,000	1,606,600
4	10% facilitation income	3,168,279	252,103	639,402	131,800	4,191,584
	Total	4,969,679	927,453	1,657,502	475,715	8,030,349

GER Initiative Results -Services -Business – Business Training

- 18) The evaluation currently speculates that the GER Initiative's vocational trainings are probably more successful compared to basic skills training given the high need for improved technical skills in Ger Areas. CHF would like to caution that vocational training and basic skills training not be compared so easily as they serve very different objectives. We do agree with the evaluators that vocational trainings have been successful.
- 19) CHF is pleased that the evaluators have noted the growing popularity of, and the value placed on, GER Initiative trainings. One additional reason for this, as brought out in CHF's monitoring, is the simplicity of the training. Trainings focus on providing the most needed information, in the practical manner noted in the evaluation.
- 20) The evaluation states that training clients are not monitored by the GER Initiative as agreed upon after the mid-term evaluation. CHF is able to provide further information regarding this statement upon request. The GER Initiative does monitor training clients, although improvements are possible.
- 21) The evaluators recommend collaboration with the Employment Office's voucher program to enhance sustainability of GER Initiative trainings. The program does currently collaborate with the employment office to use vouchers or the Employment Fund. Due to the high demand for construction workers in Mongolia, voucher resources have been redirected towards vouchers for construction training. The GER Initiative recently identified 15 clients for construction training.

GER Initiative Results – Services – Employment Matching

- 22) CHF disagrees with the evaluator's opinion that most of the job seekers served by the GER Initiative are seeking only seasonal employment. The single most common comment that we hear from our employment matching clients is that they are seeking consistent long term work with a good employer. The job market does require a great deal of short term workers. In the case of many businesses, including construction, this short term work is an intense income generating period for workers and thus one of the best available income generating opportunities for GER Initiative clients disinclined to be entrepreneurs.
- 23) CHF would like to highlight for the evaluator's consideration some of the additional benefits of the employment matching service that are not visible in the draft evaluation. In relation to impact on individual employment seekers, the service builds increased confidence and increased knowledge of worker's rights and responsibilities. The service also has a positive influence on working conditions by working closely with large employers to be more responsible.

GER Initiative Results – Services – Business Groups and Association Development

- 24) CHF is excited by the results of the GER Initiative's work with business groups over the past year and is pleased that the evaluators recognized the increased confidence and trust among business group participants as compared to the general population in the Ger Areas. CHF believes this success is directly related to our deliberate choice to focus primarily on collaborative economic activities with the formation of formal entities as secondary.

GER Initiative Results – Intermediate Outcomes

- 25) The last short paragraph of this section states that "GER should continue to push for improved and innovative – for the Mongolian context – practices of its clients, e.g. help them understand safety and environmental protection practices." CHF requests that this statement be further elaborated to show what the evaluators believe to be appropriate for the size and sophistication of GER Initiative client businesses.

Potential Legacies

- 26) As stated above, CHF does not believe that "Local trainers and consultants will likely not continue their activities after the project" is an accurate portrayal of the market for trainers or consultants. The GER Initiative works with a number of training partners that have thriving businesses.

Similarly, we regularly face the challenge of not being able to hire the consultants that we would like to use because they are busy in private engagements to other projects as well as private business. As CHF works with USAID and USDA on the future activities of the GER Initiative, we will be looking closely at the ability of Business Advisors to continue as independent consultants after the GER Initiative.

How sustainable are GER Facilitated Loans?

- 27) The second paragraph's mention of the 10% fee paid by banks to the GER Initiative for facilitated loans is currently unclear. The service fee is 10% of loan interest fees, not 10% of the overall loan.
- 28) This section references the Capital Augmentation Fund as CAF before it has been properly introduced. One suggested introduction is included above in this response. CHF requests that, at the least, the evaluators state that the CAF is funded by USDA.
- 29) The Capital Augmentation Fund (CAF) is actually syndicated lending product rather than a loan guarantee.

GER Program Management and Staff Capacity

- 30) The correct name of CHF's monitoring system is the Project Reporting System (PRS). The evaluation incorrectly refers to it as PSR.

Conclusions and Recommendations

- 31) As stated above, CHF welcomes concrete, detailed recommendations for program improvement and extension along with any supporting examples that can provide further understanding of the recommendations. The current text related to the GER Initiative refers to the coverage of the program in the GER Areas. Given the high number of people that we have worked with, we request that the need to expand coverage be clarified.

CHF hopes that the comments and clarifications provided here will be of assistance to the evaluation team in finalizing the evaluation. We look forward to the opportunity to review and respond to the final version.

Attachment B

PARTNER LIST

NGOs & Projects

The name of organization	How we work	Contact person
Mongolian Women's Farmer Association	Support to their chicken farmer trainings	Byatskhandai, First Lady
MONEF	Job advertisements in the Ger Area.	Ganbaatar, Country Director
Eh San	We jointly coordinate artisan trade fairs	Ts.Oyun, Chairperson
Mongolian Chamber of Commerce and Industry	Clients participate in their trade fair	Nergvi
Legal School of National University of Mongolia	Legal students provide legal advice in our offices	Tuya, Training Center Director
Mongolian Cook Association	Jointly organized bakery training	Otgonbat, Director
World Bank Stove Project	Assessed their product's marketability and participated in their workshop.	Oyuntsetseg, Program Manager
JFPR/Expanding employment opportunities for Disabled People	Linked ger area disabled people to their project and provided training to their clients.	Otgontsetseg, Manager
V.E.T. NET	Supply training and accounting books to their veteraniarian clients.	Richard L Ballenger, Business Manager
ILO- informal economy, Poverty and Employment Project	We participated in their SIYB, another training and an artisan consultant training. They used our clients for their trainings.	Shuren, Project Manager
UNDP - Super Insulated housing project	Information Exchange, Publish articles about their project in newsletter	Myagmar, Project Manager
Industrial Survey & Land Registration Project	Provided us maps in our offices for khashaa survey	Erdenemunkh, Project Manager
Eviin hvch NGO implementing Japanese	Jointly organized Trade Fair Provided bookkeeping training and books to their clients	Nyambuu
Norwegian Lutheran Mission	Contributed to our Agri Trade Fair, exchange information	Altantuya, Manager
Extention Centre Agriculture TACIS Project	Information exchange and hire their agribusiness teachers	Delger, Coordinator
Accion Contra La Faim	Train their clients in savings and consumption	Victor Kiaya, Coordinator
UNICEF - Songino Kharkhain Womens Project	Train their clients in business concepts, startups	Project Manager

Financial Institutions

The name of organization	How we work	Contact person and Position
Savings Bank	Loan matching and CAF Loan to GER clients Support Fairs and other GER activities	Nasanbuyan, Lending Officer
KHAN Bank		Niel Isbrantsen, Director
XacBank		Soronzonbold, Division Director
Credit Mongol NBFi		Tsolmon, Exec Director

SME and Large Business Employment and Linkages Partners

The name of organization	How we work	Contact person
Mongol Vision LLC	Employers - Hire GER clients	Gantsetseg, HR Manager
Gobi Tushee LLC		Erdenetsetseg, Manager
Erdene Suvarga		Enh-Undral, Manager
Chingeltey district's Public Service LLC		Amarjargal, Manager
Bum LLC		Mandah, Owner
Diorva Mongol LLC		Nomin, Manager
Popway LLC		Batjargal, HR Manager
MMB LLC		Batbold, Owner

Talhan tseh		Owner
City Shop LLC		Shurentsetseg, HR Manager
"Erel" Company		Chuluuntsetseg, HR Manager
Khos Irves Security office		Tuya, Trainer
Avraga Institute		Tsevelmaa, HR Manager
Selenge knitting LLC		Taivan, Administrative
Business Plaza		Oyun, Administrator
Buuz banshnii tseh		Boldchimeg, Manager
Erdenezam LLC		Oyun, HRM
Huchitzam LLC		Mandah, Manager
Baabar LLC		Sergelen, Manager
Housing Service		Narantsetseg, Manager
Mongol Kiayuan LLC		Delgermaa, HRM
Well trade LLC		Munguntuya, Manager
Auto House LLC		Davaadorj, Director
Altay Constuction		Munkhzul, HRM
MMW Company		Owner
Avzaga trade LLC		Byambasuren, HRM
Bridge construction		Amgalanbaatar, HRM
Coco desert LLC		Tuul, Owner
Cronus LLC		Altankhundag, Engineer
UB Deli		Orkhonbaatar, Cook
Everyday supermarket		Odbayar, HRM
Monro Impex LLC		Sarsntsetseg, Director
Mongol Amical LLC		Tsevelsuren, HRM
Zig Zag Group		Bayarmaa, Manager
Nomin Co.Ltd		Zolzaya, HRM
Minii Delguur supermarket network		Jargal, Manager
Shine Delkhii Holding		Oyunkhand, Manager
Noyon buuz		Tuvshinbat, Owner
Happy café		Altannavch, Owner
Shanlun company		Ganbat, Translator
DOZT		Baigalmaa, Engineer
Bishrelt shop		Tsengelmaa, Owner
Eastman Glory Knitting Company		Monkhoo
Batbayalag company		Batchimeg, Director
Erdenet suljee		Uurtsaih, Manager
Erdenet Atar urguu		Enk-Amgalan, Director
Erdenet carpet company		Urankhishig, HR Director
Jaran us		Serjmaa, Director
Khangay Security office	Employers and Trainers - Train and Hire GER clients	Altanbagan, Manager
Gobi LLC		Jargalmaa, Trainer
BOSA LLC		Battogto, Trainer
Good Door LLC		Altansukh, Director
"Magic Suit" Sewing company	Employers and Linkages Partners - Hire GER clients and Provide a linkage Opportunity	Oyungerel, HRM
Erdenet Michid		Sukhbaatar, Director
Duulga international		Punsaldulam, Manager
Atar urguu Company	Training Partner	Munkhtuya, Technologist
Erchu LLC	Linkages Partners - Provide Sales and/or Input Linkages to our Clients	Mishigdorj, Director
AOSS sewing factory		Suvdaa, Director

"Bukhug" Co.ltd		Surenkhorloo, Manager
"Bukhug tulga" Co.,Ltd		Noot
"Tse" bar network		Byambaa, Director
DBB		Battsengel, Owner
Flour factory		Bolorchuluun, Director
Khishig supermarket		Sunjidmaa, Director
CIS French restaurant		Francois
NEKHII Sheepskin LLC		Zoljargal , Vice director
Cowboy Meat LLC		Enkhbat
Tsagaan Tavilan		Uuganbayar, Director
Mongol Ger Hujirt Company		Odgerel, Director
Erdenet cashmere		Tsedensodnom, Director
Mining company		Baasan, Director
Power station	Employment and Public Works Partner	Alimaa, HRM
"Mass" Co.,Ltd	Community day and Linkages Partner	Naraa, Director

Government Organizations

The name of organization	How we work	Contact person
Sukhbaatar, Songino Kharkhin, Chingeltei, Khan Uul, Bayanzurkh District Employment Offices and Employment Offices in Dornod, Erdenet and Darkhan	Signed MOU with the central employment office however the relationships in UB are not stable. It depends on the people in the EO. In Dornod, we organize public works. In Darkhan, we exchange information on job positions and unemployed. In Erdenet, jointly-held human resource management training, to provide vocational training to the GER clients , jointly-work on job matching unemployment people.	Mungunchimeg, Training Officer and Enhtaivan, Employment Officer
State Supervisory Department		Bayarmaa, State Inspector
53 Ger Area khoroo Governors in UB	Annual meetings, information boards, client referrals and assistance in khashaa survey data collection.	Tumurbaatar, Horoo Governor
City governor office of Dornod	Jointly Organize Trade Fairs	Nasandelger, City Governor
Land office of Dornod aimag	Jointly organize Land Privatization Work	Damdinbazar, Land Office
8 baghs in Dornod	Annual meetings, information boards and client referrals.	Enkhbold, Bagh Governor
Agriculture and Food Departments in Darkhan, Erdenet and Choibalsan	Information exchange, Jointly Organize Trade Fairs, Agriculture Trainings	Delger, Agronomist
6 baghs in Darkhan	Annual meetings, information boards and client referrals	Enkhmongol, Horoo Governor
Soum gov-organization in Erdenet	Annual meetings with GER results presentations. Jointly organize trade fairs and trainings.	Amarjargal, Deputy Governor
Aimag gov-organization in Erdenet		Sharkhuu and Nansalmaa
8 baghs in Erdenet	Annual meetings with GER results presentations, information boards, client referrals and assistance in khashaa survey data collection.	Bah Governors

Subject: FW: PDF version of GER&Gobi Evaluation

-----Original Message-----

From: Sean Granville-Ross [mailto:sean@mercy Corps.org.mn]

Sent: Wednesday, March 22, 2006 4:18 PM

To: Waskin, Leon (Mongolia/OD); Goodson, Jeffrey (Mongolia); Johnston, Cory (Mongolia); Mendsaihan, Hasbaatar

Cc: 'Steve Zimmerman'; bayan@mercy Corps.org.mn; 'Stevan Buxt'; 'Paul Jeffery'

Subject: FW: PDF version of GER&Gobi Evaluation

Dear Skip,

Please find below consolidated comments from the Gobi Initiative team.

Regards,
Sean

(1) page 6 - we are not sure that we agree with the statement that "...the current likelihood of sustaining cutting-edge BDS services after USAID funding ends remains slim". Even the evaluation states (page 59), that "...it is likely that some consultants may continue to provide services to GI clients after GI ends". Thus we might concur with a diminished possibility of sustaining "cutting-edge BDS services" but remain confident that the delivery of "effective BDS services" will continue.

(2) page 8 - we are supporting/participating in the pilot livestock insurance scheme (to the extent that our respective geographies overlap), but the pilot is moving very slowly and there are some doubts as to whether or not it will actually be functioning by the end of Gobi II.

(3) page 8 - we agree that RBN, when taken as a whole, is a sustainability challenge, but we believe that the key components can be sustained in some form or another. Specifically, we believe that "Market Watch" will continue as a "public service" product, funded by government and/or other institutional donors. We also believe that the concept of using adapted entertainment formats to carry important business (and social) messages will be institutionalized within Mongolian mass media. Although the specific RBN business product may not continue, certainly in its current format, the popular use of creative and effective "message delivery" content will lead to more such programming in the future. In 2006 we have free programming with TV 9 and we are working with their journalists - part and parcel of the TV programming may become sustainable if it is successful and can be picked up by TV 9. As for MNTV / Mongol Radio programming - it remains to see what happens with the public broadcaster and if the institution can remain truly independent and meet the needs of public broadcasting and educational public awareness in this country.

(4) page 9 - as noted in previous comments on the evaluation, we agree with an (eventual) loan guarantee phase-out, but not within the implied timeline. Despite what the banks have said that they will do, they still have not significantly modified their lending practices to concentrate greater attention on business plans and less on borrower collateral. They are taking steps to train their branch lending personnel, but our recent evaluation of our loan guarantee mechanism (LGM) revealed that there is still a long way to go before the banks can be relied upon to lend based on the projected viability of the business and a valid character assessment of potential borrower "bankability".

(5) page 10 (and pages 63/64) - we disagree with the term "legacy institutions". GI will leave behind important legacies, including improved rural client/commercial bank linkages, more widely available and accessible local BDS services, locally-owned annual market events, and, at least in some areas, better local (government) support for the private sector and more public/private sector dialogue.

GI has, however, deliberately stayed away from the concept of a successor "institution".

(6) page 18 - "marginalized" is still a good description of Gobi clients, at least from an economic point of view. They are disadvantaged but they were also unable to access financial services, appropriate business and technical training and technical assistance, and the information (market prices, changes in legislation/ policies, national trends, etc) that is essential for any business operation. They are, therefore, outside the mainstream of the Mongolian private sector which has, since independence, been based almost solely within Ulaanbaatar, Darkhan and Erdenet.

(7) page 57 says "...more targeted efforts could be made to help local officials play a facilitating role for private sector development" There is no suggestions as to what these 'targeted efforts' could be. There is also no comment on what has been delivered to the local government through the GI local government support activities in years one and two.

(8) page 59 - as noted in previous comments on the evaluation, we take exception to the word "subsidy". Since interest rates set by banks are normally significantly influenced by client risk, the availability of cash collateral to secure loans is an effective way to diminish that risk. Banks operating in a truly competitive environment would realize this and compete for these "grade A" clients (cash collateral plus a vetted business plan) and set their lending terms accordingly. The term "subsidy" would only be applicable in instances in which lending rates were fixed. This was largely the historical practice in Mongolia (pre-Gobi II), particularly in the rural areas, but is not the norm in (well) developing economies.

(9) page 62 - "...the team recommends GI strive even more to give ownership to local offices, and more importantly, to clients themselves." The program in year three has already taken strides to address this recommendation, with all herder business plans with loans of less than MNT3 million being reviewed and approved by the aimag offices.

(10) page 62 - "... The team sees a great need for GI now to create, with clients, a process whereby clients can initiate, and revise as needed, their own business plans, year-by-year." The program officers are currently working hard involving all the aimag-based staff and existing clients to revise the whole business planning process from selection of clients through to the development of business plans to approval of the business plans in preparation for the fourth year (2007) of herder client selection and business planning.

(11) page 65 - it would be useful to further highlight the statement "...one reason for the poor performance of donor projects in developing BDS is that many have been run through the government". We believe that a significant factor contributing to the success of GI has been its ability to operate independently of government control and interference (i.e. the "Project Implementation Unit" format).

(12) page 66 - we're not sure what is meant by "...lack of quality relevant baseline data"?

(13) page 66 - the section on USDA could imply that USDA funds are not being used effectively. Although we acknowledge that different USG agencies have different procedures when awarding and monitoring grants, we don't apply any lesser standards to the design and implementation of our USDA-funded programs. In fact, we tend to appreciate the flexibility that USDA has shown with respect to program design. The increasing tendency of USAID to over-regulate program design parameters, following a "need to control" and "one size fits all" approach, often sharply limits the effectiveness of those programs. Fortunately, we have had significant support from both USAID/Mongolia and USAID/Manila with respect to Gobi II, and that is reflected in its creative and innovative program design and in the virtually problem-free implementation.