



Building a Better World

# GER Initiative Final Report

August 15, 2002 – March 31, 2009

USAID/CHF GER Initiative (Growing Entrepreneurship Rapidly)

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## List of Acronyms

<b>BDC</b>	.....	Business Development Center
<b>CHF</b>	.....	Cooperative Housing Foundation
<b>DS</b>	.....	Development Solutions
<b>CHF</b>	.....	Growing Entrepreneurship Rapidly
<b>GOBI</b>	.....	Growing Opportunities for Business Initiative (Mercy Corps)
<b>MASP</b>	.....	Mongolia Agribusiness Support Program
<b>MSME</b>	.....	Micro, small and medium size enterprise
<b>SME</b>	.....	Small and medium sized enterprise
<b>USAID</b>	.....	United States Agency for International Development
<b>USDA</b>	.....	United States Department of Agriculture

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## Overview

### ***Program Objectives<sup>1</sup>***

The goal of the GER Initiative (CHF) is to improve the quality of life for low- and medium-income families living in the peri-urban areas of Mongolia<sup>2</sup> by supporting and promoting local entrepreneurship and employment. The program focuses on the development of small and medium enterprises (SME's) that benefit the residents of the ger districts of the target cities.

At the time of launch, CHF supported USAID/Mongolia's five-year strategy (1999-2003), particularly Strategic Objective (SO) Two: **Accelerate and broaden sustainable private sector growth**. Under this SO, CHF directly contributed to two Intermediate Results (IR):

**IR2 Increase the Efficiency of Financial Markets:** CHF facilitated the development of start-up businesses, fostered entrepreneurship, and provided access to resources for existing SME's to expand their activities. By working with local banks, particularly Khan Bank and Xas Bank, CHF assisted SME's to qualify for loans and increased access to demand-driven financial services.

**IR3 Improve the Business Environment:** CHF provided SME's with access to business consulting services, business training, and information, which directly improved businesses' ability to respond to market requirements, along with the quality and supply of products and services.

The expected results at the conclusion of the GER Initiative program were:

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

### ***Program Methodology<sup>3</sup>***

The GER Initiative complemented other rural based USAID programs such as GOBI by focusing on the peri-urban ger districts. Mongolia's transition from a nomadic herding economy to a more urbanized industrial economy makes these ger districts the primary transition zone for urban immigrants who leave herding to move to urban centers. Such immigrants are generally very poor, without employment skills, and with little business knowledge. Our goal is to find employment for such immigrants, primarily through SME development, business training, and information services. The GER Initiative thereby complements other USAID programs in herding and rural

development, competitiveness, economic policy, and financial institution development, among others.

CHF's strategy was to help the informal economy of the ger districts better integrate into the formal urban economy. The strategy was based on developing business skills, providing business training and information, and increasing access to bank credit.

## Target Clients

The GER Initiative promotes small business development for the benefit of residents of the ger district. The target population includes recent migrants who have given up herding, the unemployed, and the underemployed residing in the ger districts. CHF developed the entrepreneurial and business skills of the target population and assisted them to develop their small and medium enterprises. The GER Initiative focused its business consulting, information, and training services on small businesses, defined as micro-enterprises with 1-10 employees. This group includes single owner entrepreneurship, small family owned enterprises, micro-enterprises, and small businesses.

Client Status	Clients	Male	Female	Avg. Ger Time	Avg. Age	Disabled
Business Owner	14,712	6,088	8,624	10.10	42.36	45
Employment Client	20,718	8,366	12,352	8.39	31.94	27
Future Business Client	7,211	2,947	4,264	9.06	41.56	34
Other	5,306	1,926	3,380	8.09	42.20	13
	<b>47,947</b>	<b>19,327</b>	<b>28,620</b>	<b>8.91</b>	<b>39.59</b>	<b>119</b>

Source: PRS Client Profile Report 8/1/2002 – 3/31/2009

When evaluating clients, CHF staff considered the enterprise's size, sector and business potential.

## Size

While CHF focused on the micro and small business in the ger districts, some exceptions were allowed for larger businesses that affected the ger districts through employment or business linkages and businesses that were located outside the ger areas but were still closely linked to the ger district. Close linkage to the ger district is defined as either: 1) the business is located in the ger district, 2) its owner is a ger district resident, or 3) a substantial number of the business's employees are ger district residents. Exceptions were also allowed for businesses that provide key services to ger district residents (such as gardening supplies or well drilling), micro-enterprises that can be grouped into cooperatives, and business associations.

Sector	Type	Clients	Employees	Avg. Emp/Client
<b>Producers</b>				
	Producers - Agriculture	1,946	4,191	2.2
	Producers - Food	460	2,168	4.7
	Producers - Metal	347	966	2.8
	Producers - Souvenir	252	462	1.8
	Producers - Textile	1,663	3,581	2.2

Producers - Wood	823	2,100	2.6
	<b>5,491</b>	<b>13,468</b>	<b>2.5</b>
<b>Services</b>			
Services - Agriculture	35	101	2.9
Services - Communication	97	287	3.0
Services - Construction	153	886	5.8
Services - Consumer Retail	280	745	2.7
Services - Education	10	24	2.4
Services - Entertainment	154	292	1.9
Services - Food Service	510	1,706	3.3
Services - Repair	434	925	2.1
Services - Transportation	753	1,282	1.7
	<b>2,426</b>	<b>6,248</b>	<b>2.6</b>
<b>Traders</b>			
Traders - Unclassified	1	1	1.0
Traders - Agriculture	751	1,255	1.7
Traders - Auto	214	354	1.7
Traders - Communications	30	54	1.8
Traders - Consumer Retail	3,618	6,153	1.7
Traders - Consumer Wholesale	1,027	1,782	1.7
Traders - Electronics	53	96	1.8
Traders - Machine	29	66	2.3
Traders - Others	672	1,362	2.0
Traders - Textiles	398	604	1.5
	<b>6,793</b>	<b>11,727</b>	<b>1.7</b>
<b>Uncategorized</b>			
Uncategorized	2	4	2.0
	<b>2</b>	<b>4</b>	<b>2.0</b>
<b>TOTAL</b>	<b>14,712</b>	<b>31,447</b>	<b>2.1</b>

Source: PRS Business Client Report - 08/1/2002 – 03/31/2009

## Sector

CHF was open to all business sectors within the ger districts and within the program limits of USAID and USDA. Prominent sectors in the program included:

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

Sector	Type	Clients	Percent of Total
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### Producers

Producers - Agriculture	1,946	13.2%
Producers - Food	460	3.1%
Producers - Metal	347	2.4%
Producers - Souvenir	252	1.7%
Producers - Textile	1,663	11.3%
Producers - Wood	823	5.6%
	<b>5,491</b>	<b>37.3%</b>
<b>Services</b>		
Services - Agriculture	35	0.2%
Services - Communication	97	0.7%
Services - Construction	153	1.0%
Services - Consumer Retail	280	1.9%
Services - Education	10	0.1%
Services - Entertainment	154	1.0%
Services - Food Service	510	3.5%
Services - Repair	434	2.9%
Services - Transportation	753	5.1%
	<b>2,426</b>	<b>16.5%</b>
<b>Traders</b>		
Traders - Unclassified	1	0.0%
Traders - Agriculture	751	5.1%
Traders - Auto	214	1.5%
Traders - Communications	30	0.2%
Traders - Consumer Retail	3,618	24.6%
Traders - Consumer Wholesale	1,027	7.0%
Traders - Electronics	53	0.4%
Traders - Machine	29	0.2%
Traders - Others	672	4.6%
Traders - Textiles	398	2.7%
	<b>6,793</b>	<b>46.2%</b>
<b>Uncategorized</b>		
Uncategorized	2	0.0%
	<b>2</b>	<b>0.0%</b>
<b>TOTAL</b>	<b>14,712</b>	<b>100.0%</b>

Source: PRS Business Client Report - 08/1/2002 – 03/31/2009

## Business Potential

CHF's initial client selection criteria<sup>4</sup> were based on the client business' potential to increase incomes and generate employment of ger district residents. Small business clients with greatest potential were expected to exhibit many of the following criteria:

- Income Generation
- Employment Generation
- Increased Value Added
- Export Potential
- Off season Employment Generation
- Employment Generation for Retirees and Older Unemployed Persons
- Potential for organizing a business association

- Potential for organizing micro enterprises into a cooperative or group

Given the above business size, sector and potential criteria, CHF focused on small business clients in construction related areas (particularly renovation and building materials production), textiles, food processing, small manufacturing, vegetable production, and some key new startups. Construction, textiles, food processing, and small manufacturing were selected based on their potential for employment generation and increasing value-added, textiles and food processing were selected based on export potential, and vegetable production based on its potential to generate employment among retirees.

## ***Program Activities***

### **Business Development Services**

CHF business advisors utilized several steps to assess each business client to determine the specific business services that would help strengthen and expand their business. Following registration with the program and initial assessment, client businesses could benefit from the following services:

- **Information Services** -- access to market and trade-sector information from the internet or library resources
- **Financial Services** – assist SMEs to obtain and effectively use bank credit through five financial partners or through a bank of the client’s choosing
- **Business Training**– practical skills and applications development
- **Business Plan** –analysis of markets, demand, capacity, and business strategy
- **Investment Analysis** -- example: feasibility study of purchasing new equipment
- **Market Analysis** – assessment of specific target market for client services or products and strategies for achieving success
- **Credit Application** -- assistance applying for bank credit, including business plan, investment analysis, and market analysis
- **Management Assessment** – analysis of management capacity, strengths and weaknesses, and performance strategies
- **Business Research** -- from library, internet, or government offices

CHF worked closely with local banks, particularly Ag Bank and Xas Bank, to integrate CHF’s business development services, information services, and business training to help clients and banks achieve better credit relationships.<sup>5</sup>

### **Employment Matching**

Under the objective of increasing employment of ger residents, the GER Initiative assisted in matching ger district unemployed with the needs of potential employers, including both SME’s and large businesses. Under this objective, CHF worked closely with the Employment Offices, located at each local Governor’s Office. In 2007, CHF became a registered employment service provider with the Government of Mongolia.

## ***Integration of USDA Funding***

During the implementation of GER Initiative, CHF received additional program funding through the USDA's Food for Progress Program. Funding under the FY2000 and FY2003 USDA Wheat Monetization was made available through the US Embassy and the Government of Mongolia while FY2005 funds were received through a joint CHF/Mercy Corps application to USDA. CHF used USDA funds to supplement and expand existing CHF operations and thus USAID and USDA program results are integrated.

In 2009, CHF received funding under the FY2008 USDA Food for Progress Program. These funds are being used to implement the Mongolian Agribusiness Support Program (MASP) which continues many of the same business development services of the GER Initiative.

### **FY2000 USDA Wheat Monetization Funds<sup>6</sup>**

- The USDA FY2000 wheat funds were used to expand CHF's SEED Program activities and increase program impacts in Mongolia's peri-urban areas.
- While the original SEED Program included Darkhan, Erdenet, and Ulaanbaatar (UB), the USDA FY2000 funds allowed the program to respond effectively to the much greater demand in the capital and outlying areas.

### **FY2003 USDA Wheat Monetization Funds<sup>7</sup>**

- Choibalsan. Expand services to ger areas of Choibalsan, Mongolia's fourth largest urban area.
- Capital Augmentation Fund (CAF). Provide loan capital to banks for on-lending to CHF clients who are unable to secure sufficient financing due to traditional bank loan criteria.
- Partnership, Association and Cooperative Development. Further the development of small business clients in all GER Initiative areas through the formation of informal business partnerships, associations and cooperatives.

### **FY2005 USDA Wheat Monetization Funds<sup>8</sup>**

- Provide targeted training and technical assistance to establish productive new businesses and expand and diversify existing businesses, and create stronger market chains;
- Promote the formation and effectiveness of groups that support livelihood and related community issues, including herders, businesses, business groups, cooperatives, professional and community associations; and,
- Assist program clients to identify, access and develop new markets – locally, regionally and nationally – as well as to further develop local capacity to provide such market access and development services to local entrepreneurs.

## **Implementation**

<b>TIMELINE:</b>	
<b>2002</b>	<ul style="list-style-type: none"> <li>• USAID Cooperative Agreement for the GER Initiative: \$2 million</li> <li>• Business Assistance and Employment Services launched.</li> <li>• Initiated activities in Darkhan, Erdenet, and Ulaanbaatar.</li> </ul>
<b>2003</b>	<ul style="list-style-type: none"> <li>• 2000 USDA Wheat Monetization award via US Embassy: \$2 million</li> <li>• Business Assistance and Employment Services launched.</li> <li>• Expanded activities in Ulaanbaatar.</li> </ul>
<b>2004</b>	<ul style="list-style-type: none"> <li>• 2003 USDA Wheat Monetization award via US Embassy: \$0.7 million</li> <li>• Capital Augmentation Loan Fund launched.</li> <li>• Increased group formation.</li> <li>• Initiated activities in Dornod.</li> </ul>
<b>2005</b>	<ul style="list-style-type: none"> <li>• Sales and input linkages launched, Information services expanded to include government info</li> </ul>
<b>2006</b>	<ul style="list-style-type: none"> <li>• USAID cost extension, \$1.8 million</li> <li>• 2005 USDA Wheat Monetization award: \$1.6 million</li> <li>• Greater agriculture focus</li> <li>• Expanded to Tov, Bulgan, Selenge, remote Ulaanbaatar, and Ulgii</li> </ul>
<b>2007</b>	<ul style="list-style-type: none"> <li>• Focus on staff capacity, sustainability</li> <li>• Consolidate satellite offices in Darkhan, Erdenet, and Choibalsan</li> </ul>
<b>2008</b>	<ul style="list-style-type: none"> <li>• Transition to local NGO, Development Solutions</li> </ul>
<b>2009</b>	<ul style="list-style-type: none"> <li>• 2008 USDA Monetization award \$2.3 million</li> <li>• Close out of GER Initiative.</li> </ul>

### **Program Year 1: August 16, 2002 – August 15, 2003**

During the last quarter, the GER Initiative (then called the SEED Program) Cooperative Agreement was modified to incorporate the following changes: 1) add \$1,942,2099 in USDA wheat monetization funds to increase the total budget to \$3.94 million, 2) substantially expand program activities in Ulaanbaatar, 3) add a new long term Deputy Director position in Ulaanbaatar, and 4) change the name of the SEED Program to the GER Initiative (Growing Entrepreneurship Rapidly). These changes are described in “Proposal for The GER Initiative -- Growing Entrepreneurship Rapidly: the USAID/CHF Peri-Urban Business Development Program” by CHF International, 05/01/04.

In addition, the new GER Initiative focuses more on the development of microenterprises in comparison to the SME focus of the former SEED Program. Under the GER Initiative, target clients are small family businesses and microenterprises with 1 – 10 employees. The former SEED Program focused on businesses with 10 – 50 employees, microenterprises that could be organized into groups, and the development of linkages with medium and large companies. This reorientation was motivated by two factors: the preference of the additional funding source and the reality that most ger district clients tend to be microenterprises or very small family businesses.

Most of the first year was dominated by the logistics of opening Business Development Centers at three regional sites and the startup of new activities. This period went reasonably smoothly, but necessarily meant that more staff time was used for one-time startup activities than for operational activities. In addition, the development of staff’s business consulting skills was a slow process.

With the reorientation of the program toward

microenterprises in March and April, a new set of problems were encountered that continue to require adjustments.<sup>10</sup>

<b>Issue</b>	<b>Adaptation</b>
<p><b>Problems arising from GER Initiative’s focus on microenterprises versus SME’s</b></p> <p>The GER Initiative’s reorientation towards</p>	<p>In the past quarter, we have focused almost exclusively on microenterprises in Darkhan and Erdenet. In the next quarter, we will grant more exceptions for larger businesses that meet our</p>

<p>microenterprises, and a more strict definition of ger district linkages has created some challenges for the program. While the client base in principle should be much larger (by focusing on smaller enterprises), the consulting and information needs of these clients is substantially lower than the original SEED program's SME orientation had planned. This may be a temporary problem and may affect Darkhan and Erdenet more than UB, but the new microenterprise clients tend to need very limited services, such as how to register a business, how to fill out a loan application, or relatively simple consulting advice about how to solve simple management and marketing problems.</p> <p>In Darkhan, the two new satellite offices in the ger districts generate more microenterprise clients, but they tend to need only 1-2 hours of consulting, need little information from the Business Information Center, and have little or no capacity to pay for services that are more substantial. Erdenet has more ger district businesses, but hasn't generated more clients than Darkhan and it is too soon to assess their potential consulting needs. It is too soon to say in UB yet, plus there are other factors at play there—while the economic environment has more potential, there is more competition from other programs that provide business development services and training without fees.</p> <p>While the new, smaller microenterprise clients probably need more business training, this is a more difficult set of clients for whom to develop appropriate training courses. Further, this client group has less potential to pay fees for training courses. Initial training programs emphasizing traditional business themes (bookkeeping, management, business planning, etc.) may have been a bit too sophisticated relative to the needs of the smaller family businesses we are currently recruiting. Unsophisticated clients with little business skills don't seem to know what training they need. We are looking into developing simpler orientation courses.</p>	<p>criteria (see Annex. 1) in order to find a more balanced set of clients according to size. We are also adapting our training courses more towards the needs of these family businesses, particularly through the expansion of "business group" training by organizing courses and workshops for groups of small businesses working in the same sector</p>
<p><b>It is proving difficult to collect fees.</b></p> <p>It is proving very difficult to collect training fees. Our target clients are very poor and have limited ability to pay. Our competitors (World Vision, the GOM Employment Office, other donors) do not charge fees for training and often provide transport and food. It is also proving very difficult to collect consulting fees for the same reason. We don't charge for the first 2 hours of consultation. One of the reasons that people do</p>	<p>That training and consulting fees be cut by half. Since fees are a large component of matching funds, the impact of this will need to be evaluated in the next budget revision.<sup>11</sup></p>

not return for additional consulting services is that they are too poor or unwilling to pay fees.	
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**Program Year 2: August 16, 2003 – August 15, 2004**

The GER Initiative grew substantially over the second year. CHF set up additional offices to locate services closer to clients, increased programmatic staff serving clients, provided staff development trainings, and systematized our services between the three cities. In the second year, CHF opened seven new ger area offices in the three cities to place program services as close to the target clients as possible. At the same time, we downsized our administrative offices in Darkhan and Erdenet. Staff increased from 48 in August 2003 to 82 in August 2004 including new business advisor, resource advisor, and specialized program coordinator and manager positions that work out in the communities with the clients. CHF continued to focus services on microenterprises and to train staff to deliver relevant services to them. Local staff members are now able to propose new or redesigned services based on their clients’ needs. This engagement of local staff in service design has continued throughout the life of GER.

CHF standardized services across the three program cities in year two. Although not all services are relevant to all cities and services continued to be adapted in all sites to be more effective, the tools, procedures and policies are shared between sites so that almost all services could be delivered from all sites.

In July 2004, the GER Initiative received more funding from the United States Embassy in Mongolia from FY 2003 Wheat Monetization funds to 1) expand the scope of the program by implementing the Capital Augmentation Fund (CAF) program activities, 2) increase focus and resources dedicated to group formation, and 3) expand the scale of the program to include Choibalsan, the fourth largest city in Mongolia.<sup>12</sup>

Issue	Adaptation
<b>Business Development Services</b>	
The ability of Business Advisors to offer services that are relevant to microenterprises that are becoming more sophisticated is currently limited.	Improve the advisors ability to offer quality, more sophisticated consulting services through simple tools and guidelines and continuous staff development, including through the use of local Mongolian consultants with relevant sector expertise and international consultants.
Banking institutions continue to offer short term loans (6 months) at interest rates of 2.8% monthly (or 33.6% on an annual basis). While the GER Initiative agrees that loan terms should be market-based, we believe that the “true risk” related to some potential loan clients is overestimated by the banks. This risk is in part reduced by the GER Initiative facilitation services. Without the availability of longer loan terms which result in more manageable monthly payments. GER Initiative clients have limited ability to expand their businesses. This results in a cycle of low net profit and low saving.	Work with bank partners to design and offer a product that provides a longer loan term to microentrepreneurs while continuing to minimize risk to banks. Banks could also benefit from longer term loans as these may reduce the administrative burden of processing multiple loans for the same borrower. Entrepreneurs will benefit by being able to invest in capital-intensive expansion activities that take time to yield profits for loan repayment but in the long-run do more to increase income and employment.
Lack of trust and cooperation at the community	Continue the work that has been initiated in the

and business community level. The GER Initiative has found that there is little cooperation or collaboration between businesses and within communities in the ger areas. This poses substantial challenges to the creation and development of larger scale institutions that liaise with government and within sectors to facilitate business and community activities.	formation of business groups and increase efforts related to the “formalization of groups” Secondarily, CHF has identified the need for a community-based program that will foster the collaboration and decision making behaviors that support advocacy and healthy communities. CHF is interested in developing and submitting a concept paper for a community based program that would run as a separate but complementary program to the GER Initiative.
Lack of outsourcing, business-to-business activities or ongoing business linkages in Mongolia. In the absence of a solid legal system to enforce contracts and a more developed business community, there is no precedent for bigger businesses to increase profit by purchasing the products of smaller companies.	Utilize media strategies and sector strategies and coordinate with other donor projects to improve outreach to bigger businesses that would be willing to partner/outsources to a smaller business. Document and publicize success stories to set the precedent for outsourcing and business linkages.
Quality standards are not known in Mongolia. Improvement of product quality is essential if business linkages are to happen. The GER Initiative does not currently have the staff expertise to work with manufacturing businesses on quality improvement.	Develop stronger links to other projects, bigger businesses, and local and international consultants that will provide this type of service to our businesses. With the business associations, it will become more feasible and efficient for groups of businesses to work on improving their quality together.
<b>Employment Services</b>	
Many employers do not treat their employees fairly. Labor practices, including hiring practices, are not standardized nor do they adhere to the Mongolian Labor Law.	Develop training for businesses interested in hiring new workers that explains the benefits of treating employees fairly. Explore different ways of implementing programming that uses positive and negative incentives for employers. Work with the Employment Office, the ILO and other organizations to explore other ways of making businesses adhere to the labor law.
Unemployed clients do not like to attend training before obtaining work. They are most interested in getting a salary right away.	Communicate the importance and long term value of training – higher salary and a better position - to unemployed clients. Subsidize the training cost so that the unemployed can have transportation and food during the length of the training.
In the secondary cities of Darkhan, Erdenet and Choibalsan, there are not many larger employers in need of employees.	Focus on the delivery of business development services in those three cities and facilitating other types of linkages to businesses while still offering limited employment matching services.
<b>Others</b>	
Other international organizations offer business development services free of charge or offer to pay the CHF GER Initiative to offer services to their clients for free. Free business development services do not help educate clients on the value of the services received and fosters an attitude of dependence rather than empowerment. Local private sector provision of business development services will be hindered in the future.	The GER Initiative will continue to educate its clients on the benefits that can be obtained from its business development services and will also continue to require that clients pay fees. We will also seek to encourage other international providers to adopt a similar approach.
In the previous year’s action plan the GER Initiative communicated that it was “unlikely that the GER Initiative’s business development services would become self-sustainable during the remaining two years of the program.” The GER Initiative maintains this opinion, particularly because the goal of self-sustainability is narrower	The GER Initiative proposes that the definition of sustainability applied to the program focus on the sustainability of its client businesses, business groups, and business advisor staff. This is discussed in detail in the Sustainability Section above. <sup>13</sup>

than the sustainability goals that we apply to this program. While financial sustainability of development programs is an admirable goal, the resources needed to accomplish the objectives of a business development services and employment program on an ongoing basis make traditional financial self-sustainability improbable.

**Program Year 3: August 16, 2004 – March 31, 2006<sup>14</sup>**

In year three, CHF increased the number of offices and staff providing services to clients, designed new services and refined already existing services, and expanded relationships with larger businesses and government officials. CHF opened six new ger area offices in the four cities including the Choibalsan offices. We consolidated our administrative offices in Darkhan, Erdenet and Choibalsan into the market branch offices. Staff increased from 82 in August 2004 to 130 in March 2006.

Staff members continue to constructively propose redesigns of current services or new services that they have ascertained relevant to their clients. New services brought on during the previous work plan period include the USDA sourced Capital Augmentation Fund, business association development and linkages. CHF continued to focus services on microenterprises and people looking for jobs. During this work plan period, CHF also provided opportunities for residents to become informed about government services that affect their businesses. We expect services to continue to evolve with more of a focus on agricultural businesses, especially in aimag sites.

The growth and continual adaptation of services between the current four cities and the five new future sites pose challenges in programming. There is a constant need to balance the standardization and “professionalization” of services with the space for creativity and the reinvention of services for exact client needs. Related to this, we continue to work on means to share information important to our clients between our branches. Currently, tools, procedures and policies are shared between sites so that almost all services can be delivered from all sites.<sup>15</sup>

<b>Issue<sup>16</sup></b>	<b>Adaptation</b>
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.	<i>While CHF agrees with the recommendation, the reality of the banking sector in Mongolia is that banks are not yet taking appropriate risks given the clientele. This is somewhat demonstrated by the number of CAF loans CHF has made with only one default.</i>
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.	<i>CHF is discussing different sustainable models for certain services beyond the external definition that we have always put forward, however we do not believe any of the services can truly be privatized given our client base and the level of our services.</i>
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	<i>CHF is working with local governments and will continue to do so during the extension of the project. All government activities are detailed in</i>

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	<i>the information section of this document.</i>
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.	<i>CHF is redesigning its PRS to be in-house.<sup>17</sup></i>

**Program Year 4: April 1, 2006 – March 31, 2007**

During program year four, CHF increased the number of offices and staff, refined services, and expanded relationships with larger businesses and government officials. In April, May and June of 2006, we expanded our services to Tov, Bulgan, Selenge Aimags, remote Ulaanbaatar and Ulgii city. USDA funds supported expansion activities in remote Ulaanbaatar, and USAID funds supported the expansion into Ulgii city. The expansion doubled the geographic coverage of the GER Initiative and required intensive work with staff at the start of the last work plan period.

During this year, CHF operated out of nineteen branch offices and a main office in Ulaanbaatar. Six new offices were opened and program staff increased from 130 in April 2006 to 145 in March 2007. At the same time, we downsized operations in Darkhan, Erdenet and Choibalsan. The office closures were in smaller ger areas where the program had saturated the market. Clients in these areas were able to access services at more centrally located CHF offices. Staff downsizing was done through attrition as staff left the project for other opportunities and were not replaced.

Managers are now systematically using an annual work plan to track their advisors, branch and sites results. While this is a quantitative tool, it does include qualitative sections where they can record creativity and activities that go beyond the current programming requirements. By assessing both quantitative and qualitative results, the program will continue to evolve and remains fresh with new ideas for improving and adding new services. Staff members continue to constructively propose redesigns of current services or development of new services that directly address the needs of their clients. This ongoing assessment and revision is crucial to the success of the project.

At the same time, the growth and continual adaptation of services between the nineteen offices in seven aimags and UB pose challenges in programming. Programs must offer standardized, professional services, while still allowing for the space to creatively tailor services to client needs. Over the past year, we have made significant strides toward institutionalizing the project and standardizing services. In addition to the standardized annual work plan that managers use, we now have quarterly managers meetings, monthly internet information sharing, and an annual programmatic meeting to ensure communication and information sharing between the branches. We will continue to strengthen these systems to improve staff’s project management, while encouraging ongoing evaluation of services to meet client interests.<sup>18</sup>

**Program Year 5: April 1, 2007 – March 31, 2008**

During year five of the GER Initiative, CHF began preparations for transitioning the program activity to a sustainable structure. This included strengthening services and staff capacity; moving services toward sustainability and staff toward potentially managing the project as a local NGO. More operational information was shared with managers and administrative staff, and advisors were challenged to think more creatively in terms of the financial viability of their individual branches.

The proposed GER Initiative exit strategy included merging with an existing business service provider or formation of a new entity. In year five, CHF conducted an assessment to consider carefully these options and to develop a strategy for the program’s transition.

For a potential merger, the assessment focused on those organizations that provide similar business development and employment services as the GER Initiative. The assessment found that other organizations either did not provide the same geographic coverage or the same comprehensive package of business and employment services.

During this time, both GER Initiative bank partners Khan Bank and Xac bank expressed an interest to “buy-out” or take over GER Initiative staff and certain business services. While this illustrates the success of the program and the strength of the partnership between CHF and the banks, this option was not the best strategy as it would limit activities to a single bank, and a number services, such as employment services, would be discontinued.

The assessment and the interest from the banks led CHF to consider establishing a new entity to take on the activities of the GER Initiative. CHF explored three legal forms for the new entity as available under Mongolian laws: for-profit company, association, or a not-for-profit non-governmental organization (NGO). Based on a risk/benefit analysis, CHF recommended a new NGO as the best structure for continued provision of GER Initiative services.

	For-Profit Company	Association	NGO
<b>RISKS</b>	<ul style="list-style-type: none"> <li>• Ownership of the company could be complicated;</li> <li>• Greater amount of personal risk/instability for current employees;</li> <li>• Ability to receive donor funding would be very limited.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential for complete dissolution is very high as it relies completely on the motivation of current employees;</li> <li>• Association governance and management will be difficult;</li> </ul>	<ul style="list-style-type: none"> <li>• NGOs have a somewhat negative reputation in Mongolia, with many believing they are accountable to political interests;</li> <li>• Composition of board of directors could be troublesome;</li> <li>• Major Bank partner (Xac) has expressed little interest in maintaining the current relationship should GER be spun-off into an NGO.</li> </ul>
<b>BENEFITS</b>	<ul style="list-style-type: none"> <li>• Bank partner (Xac) has expressed a preference to work with such an entity should the relationship continue without CHF direct management;</li> <li>• Potential to attract investors to fund operations and grow the business;</li> <li>• Growth and profit potential is highest with this option.</li> </ul>	<ul style="list-style-type: none"> <li>• Employees would have greatest level of independence;</li> <li>• Competition between advisors would separate those with motivation from those without;</li> <li>• May be able to bid for donor/government funding as an association.</li> </ul>	<ul style="list-style-type: none"> <li>• Can more easily qualify for outside donor and GOM financing;</li> <li>• Employees feel more comfortable with such structure do to the current status of employment with an international NGO;</li> <li>• Less pressure on employees to deliver profitable products and services.</li> </ul>

To implement this strategy, CHF proposed a no-cost extension of the GER Initiative. The six-month extension was funded with accumulated program income from service fees charged to clients over the course of the program.

### ***Program Year 6: April 1, 2008 – March 31, 2009***

Program year six marked the final year of the GER Initiative and saw the formation of a new local service provider, Development Solutions, and the transfer of CHF local staff to the new organization.

CHF developed the initial business plan for Development Solutions and helped identify potential candidates for its Board of Directors. CHF approached a number of its key partners including banking partners, employment partners, and large business linkage partners to serve on the board of DS. We felt that Development Solutions would be best served with a well-rounded Board with members who were familiar with and involved in the GER Initiative. Ultimately, the Board included members from Khan Bank, Xac Bank, The Education Channel, Booroo Gold Mines, and Eurofue.

CHF worked with the Management of Development Solutions to provide a smooth transition of staff offices with minimal disruption of services to GER Initiative clients. During the program year, CHF consolidated branch offices and reduced staff size through natural attrition. Staff were given the opportunity to apply for positions in Development Solutions through an open and competitive hiring process. This process allowed Development Solutions to keep the best and most experienced staff of GER Initiative.

Development Solutions served as a subawardee to the GER Initiative from October 2008 until the close of the program in March 2009. During this time, Development Solutions provided most business and employment services for the program while CHF focused on training and capacity building to the Management and Board of Development Solutions.

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<sup>1</sup> GER Initiative Proposal (4/24/2003)

<sup>2</sup> Darkhan, Erdenet, and Ulaanbaatar, Ulgii, Dornod, Tov, Bulgan and Sukhbaatar

<sup>3</sup> GER Initiative Proposal (4/24/2003)

<sup>4</sup>

- **Income generation**—the ger district is full of informal sector, micro-enterprises that employ people, but have low value addition, low productivity, and low income. These include businesses such as retail kiosks, petty trading in the market, and low quality production (uniforms, shoes, simple furniture, etc.). These micro-enterprises overproduce goods that already glut the local market, driving down prices and incomes. They are more a symbol of poverty, than a means to work your way out of poverty. Real income increases are generated by small businesses that have higher productivity, higher value-added, and produce more innovative goods and services. Only these small businesses demonstrate potential for breaking out of the informal sector poverty trap and are the priority for the GER Initiative.
- **Employment generation**--value-added and employment potential are linked. All SME's generate employment, but unless there is a substantial value-added component, innovative technology, more efficient production method, or regional trade component, the SME just tends to employ people in low wage activities that often add little to overall economic growth or income. The greatest potential for real employment growth is in textiles, construction, light manufacturing, food processing, and vegetable production.

- **Increased Value-added**—value addition in many informal sector enterprises, such as trading and kiosks, is generally low. Greatest value-added potential is in construction, textiles, food processing, and small manufacturing.
- **Export potential**—micro-enterprises that produce goods that already glut the local market create a poverty trap. New micro-enterprises in glutted sectors just drive down incomes and displace other micro-enterprises. Export markets could help, but unfortunately, Mongolian small businesses have limited potential for export generation. Potential export clients include textiles, handicrafts, food processing, and, indirectly, through provision of services to large export industries, such as mining.
- **Off-season employment generation**—seasonality of employment is a major problem in Mongolia, because the key industries of construction, agriculture, and food processing rarely operate in the winter. Thus, activities that can employ workers in winter are priorities: textiles, furniture and cabinetry, small manufacturing, apartment renovation, and handicrafts.
- **Employment generation for retirees and older unemployed persons**—a significant number of ger residents are retired. By western standards, retirement age is low and pensions are minimal. In addition, many older unemployed are “effectively retired” because their education and experience date from socialist times and they cannot compete for formal sector employment. Activities that provide work, even part-time, for this group have great impact on ger district welfare and incomes.
- **Potential for organizing a business association**—we prefer to work with SME clients that can be grouped into business associations. This permits development of new group activities, such as group marketing, joint production, or advocacy. It also permits more efficient use of program resources, particularly business training and consulting services
- **Potential for organizing micro enterprises into a cooperative or group**—same justification, but cooperatives and informal groups work better for cottage industries and single owner micro enterprises, permitting economies of scale. Examples include a cooperative of home textile micro-enterprises or an informal group of small furniture makers who organize group procurement and sales.

<sup>5</sup> GER Initiative Proposal (4/24/2003)

<sup>6</sup> Agreement between the US Embassy, Ulaanbaatar, Mongolia and CHF International, Silver Spring, MD (in relation to agreement OGSM: G-438-2000/556-00 between USDA and the Government of Mongolia)

<sup>7</sup> Agreement between the US Embassy, Ulaanbaatar, Mongolia and CHF International, Silver Spring, MD (in relation to agreement OGSM: G-438-2003/329-00 between USDA and the Government of Mongolia)

<sup>8</sup> FCC-438-2005/020-00

<sup>9</sup> Dollar equivalent of 2,186,926,882 tugrugs at 1126 tugrugs per dollar.

<sup>10</sup> GER Initiative Work Plan for Year 2: August 16, 2003 – August 15, 2004 (August 15, 2003)

<sup>11</sup> GER Initiative Work Plan for Year 2: August 16, 2003 – August 15, 2004 (August 15, 2003)

<sup>12</sup> GER Initiative Work Plan for Year 3 and 3.5: August 16, 2004 – March 30, 2006 (September 1, 2004)

<sup>13</sup> GER Initiative Work Plan for Year 3 and 3.5: August 16, 2004 – March 30, 2006 (September 1, 2004)

<sup>14</sup> Program year cycle was adjusted in year three.

<sup>15</sup> GER Initiative Work Plan for Year 4: April 1, 2006 – March 30, 2007, (June 30, 2006)

<sup>16</sup> This section includes the recommendations of USAID’s July 2005 evaluation and our responses for the implementation of the GER Initiative over the next 12 months.

<sup>17</sup> Initiative Work Plan for Year 4: April 1, 2006 – March 30, 2007 (June 30, 2006)

<sup>18</sup> GER Initiative Work Plan for Year 5: April 1, 2007 – September 30, 2008 (May 15, 2007)