



USAID
FROM THE AMERICAN PEOPLE



*Economic Policy Reform and
Competitiveness Project*

Survey of Associations and Strategic Business Service Providers

January 2007
Ulaanbaatar, Mongolia

Project: Mongolia Economic Policy Reform and Competitiveness Project (EPRC)
Report Title: *Survey of associations and strategic business service providers*
Main Author: Shoshana Hecker
Contract No. 438-C-00-03-00021-00
Submitted by: EPRC Project/Chemonics International Inc., Tavan Bogd Plaza, Second Floor,
Eronhii Said Amar Street. Sukhbaatar District, Ulaanbaatar, Mongolia
Telephone and fax: (976-11) 32 13 75 Fax: (976-11) 32 78 25
Contact: Fernando Bertoli, Chief of Party
E-mail address: fbertoli@eprc-chemonics.biz

ABBREVIATIONS AND ACRONYMS

EPRC	Economic Policy Reform and Competitiveness Project
GTZ	German Agency for Technical Cooperation
ILO	International Labor Organization
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VAT	Value added tax

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS	i
SECTION I: BACKGROUND	1
SECTION II: METHODOLOGY	3
SECTION III: SUMMARY OF ASSOCIATION FINDINGS	5
SECTION IV: NEXT STEPS AND RECOMMENDATIONS.....	7
ANNEX A: SUMMARY OF THE ASSOCIATION INTERVIEWS.....	11

SECTION I: BACKGROUND

The purpose of this two-part consultancy activity was to develop baseline knowledge of the associations in Mongolia in order to form the basis of an effective and targeted capacity building program for selected associations and commercial service providers. During part one the team drafted three survey instruments aimed at the following groups:

- Selected trade associations and representative organizations
- Association and organization members
- Strategic commercial service providers

Interviews with 15 Associations were completed, and 43 of 60 – 70 association members have been surveyed (the final surveys are being concluded presently). Based on information collected as part of the surveys of the Association members, a list of commercial service providers will be generated. Surveys of 10 to 15 service providers are then to be conducted, thus completing the survey phase of the activity. Due to the limited number of surveys conducted, the results are not to be viewed as statistically significant. However, the findings will serve to confirm the impressions of the EPRC project staff and to guide the development and provision of follow-on technical assistance activities to associations (and commercial service providers). The interviewing methodology used by the survey enumerators allowed for open-ended and in-depth questions to be asked, thus providing the study with greater levels of details.

SECTION II: METHODOLOGY

A team of two consultants from Making Cents International developed the three survey tools used in this study. The surveys were reviewed by Bruce Harris, EPRC Senior Business Development Advisor, Munkhsoyol Baatarjav Open Society Forum Manager, as well as the survey collection team. The Survey Team consisted of four lecturers from the University of Mongolia's Economics Department, as well as an office assistant. The team was led by Tsagaach Geleg and Luvsantseren Zultsetseg. For each of the Association Surveys, at least one Making Cents consultant was present – leading the interview. In addition, two members of the Survey Team were also in attendance, with at least one of the leads. Therefore, all of the Association Surveys were completed while the Making Cents consultants were in Mongolia. Before their departure, they worked with the Survey Team to train the two leads to conduct the Association Member and Commercial Service Provider Surveys. These last two surveys have been conducted by one of the two leads on the Survey Team with at least one other member in attendance to record the findings.

The Association Survey was structured to yield a comprehensive list of the services the association offers, detailing their understanding of the market for the provision of services to their members, as well as indicating the current challenges and opportunities facing the Associations. The Association Member Survey questioned members to rate the effectiveness of the Association's current provision of services, as well as to indicate their demand for additional services. The Private Business Service Providers Survey is focused on understanding the general demand for business development services in Mongolia by questioning some of the primary service providers about: the demand for their services, the services offered as well the challenges and the opportunities facing these private business service providers.

SECTION III: SUMMARY OF ASSOCIATION FINDINGS

Annex 1 contains a brief summary of some of the information gathered through the Association surveys. Key findings from the association interviews and surveys are listed below:

- *Advocacy* - Most of the associations cite advocacy for their members as one of the primary objectives of the associations. There is little evidence however that they have been at all effective in this task, nor do most display an understanding of the association's role in the process. Advocacy attempts seem to focus on persuading one or two parliament members to serve on association boards. An exception to this may be the Meat Producers Association. Although small in terms of members, they have developed a close partnership with government regulators and have provided key input into developing the regulatory structure of the sector.
- *Fundraising and financial sustainability* – Not surprisingly, almost all of the associations cited fundraising as a major challenge. Dues from members are the primary means the associations raise operating funds, and due to misinterpretations of the law governing non-governmental organizations, associations feel they have no recourse to collect dues from non-paying members. Organizations also mentioned that cultural influences impacted their comfort with removing non-dues paying members from their member base. In many associations 50% or more of members were not pay. In some cases up to 90% were delinquent.
- *Business Development Services* – Few of the association offer substantial business development services to their members, or facilitate members' ability to access services in the open market. Few demonstrated any understanding of their potential role as facilitators to help their members acquire services. In addition, only a few associations offer services based on fees to their members, a problem closely related to the difficulty in raising funds.
- *Transparency and communications with members* - While most associations claimed that all members were invited to attend annual meetings, and could serve as officers, it was unclear how frequently meeting or elections were held. In most cases the associations are operated from one of the larger member's commercial space.
- *Cultural influences* – Well functioning associations tend to exist in climate with a degree of political and bureaucratic transparency. Other influencing cultural factors may include attitudes towards volunteerism and trust in leadership. While difficult to accurately judge, these influences must be kept in mind as capacity building activities are proposed and implemented.
- *Business approach* – Most Associations consider themselves as socially focused organizations and therefore do not take into account to the need to function as a business. As a result, the associations generally do not consider the basic business principles, such as costing and pricing, when offering and/or pricing their services or products. One of the implications of this “social focus” is that the associations consistently are struggling financially and are not proactively looking for options to become financially sustainable.

SECTION IV: NEXT STEPS AND RECOMMENDATIONS

Surveys of Association Members and Commercial Service providers are being finalized in the upcoming weeks. As a follow-on to the initial activity, Part Two will be to work with the local survey team to develop the final report, visit a few of the key service providers, and make a presentation of the findings.

Given the above findings, an opportunity clearly exists for the EPRC program to strengthen the capacity of selected associations' to support their members, contribute to the competitiveness of Mongolian economic sectors, and to achieve financial sustainability. It is therefore suggested that an initial Phase Two (capacity building) activity be implemented simultaneously to the completion of Part Two (referenced above). The objective of this assignment in Phase Two will be to design a specific capacity building program targeting between four and six selected producer associations that will strengthen their ability to promote their sector and their member's organizations. Associations will be selected based on the results of the association and members' survey and the priority areas of intervention for the EPRC project. The main tasks of this initial assignment in Phase Two will be to meet with associations' leadership to solicit their feedback on capacity building activities and to generate buy-in and commitment from the leadership of the associations to participate in the capacity building activities. Information from both the association surveys and the member surveys will be used in designing the activities.

Based solely on the association survey, it is recommended that the following associations be considered as the primary candidates for capacity building activities. This list should be reviewed in light of the responses to the member surveys.

- Wool and Cashmere Association
- Hotel Association
- Tourism Association
- Mongolian Meat Producers Association
- Mongolian Association of Sewing Factories

ANNEX A: SUMMARY OF THE ASSOCIATION INTERVIEWS

ANNEX A: SUMMARY OF THE ASSOCIATION INTERVIEWS

Mongolian Association of Sewing Factories

Mongolian association of sewing factories was founded in 1992. The association represents primarily those producing cotton and cotton blend garments. There are currently twenty registered members and approximately 50 unregistered members. This total number of registered and unregistered members represents more than 90% of the country's sewing production. The association sees the protection of its member's rights through advocacy efforts as its primary purpose. Other objectives include training members, organizing social events and providing information on new technologies. The association charges no dues and relies on voluntary contributions from members. Among the biggest challenges facing the sector according to the association's president is the lack of qualified management and labor available to their members. In addition transportation costs from Mongolia into other countries are considered to be high and make competing with countries such as China extremely difficult. The upcoming free trade agreement with the United States is cited as an opportunity for the sector to grow.

Mongolian Tour Guide Association

The Mongolian tour guide association was established in 2003. Its 93 registered and 50 unregistered members represent approximately half of those working in the industry. The objective of the association is to develop a professional image of tour guides and Mongolia and to protect the common interest of all guides. It seeks to achieve this by setting high standards for its members based on international tour guide standards. The association has received financial and technical assistance from USAID through the EPRC project, as well as from the World Wildlife Foundation, Mercy Corps and the ITGEL foundation. The association covers its costs exclusively on the basis of member dues and donor financing. Projected increases in the tourism industry are seen as a major opportunity while a poor regulatory environment for tour guides and tour operators is perceived to be a challenge. The association would like to offer life insurance to its members as well as to offer first aid and cooking certifications and training.

Mongolian Tourism Association

The Mongolian tourism association was established in 1992 and serves approximately 115 members. According to its staff the association members account for approximately 80% of the tourism business. There are an estimated 1000 businesses directly serving the tourism industry in Mongolia. Approximately 650 of these are tour operators. The association members include tour operators, hotels and ger camps, and restaurants. The association articulates its mission as being to protect its member's rights and interests as well as providing current information on the tourism industry. The tourism association has received significant support from the USAID funded EPRC program as well as from the Ministry of Road and Transport. Annual membership dues are \$200.00 for institutions and \$25.00 for individuals. Approximately half of its members are currently dues paying. The association offers technical training, brokerage services, training in standards and regulations, networking opportunities, sector information, and conducts periodic trade fairs. Among the challenges cited by the association is the lack of a service mentality, poor training and limited financial resources. In the future the association would like to increase the quality of training services available to members through other institutions, and to look of international training opportunities.

Mongolian Hotel Association

The Mongolian hotel association was established by the ten largest hotels in 1997, but has only been active since 2005. There currently 40 members of the association representing a small portion of the estimated 220 hotels in Mongolia. Its membership is open to hotels of all sizes but does not include ger camps. Its mission is to assist and support its members through advocacy and to provide training opportunities. Annual membership dues are \$200.00 for organization and \$50.00 for individuals. The association claims to provide technical training, quality assurance, training in standards and regulations, networking opportunities, and business skills training. In the association sees potential changes in tax laws as an opportunity for the future, and cites the poor quality of existing hotel and hospitality training institutions as a significant challenge. The association would like to offer more training and brokerage services to its members.

Mongolian Wool and Cashmere Federation

The Mongolian wool and cashmere federation was established in 1993 and has approximately 50 members. An additional ten members are non-registered farmers and herders. The top ten producers account for approximately 90% of all wool and cashmere production. These top ten producers are the only members of the association who pay annual dues. Dues range from approximately from \$2,000.00 to \$500.00. The association sees its mission as promoting the development of the wool and cashmere sector through technical training and marketing as well as improving the quality and availability of raw materials. It is also engaged in making the legal environment of the sector more favorable for producers. Among the challenges cited are cheap local Chinese producers who create competition for raw materials, and current business and tax policies in Mongolia.

Dairy Producers Association

The dairy producers association was established in 1997 with the assistance of Danish aid funds. Its ten members account for all those engaged in commercial dairy production. Annual dues are nominal and paid on a voluntary basis. The mission of the association is to develop the market for dairy products and protect the interests of its members. Recent advocacy efforts have succeeded in lowering the VAT on dairy products from 15% to 10%. The major challenge cited by the association is foreign imports competing on both price and quality.

National Road Transport Association of Mongolia

The national road transport association of Mongolia was established in 1996. Its members include taxi drivers, truck drivers, and freight forwarders. Nine of the fifteen international freight forwarders are members of the association. Key objective of the association is to protect member's rights both in and out of Mongolia and to help their members meet the required international standards. The primary sector represented by the association however is public transport. The largest threat to the sector cited by the association is the government control over pricing, and the lack of clear standards for transporters.

Mongolian Meat Producers Association

The Mongolian meat producers association was established in 1999 and currently has 29 members. All but one of the current members is licensed to export meat products. The primary purpose of the association is to open new markets and introduce members to potential clients, and to help non exporting members achieve the standards necessary to become exporters. The association was provided assistance through the EPRC project to attend an exhibition. Ninety percent of the association members pay their annual dues. Among the challenges cited by the association are the absence of well trained laborers in the sector, the season nature of the sector and the lack of available financing. The biggest opportunities for the sector are increased

exports to the Middle East and East Asia. The association works with the government of developing bi-lateral agreements affecting the sector.

Mongolian Leather Industry Association

The Mongolian Leather Industry Association was established in 1996. All of the 32 registered members produce leather products in Ulaanbaatar. There are 10 additional leather producers who are not members of the Association, all of whom are small or medium sized companies. The primary objective of the Association is to promote the development and sustainability of leather producing companies in Mongolia. The Association has also set an objective to introduce new techniques and technologies to companies in order to increase competitiveness. The Association leadership has also noted their desire to encourage companies to produce “final” products rather than exporting partially processed skins and hides. Membership dues are tiered based on the size of the member company. While The Association has requested external assistance, they have not received funding or assistance. The Association is interested in the possibility of creating a Leather Industrial Park and has discussed possibilities for setting up a working group and developing the conceptual paper to focus on this project. To date, leadership reports that limited resources have limited their ability to conduct these activities.

Mongolian Food Industry Association

The Mongolian Food Producers Association was established in 1991 and currently has 180 members. The Association’s goals are broad in scope, focusing on protecting the rights and interests of the member companies, to assist the members in producing the healthy food and to becoming competitive and to support the government in developing the policy and strategies related to the food production and dissemination. In addition they want to look at the broader societal issues of food, including food security, safety and nutrition. One of the main areas of focus is to link member organizations to the government and assisting the government in policy development through recommendation on policies and laws. The Association has received support from the Open Society Forum on website training and development; GTZ assisted with support which sent a member organization (member of the Association’s Board) to attend a training in China; the exhibition space was provided by the Ministry of Food and Industry; and the Taiwan Government in Mongolia covered costs to send 10 people to a training in Taiwan. About 80% of the members pay the scaled membership dues. Dues are tiered based on income of the member company. The Association would like to develop a separate research unit within the auspices of the association, but the leadership notes that financial resources along with limited government support have limited progress on this activity.

Mongolian Employer’s Federation

The Mongolian Employer’s Federation was established in 1980 to serve as an umbrella organization for all associations, supporting the rights of owners and directors of businesses. In total, 18 associations are cooperating under the federation at three following three levels: Sub sectors, Aimag branches, and direct members/companies. The Federation has over 8,000 members, but only about 3% of members pay the tiered annual membership dues. Member companies are involved in virtually all industries in Mongolia. The Federation has received funding for technical assistance and training from several organizations including the ILO, the UNDP, the World Employers Association and Employers Associations of Japan and Korea. The Federation notes that the main reason members join is to benefit from the advocacy services. They note that their biggest challenge is that the government does not actively listen

to the private sector. A present goal for the Federation is to increase the capacity of its 22 staff as well as members and associations.

Mongolian Association of Exporters

The Mongolian Association of Exporters was recently established in April 2005 with 10 registered members. Members are major exporters in the cashmere/wool, meat, and mining sectors. The Association does intend to diversify their scope of sectors, but are committed to focusing on the major traders within the country. Their primary objective is to help exporters find potential overseas markets. Activities focus on overcoming export barriers and encouraging the export of finished product rather than raw or partially produced goods. There are three levels of membership: public companies, private companies and individuals. Major opportunities and challenges for the Association focus on efforts to liberalize import requirements for Mongolian products into countries in the region. However, the high customs duties in neighboring China and Russia are noted as a continuous challenge to export.

Chamber of Commerce and Industry

The Mongolian Chamber of Commerce and Industry was established in 1964 and has 750 members in Ulaanbaatar and another 300 nationally. Of this number, 143 are women-run businesses. In addition to the main offices in the capital, the Chamber maintains local branches in 15 aimags. There are three tiers of membership fees: individuals pay 100,000 tugrugs, companies pay 300,000 tugrugs, and joint ventures have annual dues of between 350,000 and 500,000 (depending on volume of sales and size). Membership fees play a small role in financing the Chamber's activities. Primary financing comes from fees for services, arbitration and certificates – including certificates of origin. The primary objective of the Chamber is to promote the development of private and public partnership. While the Chamber of Commerce and Industry does not receive direct government support, it has received assistance from various donor projects. For instance, the Chamber has implemented projects with the Dutch Government, as well as other EU-financed projects focused on the environment, energy and building the capacity of the Chamber to offer new services to members. The Chamber sees potential in the development of free trade zones, if there was capacity building to ensure that staff was in a position to effectively manage the additional challenges. As a result of government agreements, the Chamber sees the European Union as an emerging market for Mongolia. In addition, the USA Free Trade Agreement will serve as a strong impetus for growth. The biggest challenges facing the Chamber are focused on internal capacity, most notably knowledge of staff on different markets and economies, especially European markets; ability to work on various projects and programs; and skills and knowledge on attracting new members.

Marketing Association

The Marketing Association was established in 1994. The Association maintains a membership base in Ulaanbaatar of 85 businesses and about 600 individual. Membership outside is much more limited with an additional 35 organizations and 200 individuals. As with many of the associations in Mongolia, many members do not pay the annual dues of \$150 for organizations and \$10 for individuals. The primary objective of the Association is to improve the marketing knowledge of the public and to assist the marketing professionals to obtain practical knowledge. Initially the Association focused on improving the public knowledge through training of trainer activities about marketing. Current efforts are directed at improving the practical knowledge of recent graduates through the direct offer of marketing training courses. They note that there is continued demand for services, but many clients do not have the resources to pay for services – often preferring to attend trainings offered by donors or

other free sources. The Association would like to improve fundraising capacity with the expectation of improving the financial situation of the Association as well the service quality provided to clients.