

## Research Report

# Scoping the potential for Enterprise Facilitation in Mongolia

Dalaibuyan BYAMBAJAV

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The **International Mining for Development Centre** was established to promote the more sustainable use of minerals and energy resources in developing nations by assisting governments and civil society organisations through education and training, fellowships, research and advice. Our focus is three core themes—governance and regulation, community and environmental sustainability, and operational effectiveness.

## Acknowledgement

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## 1. Introduction

The International Mining for Development Centre (IM4DC) commissioned Byambajav Dalaibuyan (Postdoctoral Research Fellow, CSRM) to carry out research to investigate the potential for the application of Sirolli Institute's Enterprise Facilitation methods in mining zones and later extension into non-mining zones in Mongolia. The research activity included documenting the discussions between the Sirolli Institute and local partners, undertaking brief background research into the application of other local content initiatives previously tried and currently underway, and analysing the potential for the deployment of such an approach in Mongolia.

The Sirolli Institute was invited by Development Solutions, a Mongolian NGO working to support business development, to present an initial workshop on Enterprise Facilitation, and to discuss with local stakeholders the potential for this approach. Byambajav Dalaibuyan carried out participatory observation and documentation during Sirolli Institute's feasibility study visit to Mongolia (Ulaanbaatar and Dalanzadgad) in June 1-7, 2013, and undertook background research in June 8-18, 2013 in Mongolia (Ulaanbaatar, Dalanzadgad, and Khanbogd).<sup>1</sup>



Photo 1: A visit to a uniform factory in Dalanzadgad

This report is structured into the following way. After this introduction, a description of the study visit and research methodology is provided, followed by a discussion of context. The main section examines the major challenges that small and medium enterprises (SMEs) confront and analyses previous and current initiatives to promote SME development in Mongolia. Based on the analysis, the report discusses the potential of Enterprise Facilitation in Mongolia. The findings of this research reveal that there is a high potential for the successful deployment of Enterprise Facilitation® in Mongolia, particularly in mining-impact zones.

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<sup>1</sup> Ulaanbaatar is the national capital, Dalanzadgad is the capital of South Gobi province (Umnugovi Aimag in Mongolian) and Khanbogd is the nearest town to the Oyu Tolgoi mine in South Gobi province.

## 2. Methodology

The Sirolli Institute's workshop, meetings, and field visits in Ulaanbaatar and Dalanzadgad were pre-arranged by Development Solutions. Observations and documentation were conducted during the following events:

Workshops (a list of participants is attached):

- Workshop for business development organizations, consultants, trainers, and other stakeholders held at Open Society Forum in Ulaanbaatar on June 4, 2013
- Workshop for local entrepreneurs, local government representatives, mining companies, and other stakeholders in Dalanzadgad on June 5, 2013
- Workshop for government agencies, donor organizations, and mining companies held at Oyu Tolgoi Information Centre in Ulaanbaatar on June 7, 2013



Photo 2: A meeting at the Ministry of Labour (From left, A.Suvdaa (SME Department), B.Bat-Amgalan (Head of SME Department), Martha and Ernesto Sirolli, J.Batkhuuyag (Minister of Labour), and E.Bat-Orshikh (Development Solutions)).

Meetings:

- Development Solutions, AusAid Mongolia, Oyu Tolgoi LLC, Ministry of Labour, Department of Small and Medium Enterprise, Governor's Office of Umnugovi *Aimag*, Department of Labour, Oyu Tolgoi Supplier Development Centre in Dalanzadgad

Visits to SMEs:

- Sewing business and *ger*<sup>2</sup> furniture manufacturer in Ulaanbaatar
- Cow dairy farm, bakery, and tailor-OT supplier in Dalanzadgad.



Photo 3: A visit to a *ger* furniture manufacturer in Ulaanbaatar

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<sup>2</sup> A *ger* is a traditional Mongolian felt tent, a common form of accommodation in Mongolia, more commonly known in English as a yurt.

In addition, Byambajav Dalaibuyan interviewed representatives of Anglo-American and Energy Resources, Khustai National Park, and officials in Dalanzadgad and Khanbogd during the background research carried out in June 8-18, 2013. Additional information and relevant documents for this research were kindly provided by the Sirolli Institute, Development Solutions, the Ministry of Labour, the Governor’s Office of Umnugovi province, Oyu Tolgoi LLC, and Energy Resources LLC.

### 3. Enterprise Facilitation®

The Sirolli Institute promotes a people-centred, bottom-up and community-based approach to enterprise development. Enterprise Facilitation® is based on two key principles that differentiate it from the mainstream approaches to enterprise development. The first principle is to help only those who wish to be helped. Facilitation is helping people to convert their own ideas and passionate dreams into a successful business. Unlike a typical business consultant, Enterprise Facilitator (EF) doesn’t initiate anything and doesn’t motivate entrepreneurs to do something preconceived by someone else. The second principle is that a successful business requires effective management through a division of labour. EFs help entrepreneurs find a team and make sure the main areas of business—product, marketing, and financial management (the Trinity of Management®)—are managed equally well. EF coaches an entrepreneur in assembling a competent team. Any business plan should be done by the team, as entrepreneurs wither and die in isolation.<sup>3</sup>

In practice, Enterprise Facilitation® consists of three main components: an Enterprise Facilitator, a Project Management Board (PMB) and a Resource Team. The EF is like a family doctor. S/he provides free, confidential, competitive, compassionate, one-on-one, and accessible support. EFs are friendly, good listeners, non-threatening, passive, visible, and work in strict confidence. The PMB appoints EFs and



Photo 4: A workshop on Enterprise Facilitation® in Dalanzadgad

provides support to them. EFs are locally accepted and credible persons who have a business background and experience. The EF and the Resource Team work as a team. The Resource Team

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<sup>3</sup> Ernesto Sirolli. *Ripples from the Zambezi: Passion, Entrepreneurship, and the Rebirth of Local Economies*. New Society Publishers. 1999.

consists of 20 to 60 local stakeholders, who support the facilitator and who can provide useful local contacts and advice. The Board size can fluctuate over time. The Board is made up of local business and civic leaders, development practitioners, and private sector professionals. Each Board member must sign a confidentiality agreement. The extract below explains how the EF and the Resource Team work with a client in a responsive, client-centred way.

After gaining the client's trust, the Enterprise Facilitator encourages the client to recognise his/her strengths. As soon as clients identify what they are good at, they are coached to identify the missing elements and look for the opportunity. In this part of the coaching process, it is possible to diagnose what might be missing from a client's business and suggest a remedy. The EF does not encourage the client to learn new skills but supports them in finding local individuals who can contribute a specific aspect or skill-set to the business. If the client cannot locate additional expertise on his/her own, then s/he is given the opportunity to ask the EF for help. If asked by the client to do so, the EF will assist clients in locating skilled people by leveraging the networking abilities of a group of local volunteers called a Board of Helpers (BoH) [Resource Team].<sup>4</sup>

The Trinity of Management, which Dr. Ernesto Sirolli identifies as the key to successful entrepreneurship, is a business model that illustrates the power of a competent, passionate, and cohesive team that manages the three main areas of business efficiently. Enterprise Facilitation requires an entrepreneur to define her/his passion and best talent (either as a product person, a marketer, or a financial manager) and recruit talented and capable individuals who can best perform the other functions.

An important advantage of Enterprise Facilitation® is that it has been tested around the world. Dr. Ernesto Sirolli's latest book *How to Start a Business and Ignite Your Life* (2012) tells:

Over the last three decades, some 300 communities around the world have used our services. We worked with countless entrepreneurs to start and retool their companies, create jobs, and stimulate and sustain local economies. We have trained Enterprise Facilitators and Trinity of Management practitioners to carry out this work, and we

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<sup>4</sup> CSRM, Case study: Enterprise Facilitation Project in the DRC, University of Queensland, 2013, p. 10.

effectively teach aspiring entrepreneurs how to transform their ideas and passions into successful businesses.<sup>5</sup>

The Sirolli Institute states that 80 percent of facilitated businesses remain open after five years, on average. Project evaluations testify to the success of Enterprise Facilitation® and there are lessons accumulated from many studies looking at the effectiveness of the approach in different environments and country settings (Australia, New Zealand, Canada, the U.S., the U.K. and the Democratic Republic of the Congo). Since 2009 Enterprise Facilitation® has been successfully implemented in the DRC, a conflict-affected African country. A case study of the project in the DRC highlights:

What this study strongly suggests is that the Enterprise Facilitation model is robust, transportable and certainly applicable to very difficult socio/economic environments. If it can work in the Eastern Congo – with no electricity, no running water, no banks and no access to credit – it can work, presumably, in most developing regions of the world.<sup>6</sup>

Enterprise Facilitation® has gained much attention from the mining industry over the past 8 years. The Sirolli Institute was invited to a number of important mining industry conferences in Australia, the USA and Mexico, including the 2013 International Mining for Development Conference held in Sydney. The Sirolli Institute suggests that by building a “social infrastructure”, ie Enterprise Facilitators and the support groups in the mining-affected communities, Enterprise Facilitation® can help the communities build capacity to maintain economic infrastructure and to develop healthy relationships with developers.<sup>7</sup> Enterprise Facilitation has been adopted by two international mining companies: New Gold in Cobar NSW Australia, and Rio Tinto in Clermont (Queensland) and Marquette (Michigan).<sup>8</sup>

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<sup>5</sup> Ernesto Sirolli. *How to Start a Business and Ignite Your Life*. NY: Square One Publishers. 201, p.xiv.

<sup>6</sup> CSRM, Case study: Enterprise Facilitation Project in the DRC, University of Queensland, 2013, p. 15.

<sup>7</sup> Ernesto Sirolli. A new tool for community development. *The Northern Miner*. 2009. March. Vol 95. No 5.

<sup>8</sup> Sirolli Institute. Mining Industry. <http://www.sirolli.com/Evidence/Mining/tabid/153/Default.aspx>



#### **4. Mongolia – the development context**

Mongolia is one of the few countries in the world where a significant segment of population directly relies on mobile pastoralism. For centuries, pastoral nomadism has been the most dominant source of livelihood and culture. Self-sufficiency and homogeneity defined the nomadic livelihood and consumption. Collective farms and cooperatives with large supply capacity were established on a nation-wide scale in the 1950s or during the socialist era. Major urban centres began to rapidly expand, and the state encouraged rural-to-urban migration at the time. A broad range of enterprises and industries was developed during the socialist era. Mongolia's industrialization was supported by technology and skills transfer from other socialist-bloc countries. However, socialist enterprises were based on very different, more inefficient principles than enterprises in market capitalism. While enterprises in market capitalism sought to increase their sales and increase the demand for their products, for instance, through product quality and marketing, enterprises in Mongolia sought to procure adequate supplies to satisfy the plans set by central planners. The lack of competition for market discouraged creativity and development within an enterprise.

Mongolia made an abrupt transition to a market economy in 1990. Within a brief period of time, the government liberalized trade, ceased price controls, and privatized the state's holdings.<sup>9</sup> Mongolia saw a sharp growth of shuttle trade after the transition while many privatized enterprises stopped operations and were downsized after privatization. The aid from the socialist-bloc countries, which constituted one third of Mongolia's GDP, was terminated. The immediate effect of change was massive. The GDP per capita contracted by 8.7 percent between 1990 and 1993, inflation reached its peak of 325 percent in 1992, and the poverty rate reached 30 percent by 1995. Even though Mongolia saw a gradual improvement of the economic indicators after 1994, the country faced a deep-seated livelihood crisis. For the population, the shock from the economic crisis was enormous. The crisis resulted in dramatic declines in the expenditure for health, education, and social welfare. The social fabric and trust were weakened by the crisis. Under the uncertainty of the post-socialist transition, people became increasingly reliant on their kinship and friendship networks.

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<sup>9</sup> In Mongolia, four types of privatization have taken place since 1990. First, livestock privatization took place in the period between 1991 and 1992. Second, small, medium, and big enterprise privatization started in 1991. Third, apartment privatization has continued since 1997. Fourth, land privatization started in 2002.

In the 1990s, the main sectors of the Mongolian economy—mining and livestock husbandry were unsustainable. The Mongolian economy grew gradually in the past decade, but a mining boom has helped it to grow rapidly in the past few years. Annual economic growth rate was 6.4 percent in 2010 and reached a record high 17.5 percent in 2012. Although Mongolia's growth slowed in 2012 due to reduced coal export to China and a decline of FDI inflow, it still maintained double-digit growth at 12.3 percent.<sup>10</sup> With the commencement of production by the Oyu Tolgoi mine in 2013 and abundant unexploited mineral resources, the Mongolian economy is predicted to grow massively in coming years. According to statistics of the Ministry of Labour, mining accounted for approximately nine percent of the new jobs created in 2012. The double-digit growth was also supported by other sectors of the Mongolian economy such as herding, agriculture, transportation, communications, and construction.

Official statistics show that the national poverty rate decreased to 27.4 percent in 2012 from 38.7 percent in 2010.<sup>11</sup> However, there is much discrepancy between regions of the country and socio-economic groups. Rural poverty rates have been 10-15 percent higher than urban poverty rates. Especially, the poverty rate in remote rural areas has been nearly 50 percent. The poverty rate has declined much slower in rural areas than Ulaanbaatar. The long-term unemployment rate is much higher in rural areas higher than urban areas. Rural people, especially youth, are disadvantaged terms of access to quality education, employment opportunities, and wage rates. In Ulaanbaatar, nearly 60 percent of the population live in *ger* districts on the outskirts of the city - settlements without basic infrastructure. The *ger* districts are expanding due to rural-to-urban migration and they have a large number of people living in extreme poverty. The widening gap between rich and poor is becoming more and more visible in Mongolia. The GINI Index for Mongolia rose from 30.3 in 1998 to 36.5 in 2008 and there are no indications that income inequality is decreasing.

Converting mineral wealth into sustainable socio-economic development is a key political and economic challenge that is confronting Mongolia today. A diverse and thriving SME sector has been recognized as a main mechanism to develop a sustainable economy and communities and to decrease the volatility and risks of mining dependent economic growth.

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<sup>10</sup> World Bank. Mongolia Economic Update April 2013. [http://www.worldbank.org/content/dam/Worldbank/document/EAP/Mongolia/MQU\\_April\\_2013\\_en.pdf](http://www.worldbank.org/content/dam/Worldbank/document/EAP/Mongolia/MQU_April_2013_en.pdf)

<sup>11</sup> World Bank. Poverty Rate Came Down to 27.4 Percent in 2012. May 21, 2013. <http://www.worldbank.org/en/news/press-release/2013/05/21/poverty-rate-came-down-to-27-4-percent-in-2012>.

## 5. Umnugovi aimag (The South Gobi Province)

Located in the southern part of Mongolia, Umnugovi *aimag* (province) is the largest *aimag* in Mongolia with a territory of 165,400 square km. Umnugovi shares a border with China for 798km. It is a scarcely populated *aimag* with a population of 57,000 though it has seen a rapid growth in population due to a mining boom. Umnugovi has 15 *soums* or districts. As of 2012, *soum* populations range between 1300 and 5000. The provincial centre-Dalanzadgad *soum* has a population of 20,000, accounting for nearly 35

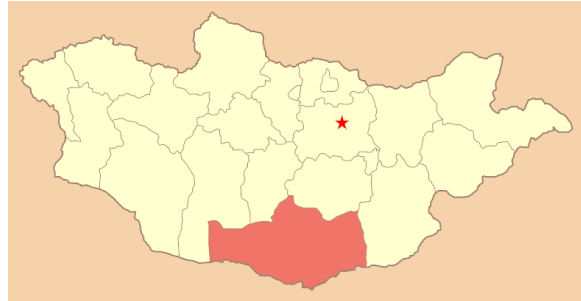


Figure 1: A map of Mongolia (Ulaanbaatar and Umnugovi aimag)

percent of the total provincial population. With the development of large-scale mining projects, the population of Umnugovi is expected to increase significantly. Especially, the population of Khanbogd *soum* (Oyu Tolgoi) and Tsogttsetsii (Tavan Tolgoi) *soum* is expected to increase 2-3 times by 2015. Approximately 25 percent of the population live in *soum*-centres, 35 percent in *aimag*-centre and the remaining 40 percent live in the countryside as nomadic herders. Nomadic livestock breeding has been a main source of the *aimag* revenue. Umnugovi has been famous for its high-producing cashmere goats and excellent breeding flocks of Bactrian camels.

Umnugovi has become the centre of the mining industry in Mongolia over the past decade. Among more than 40 mining projects in Umnugovi, the development of the giant Oyu Tolgoi copper/gold mine and Tavan Tolgoi coal mines have been key to Mongolia's recent economic growth. The Oyu Tolgoi mine is expected to account for nearly 35% of the country's GDP when it will be fully operational in 2020. The Tavan Tolgoi coal deposit has a total estimated resource of 6.4 billion tonnes. It is located in the district of Tsogttsetsii, which is 100 kilometres from Dalanzadgad.

A mining boom in Umnugovi has had an enormous impact on local economy, society, and ecology. Umnugovi's GDP increased from MNT 94 billion in 2008 to MNT 283 billion in 2012, which is the third highest after Ulaanbaatar and Orkhon province (where the Erdenet copper mine is located).<sup>12</sup> While agriculture accounted for 64 percent of the Umnugovi GDP in 2001, it reduced to 5 percent in

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<sup>12</sup> Economic Policy and Competiveness Research Centre. A Report on Economic Competiveness of Aimags. 2013. [http://www.ecrc.mn/images/stories/PCI\\_2013.05.31.pdf](http://www.ecrc.mn/images/stories/PCI_2013.05.31.pdf)

2011. Conversely, the contribution of mining and construction sector grew from 10 percent to 83 percent during the same period.

However, in Mongolia, most of the mining tax and royalty revenues accrue to the central government in Ulaanbaatar and are then redistributed to local governments. According to a report of the Extractive Industries Transparency Initiative Mongolia, only 3 percent of all mining related revenues accrued to the local budget. Thus, Umnugovi *aimag* is not much different from other provinces in terms of the contribution of mining tax and royalty revenues to local budgets. Over recent years the total budget of Umnugovi *aimag* did increase from MNT 13 billion in 2008 to nearly MNT 100 billion in 2011. However, according to Umnugovi government officials, this increase was mainly determined by profits and tax revenue accrued from their direct share in the “small Tavan Tolgoi coal mine” or “Tavan Tolgoi” joint stock company, 51 percent of which is owned by Umnugovi *aimag*.<sup>13</sup> However, a sharp decline of coal export to China has decreased the revenue from this source more than 80 percent since 2012, resulting in budget deficits.



Figure 2: Soums of Umnugovi *aimag* (Oyu Tolgoi and Tavan Tolgoi marked) Source: Adapted from <http://www.infomongolia.com/ct/ci/190/70/>

Under the new Budget Law, the Government of Mongolia provides MNT 250 billion to an Integrated Community Development Fund, which will distribute the money to local Community Development Funds. However, the main criterion of allocation is the number of local registered residents. This does not give any financial advantage to mining areas such as Khanbogd, Tsogttsetsii, and Gurvantes *soums* in Umnugovi where local governments are overwhelmed by the influx of migrants and unregistered outsiders. Although the total registered population of Khanbogd *soum* rose from 2500 in 2004 to 3900 in 2011, the number of temporary workers, migrants, and unregistered residents reached more than 5000.

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<sup>13</sup> “Small Tavan Tolgoi” is a small ‘truck and shovel’ coal mining operation, locally-owned and run and is distinct from the extremely large Erdenes Tavan Tolgoi project which is far from reaching operational status and is owned by the central government.

In 2011, According the National Statistical Office`s estimation, the poverty rate was 12 percent in Umnugovi, notably lower than a national average of 30 percent.<sup>14</sup> However, there are significant gaps between different areas of Umnugovi (Table 1). The 2008 South Gobi baseline study estimated that the poverty incidence was much higher in *soum*-centres and the *aimag*-centre than rural areas.<sup>15</sup> The study also found that inequality (Gini coefficient) was higher in *soum*-centres and the *aimag*-centre and rural areas. It does not mean that rural herders are wealthy and sustainable. In fact, Umnugovi was one of the provinces where *dzud* and drought in 2009-2010 had a disastrous effect on many herders` livelihood, killing nearly 20 percent of livestock and leaving many herder households without a source of income. Many herders who lost all their livestock migrated to urban centres in search of work. Some herders became artisanal gold miners. Recent data show that the number of herder households decreased from about 6400 in 2008 to 5000 in 2012 in Umnugovi.<sup>16</sup>

Table 1: Poverty indicators, by *soum*

<i>Soum</i>	Poverty rate	Poverty gap	Poverty severity	Unemployment rate	Youth unemployment
Bayandalai	10.1	2.5	1.0	12.1	22.1
Bayan-Ovoo	12.9	3.3	1.3	6.1	31.5
Bulgan	12.9	3.3	1.3	8.9	20.5
Gurvantes	10.1	2.5	1.0	16.5	22.6
Mandal-Ovoo	12.9	3.3	1.3	11.3	27.7
Manlai	12.9	3.3	1.3	9.8	24.1
Nomgon	10.1	2.5	1.0	12.0	20.4
Noyon	10.1	2.5	1.0	5.6	18.5
Sevrei	10.1	2.5	1.0	11.5	15.1
Khanbogd	12.9	3.3	1.3	12.6	23.0
Khankhongor	12.9	3.3	1.3	9.3	24.0
Khurmen	12.9	2.5	1.0	6.1	17.4
Tsogt-Ovoo	12.9	3.3	1.3	9.8	20.3
Tsogttsetsii	12.9	3.3	1.3	17.1	27.9
Dalanzadgad	11.9	3.0	1.2	20.7	37.1

Source: National Statistical Office and UNDP Mongolia. Millennium Development Goals and the 2011 Poverty Mapping. [http://www.undp.mn/publications/MDG\\_Poverty\\_Map\\_2011\\_mon.pdf](http://www.undp.mn/publications/MDG_Poverty_Map_2011_mon.pdf)

<sup>14</sup> National Statistical Office. The Current Situation of Poverty in Mongolia. December 2012. [http://www.undp.mn/dialogues/presentations/dd2/Erdenesuren\\_NSQ\\_MN.pdf](http://www.undp.mn/dialogues/presentations/dd2/Erdenesuren_NSQ_MN.pdf)

<sup>15</sup> The Governor`s Office of Umnugovi Aimag. A Socio-Economic and Environmental Baseline Study of Umnugovi Aimag. 2008. [http://cabinet.gov.mn/files/ldp/LDPumnugobi2\\_02eng.pdf](http://cabinet.gov.mn/files/ldp/LDPumnugobi2_02eng.pdf) gobi2\_02eng.pdf

<sup>16</sup> Statistical Department of Umnugovi. The 2012 Socio-Economic Statistical Yearbook. Dalanzadgad. 2013

Unemployment rate varies significantly across soums in Umnugovi. The high unemployment rates in mining areas indicate in part that mining has not provided many employment benefits to local residents. According to the Deputy Governor of Umnugovi, mining companies have been required by the Governor`s Office to hire more than 20 percent of their workers from Umnugovi *aimag*. However, local residents, especially local youth, are often unable to get a job because they lack the skills and qualifications that mining companies require. Most local people in mining companies are hired to do unskilled service jobs. Furthermore, employment benefits to local residents tend to be captured by men. For instance, of 499 new jobs in Khanbogd *soum* 488 were jobs related to mining in 2012, but only 96 of them were obtained by women.<sup>17</sup>

Umnugovi already has symptoms of a localized natural resource curse. Although the employment rate and the standard of life have improved significantly for those who benefit directly from the mining sector, the cost of goods and services is relatively higher in Umnugovi than other provinces, creating a wider gap between the ‘haves and have-nots’ in mining areas. Some local entrepreneurs prefer to get a job in mining companies and some businesses lose their trained employees to higher-paying jobs in the mining sector.

## 6. Enterprise development in Mongolia

### 6.1 Description of the SME sector

The private sector in Mongolia has flourished since the transition. According to official statistics, there are 65,204 businesses in Mongolia. From a baseline of zero in 1990, the current number of businesses is remarkable. Small and medium enterprises have been the largest in numbers and contributed significantly to economic growth (nearly 20 percent of tax revenue).

SME is a widely used term among enterprise development stakeholders in Mongolia. The legal definition of SME in Mongolia highlights inter-sectoral differences and it is useful for the government to define the beneficiaries of SME support.

Some international organizations use definitions that differentiate small businesses from micro businesses. Generally, micro businesses are businesses with fewer than 4 employees. Small

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<sup>17</sup>*Ibid.*

businesses are businesses that employ 5-19 persons, and medium businesses are businesses with 20-199 employees.

According to the 2011 business census, 85.6 percent of businesses in Mongolia have fewer than 9 employees, 6.8 percent have fewer than 19 employees, 5.0 percent have fewer than 49 employees, and 2.6 percent have more than 50 employees. So, 92.4 percent of the active businesses in Mongolia are micro and small businesses. The number of small businesses has increased nearly fourfold since 1998.

58.4 percent of all businesses have less than MNT 4 million (approximately AUD 3000) annual turnover, 18.8 percent have MNT 5-19 million, 7.5 percent have MNT 20-49 million, 11.3 percent have MNT 50-499 million, and 3.9 percent have more than MNT 500 million. Of 353 large businesses with more than MNT 500 million annual turnover, 92.0 percent are registered in Ulaanbaatar. It shows the prevalence of micro businesses. It is often argued that nearly 80 percent of the registered businesses in Mongolia are a one-person business. In fact, SME Department representatives endorsed the view that one-person businesses constitute the majority of SMEs in Mongolia and they are unsustainable.

Table 2: Number and percent of different businesses

Size of businesses	1998	2006	2011
1-9 employees	13826 (72.9)	26213 (80.9)	56777 (85.6)
10-19 employees	2056 (10.8)	2957 (9.1)	4451 (6.8)
20-49 employees	1923 (10.2)	2081 (6.4)	3288 (5.0)
50 and more employees	1145 (6.1)	1159 (3.6)	1688 (2.6)
All businesses	18950 (100)	32410 (100)	65204 (100)

Source: National Statistical Office. Statistical Yearbook (2006 and 2011).

Compared to 10,000 new businesses that were registered in the previous six years, nearly 30,000 new businesses were started between 2006 and 2011, which indicates the pace of economic growth.

45.2 percent of all businesses in the business census operated in the trade sector, 30.4 percent in the service sector, 11.4 percent in the manufacturing sector, 7.4 percent in the construction sector, and 5.6 percent in the agricultural sector. Of all business with less than MNT 4 million annual turnover, 48.5 percent in the trade sector, 29.0 percent in the service sector, 9.9 percent in the manufacturing sector, and 6.3 percent in the agricultural and construction sectors. It shows that the number of productive enterprises is still low even though the number of businesses has increased notably.

According to the business census, 32.0 percent of all businesses are not active. Of 17,733 non-active businesses, 35.8 percent have not started operation, 23.0 percent stopped temporarily, 34.1 percent do not have funding and capital, 6.4 percent mentioned other reasons. Ordinary people, especially those who started their formal or informal enterprises during the economic transition and crisis and have managed to survive have shown extraordinary resilience and determination for success. There are lots of examples of these extraordinary men and women who succeeded to develop successful businesses.

During a Sirolli workshop in Dalanzadgad, a local businesswoman told about how her business evolved:

Like many Mongolians, my family tried to find a source of income in the early 1990s. My mother was a hardworking woman. My mother bought an oven and made bread and cookies at the time. However, we could not sell much because the economy was in crisis and people did not have cash. In 1998, I went to university in Ulaanbaatar and began to study economics. In 1999, my father brought home an abandoned brick-making machine. We tried to make a brick for two months.. Getting a bank loan to buy brick making machinery was impossible at that time. Fortunately, many people helped us. We had a large family, too. We all worked with passion. Everyone tried to contribute as possible as they can. For example, my father was responsible for accounting. In 2006, we received a loan from a commercial bank. In Dalanzadgad, electricity outage was a problem. Two years ago, we discarded many bricks because of an abrupt power outage. The electricity is well supplied nowadays. Today, our company has about 30 employees and this year, we have started a construction project.

However, for many entrepreneurs and start-ups, building a sustainable enterprise has been a difficult task not only because of macro-level constraints such as interest rates and taxation, but also micro-level barriers. A different story was told by a couple who met Dr. Ernesto Sirolli for advice after the workshop in Dalanzadgad:

We grow vegetables and sell surplus in market. There is a group of families like us who grow vegetables, and we are developing new products. Our families have been talking to establish a cooperative and increase our production. The problem is that we are not sure about how to start a joint business. Some families are very keen to collaborate, but some have not been so active. Because some of our families raise animals and move occasionally, it is sometimes



difficult for us to gather regularly. We need your advice on how to start a joint business and what to do further.

Several surveys have been done to identify factors that constrain enterprise development in Mongolia. A survey among SMEs conducted in 2004 ranked the following 12 factors by the degree of their negative influence on enterprise development in Mongolia: (1) taxation, (2) corruption, (3) unfair competition, (4) high interest rates, (5) limited access to external funding, (6) regulatory environment, (7) shortage of skilled human resources, (8) underdeveloped infrastructure, (9) lack of technology transfer, (10) malfunctioning of judiciary, (11) lack of business development service, (12) high inflation.<sup>18</sup>

The Mongol Bank administered a survey on SME development and funding in 2011, which asked SMEs about the four main factors: macro-economic environment, social environment, business environment, and internal factors.<sup>19</sup> More than 80 percent of entrepreneurs agreed that economic growth does not currently benefit SMEs. Among social factors, SMEs were much concerned about corruption and favouritism (based on party membership and informal networks) when they deal with local government organizations. High interest rates and leasing fees were major concerns for SMEs. Most SMEs stated that access to soft loans offered by the government and donor organizations is very limited and even though access to commercial bank loans is improving the high interest rate and short terms of bank loans are unfavourable for a sustainable business. Among internal factors, shortage of skilled workers and the quality of machinery are main concerns of SMEs.

The Mongol Bank has a question about potential measures that would benefit SME development most, which provide a different angle than asking general about factors. It allows one to have a better understanding of SMEs' needs.

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<sup>18</sup> Batchimeg Namsraidoj, Enkhjargal Adiya, and Rosalind Chew. Indigenous small and medium enterprises (SMEs) in Mongolia, in *International Handbook of Research on Indigenous Entrepreneurship*, edited by Léo-Paul Dana and Robert B. Anderson. Cheltenham: Edward Elgar, 2007.

<sup>19</sup> The Mongol Bank. The Development and Funding of the SME sector. 2011. [http://www.mongolbank.mn/documents/moneypolicy/SME\\_negtgel.pdf](http://www.mongolbank.mn/documents/moneypolicy/SME_negtgel.pdf)



Figure 3: Local entrepreneurs' views on measures to support SME development (%)

Source: The Mongol Bank. The Development and Funding of the SME sector. 2011.

## 6.2 The SME sector in Umnugovi

As of December, 2012, more than 1150 businesses are registered in Umnugovi. According to the Governor's Office of Umnugovi, about 50 percent or 530 of them are active, 326 of the active businesses are small and medium enterprises (SMEs) and 194



Photo 5: A bakery in Dalanzadgad

of the active businesses pay taxes. Seventy-nine percent of the active businesses have employees fewer than 9 people. More than 80 percent of the small businesses are in the trade and service sectors. Nearly 70 percent of SMEs in Umnugovi are concentrated in Dalanzadgad, Khanbogd, and Tsogttsetsii. Although there is no data on gender and SMEs, it was found that women are very active in the SMEs sector in Umnugovi. Most of the entrepreneurs that met in person Dr. Ernesto Sirolli or attended his workshop in Dalanzadgad were women.

A study estimates that around 40 types of business operate in rural areas, and the most common of these are trading, clothing, bakery, motels, eateries, production of wood items, and freight and passenger transport services. The number of small businesses varies depending on the size of soums

and their proximity to mining activities. Informal businesses are prevalent and they are mostly family enterprises such as stalls, garages, auto services, cafés, gold and ore miners, technicians and taxi drivers. For instance, nearly 90 percent of the businesses in Dalanzadgad are self-employed, informal businesses.

With the growth of the mining industry, the number of SMEs that aim to supply to mining companies is increasing. Because local businesses have insufficient capacity to meet mining companies` demand they have begun to form informal groups and cooperatives to combine their producing power. For example, there are such groups formed by some milk producers and sewing businesses in Dalanzadgad.

The number of tourists to visit popular destinations around Dalanzadgad is increasing due to the increasing media visibility and improved infrastructure and services. The number of businesses that mainly set up to benefit from the increasing flow of fly-in fly-out workers such as restaurants, hotels, beauty salons and car repair stations is growing. Some enterprises have moved to Dalanzadgad from Ulaanbaatar and other aimags, bringing competition to the local market. This sometimes presents a serious threat to emerging local businesses. A woman who runs a successful bakery business told about how her business had lost its market share to a new bakery company, but was able to regain her business by diversifying products:

My husband built this bakery ten years ago. First, we made bread and later we produced dried noodles. We had a 80-90 percent share of the Dalanzadgad bread market, which means we could sell 1000 loaves of bread per day. Few years ago my husband got a job in a mining company and I began to run the bakery alone. A couple of years ago competitors from outside the community opened a bakery in Dalanzadgad. Since the opening of that bakery, sales have rapidly decreased. Now we share 20 percent of the market. I tried many ways to improve my products. What should I do?

Mining companies have offered opportunities for local enterprises and suppliers, but the number of local SMEs that supply goods and services to mining companies has been very limited. Some local farmers and herders supply fresh produce to some local mines while that has been impossible in the case of large-scale multinational mining projects. Few local businesses have been able to meet the requirements from Oyu Tolgoi LLC and to supply their products. They are mostly local enterprises that make work clothes and timber products. Mining companies in Umnugovi aimag have begun to assess their procurement policy and provide local suppliers with programs to help them increase

their HSE standards, and financial support. Oyu Tolgoi LLC has increased its procurement plan for local produce from USD 5.1 million in 2012 to USD 27 million in 2013. The company is also working to develop effective communication strategies to identify suitable products and services for local supply, explain the requirements of goods and services, and provide support mechanisms to local suppliers.

### 6.3 Legal and policy framework

The Government of Mongolia approved the National Program for the Promotion of Small and Medium Enterprises in 2005. The program aimed to improve the competitiveness of small and medium enterprises, create favourable conditions for informal businesses to start a formal enterprise, and increase employment opportunities. The initial phase of the program, which was implemented from 2005 to 2009, resulted in a number of important deliverables. The law on small and medium enterprises was approved by the State Great Khural in 2007.

The Mongolian law on SME defines an SME by a combination of annual turnover and the number of employees although the two indicators vary depending on business sectors. The law aims to identify enterprises that may benefit from the SME support mechanisms. Accordingly, the law includes the following businesses as an SME:

1. A productive enterprise with an annual turnover less than MNT 1.5 billion and 10-199 employees
2. A wholesale business with an annual turnover less than MNT 1.5 billion and fewer than 149 employees
3. A retail business with an annual turnover less than MNT 1.5 billion and fewer than 199 employees
4. A service business with an annual turnover less than MNT 1.0 billion and fewer than 49 employees
5. A trade and service business with an annual turnover less than MNT 250 million and fewer than 19 employees
6. A productive enterprise with an annual turnover less than MNT 250 million and fewer than 9 employees

The law defined the key government institutions and their responsibilities for supporting small and medium enterprises in Mongolia. Consequently, a new government agency for Small and Medium

Enterprises and the National Council for Small and Medium Enterprises (with the participation of the key ministers and representatives) were established in 2008.

The development of business incubation centres was part of the program. In fact, the first business incubation centres were established by the government in 2003 within some local government offices and vocational training centres. The government approved a model standard for business incubation centres in 2006. However, the number of business incubation centres in the capital city and provincial centres has increased in the past few years. Many centres are operated as part of government offices and vocational education and training centres. For instance, the “Business incubation centre” of the Chingeltei district, which includes many *ger* districts, was established in 2011 as a state-owned enterprise funded from the government budget. The centre offers three main services: business training, information and consulting, and business incubation. The centre has several offices for SMEs via concessional rent and 13 support staff such as business trainers and consultants.

The government of Mongolia has increased the amount of soft loans for SMEs. While about MNT 2 billion was distributed via commercial banks as SME soft loans between 2006 and 2008, the amount of soft loan increased after the Fund for Small and Medium Enterprise Development was established in 2009. The amount of SME soft loans reached nearly MNT 60 billion between 2009 and 2010. The annual interest rate of SME loans has been approximately 2 percent and for two years. The fund became the main lending arm of the Ministry of Labour and it has provided SMEs with leasing support, loans for start-up enterprises, and credit guarantee services. According to the annual reports, the Fund granted loans to 1638 projects in 2009, 1607 projects in 2010, and 1707 projects in 2011.

The government established the *Soum* Development Fund (SDF) in 2011 as a mechanism to transfer funds and powers to the local government and promote projects developed within local communities. All 329 *soums* of Mongolia were allotted to a SDF. In total MNT24 billion were distributed to the SDFs, the budget of each SDF depended mainly on the population of each *soum*. The average size of funds was MNT50 million in 2011. The SDF provided local SMEs with soft loans for three years; the annual rate was set as less than 3 percent. 5094 projects were selected in 2011 and the government reported that 8773 new jobs were created. The government allocated MNT24 billion to the SDFs in 2012, as well.

As for taxation, the Tax Law exempted SMEs from customs duty and value added tax on imported SME machinery and parts in 2009, and correspondingly, a list of 789 machinery and parts was approved in 2011. The State Great Khural approved the Law on Credit Guarantee, which provided the government the right to offer a guarantee of 60 percent of the credits that promising SMEs apply to banks and financial institutions. The Mongolian Credit Guarantee Fund (MCGF), a public non-profit financial institution, was established in 2012 under the provisions of the law.

The new government was established after the 2012 parliamentary election and it defined enterprise development and job creation as its key priority. The Ministry of Labour was set up, and corresponding departments were established in local government levels. According to the Minister of Labour, J. Batkhuyag, the new government will spend more on SME development, but it needs to identify effective approaches to promote SMEs. The Minister said that the government had a lack of robust data on SMEs and the outcomes of various SME development projects. He was concerned about the sustainability of SMEs that were supported by short-term projects and soft loans. The SME Department of the Ministry of Labour is currently preparing to formulate the National Strategy and Action Plan for SME Development. The Chair of the SME Department B. Bat-Amgalan emphasized that it would be crucial to have an assessment of the previous and current SME development interventions and to bring new effective and innovative approaches for SME development in Mongolia.

The government does not have statistical data on the rate of business survival. Ministry officials estimate that roughly the majority of new businesses in Mongolia survive only for one year. Although the number of new businesses created by SME support projects is widely publicised, it is very disappointing that the survival rate of new businesses has not been reported.

## 7. Initiatives for enterprise development in Mongolia

### 7.1 Nation-wide programs

Enterprise development has been a key priority of many development aid organizations in Mongolia. Especially since the early 2000s, many development aid organizations have shifted their focus of development assistance from direct in kind aid or social welfare services to sustainable local economic growth and community development. Development aid organizations have implemented many projects that directly and indirectly targeted SME development. A number of large-scale projects that major aid organizations in Mongolia have implemented are reviewed below.

#### *United Nations Development Program (UNDP)*

UNDP implemented the MicroStart Project that had a long-term objective to reduce poverty and vulnerability through microfinance services to the poor in 1997. The initial mission and implementation plan of the MicroStart Project shifted towards supporting new and existing small business development. The project resulted in the establishment of Khas Bank and the first non-banking financial institutions in rural areas.

Among other projects that UNDP has implemented to reduce poverty and generate employment, Enterprise Mongolia Project (EMP) has directly targeted enterprise development. The EMP had two phases. The EMP-1 was implemented between 2005 and 2008 by the Mongolian Government and funded by the Government of Japan and UNDP. The main approach that project applied was One Village One Product (OVOP) Initiative. The OVOP was originated in Japan in the 1970s. The program aimed to develop local “brands” for tourism, handicrafts and agricultural products. Enterprise Mongolia Centres was established in the capital city and four provinces (as regional centres) to provide consulting, financial aid, and technical assistance to small enterprises to find a niche in domestic and international markets. Of 3011 project clients who received training through the EMP, 63 percent were women.

The EMP-1 chose 10 products/services as the OVOP brand products: (1) red garlic, (2) honey, (3) seabuckthorn, (4) handmade carpet, (5) yak wool products, (6) community-based tourism (Bayan-Ulgii *aimag*), (7) community-based tourism (Khentii *aimag*), (8) community-based tourism (Dornogovi *aimag*) (9) rock salt, and (10) millet. The second phase of Enterprise Mongolia Project (EMP-2), which started in 2008, continued to target small businesses under the OVOP Initiative. The EMP-2 aimed (1) to assist selected entrepreneurs to increase their technical, business, and marketing

skills, (2) to develop a model of sustainable small enterprise based on the OVOPI results, (3) to enhance the sustainability of the EMCs after the completion of the project. The EMP offered soft loans to businesses and individuals supported by the project to finance equipment and working capital requirements. For instance, through the Khan Bank the EMP-2 offered loans up to MNT 20 million with an interest rate of 1.2-1.3% per month for the duration of 3-24 months.

*International Labour Organization (ILO)*

The Start and Improve Your Business (SIYB) training programs have been one of the main instruments that the ILO used to promote start-ups and existing small enterprises. The SIYB training packages were translated into Mongolian and widely used by business incubation centres and other business training centres. There are four core and interlinked SIYB packages: (1) Generate Your Business Idea (GYB) training program, (2) Start Your Business (SYB) training program, (3) Improve Your Business (IYB), and Expand Your Business (EYB).

*World Bank*

World Bank has implemented the Sustainable Livelihood Project (SLP) since 2002. The total budget of the SLP is USD 52 million. A main objective of the SLP has been the improvement of microfinance outreach. The Micro Finance Development Fund (MDF) was established to expand the provision of financially and institutionally sustainable micro-finance services in rural areas through commercial banks and non-bank financial institutions. 40% of all loans are provided to vulnerable households and individuals with low income or small enterprises.

*Asian Development Bank*

The ADB has implemented the Agriculture and Rural Development Project (ARDP) since 2008. The ARDP aims to provide a range of Mongolian agribusiness enterprises (meat, dairy, leather, cashmere, camel hair processing and garments, wool carpets and blankets, felt products, and fruit and wild berry products) with technical assistance to help find a stable niche in domestic and international markets. The key deliverable of the project is to have at least 10 Mongolian enterprises that produce premium value agriculture products for selected niche markets. Consultants and technical experts were recruited during the different phases of value-chain development as requested by participant enterprises.



*The European Bank for Reconstruction and Development (EBRD)*

Mongolia became a country of EBRD operations in 2006. The EBRD started the five-year, EUR 4.2 million project “Support for SME Development in Mongolia” in 2011. The project was designed to bring changes in three levels: (1) building the capacity of the Department of SME within the Ministry of Labour and assist stakeholders to reform the national collateral registry system; (2) building the capacity of intermediary organizations that serve SMEs; (3) building the capacity of individual SMEs through local business consulting organizations. As of 2013, the Bank has provided technical assistance to 46 mid-sized corporates to help them access international best practice and 222 local advisory projects with individual small businesses. According to the EBRD’s new three-year strategy for Mongolia, which was approved in June 2013, the Bank will help the financial sector in its efforts to widen the opportunities for SMEs to access to concessional loans.

*Japan international Cooperation Agency (JICA)*

Japan Bank for International Cooperation (JBIC) approved in 2006 an USD 27 million ODA loan to finance the Two-Step-Loan Project for Small and Medium-scale Enterprises Development and Environmental Protection. The Project aimed to supply long-term soft loans to SMEs working mainly in agricultural and industrial sectors through commercial banks. At the same time, the Project aimed to support the capacity building of SMEs and the intermediary banks and non-banking financial institutions. In addition, the Project promoted environmental improvement projects proposed by private enterprises.

In cooperation with the JBIC, the JICA has provided a range of training program designed to enhance capacities of SMEs and the local intermediary banks, including management, accounting, financing, and marketing. The JICA has provided funding to the Mongolia-Japan Centre for Human Resources Development Cooperation for Human Resources Development, which offers a range of training programs for business development in Ulaanbaatar.

*Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)*

The German Organization for Technical Cooperation (GTZ) was incorporated into the GIZ in 2011. The GTZ implemented the Small and Medium Enterprise Promotion project from 1998 to 2007; the cost totalled EUR 6.2 million. The project defined construction, wood, tourism, printing, wool/cashmere and leather industry as the main target areas and provided advisory and professional development services and assistance with equipment to chosen competence centres

(industry-specific associations and research centres) in each target area. The main approach of the project was to strengthen the capacity of the competence centres.

The GIZ has implemented the Regional Economic Development (RED) project since 2002, which aims to promote SMEs through broadening the opportunity to access sources of funding. The RED carried out training activities for financial service providers and local government decision makers. The project established an indemnity bond fund for SMEs and provided assistance to the establishment of the Mongolian Credit Guarantee Fund. The project has organized annual business-plan competitions to stimulate entrepreneurial activities in selected rural areas.

*The U.S. Agency for International Development (USAID)*

USAID has been very active in the promotion of enterprise development in Mongolia. USAID granted funding to the CHF International to implement the Growing Entrepreneurship Rapidly (GER) Initiative from 2002 to 2009, which targeted *ger* areas of Ulaanbaatar and three other major cities in Mongolia. The GER carried out a range of activities (vocational training, loan facilitation, business networks, and trade fairs) to increase the number of productive *ger* area businesses. The project reported that 98 new businesses were created and 474 businesses were strengthened in the *ger* areas.

USAID provided funding for the Gobi Regional Economic Growth Initiative (the Gobi Initiative), which was implemented by MercyCorps and Pact, international NGOs, from 1999 to 2009. The Gobi Initiative assisted new and existing productive businesses by supporting herder groups, herder cooperatives, supporting industrial and financial businesses, and to increase the availability and use of business information for rural entrepreneurs, business associations, consultants, and other stakeholders. The project covered six *aimags*, Govi-Altai, Bayankhongor, Uvurkhangai, Umnugovi, Dundgovi and Govi-sumber. The Gobi Initiative offered a broad range of assistance such as business training, “one-on-one” management, and product diversification and marketing assistance.

The United States Department of Agriculture (USDA) funded the Rural Agribusiness Support Program (RASP) that is being implemented in 12 *aimags* in central and southern Mongolia to support the establishment and growth of rural enterprises and increase the value of sales of marketable animal products and crops. The RASP provided training and technical assistance, market linkage activities, and loan guarantee mechanisms for rural businesses. USDA also funded the Mongolian Agribusiness Support Project (MASP) from 2009 to 2011, which provided training and technical assistance to

existing and prospective agricultural microenterprises, cooperatives and business associations. As part of the project, the MASP assisted Development Solutions in building the organizational and consulting capacity.

*Swiss Agency for Development and Cooperation (SDC)*

The SDC has gradually shifted its focus from in-kind relief to the victims of the dzud and the poor to broader development cooperation. The agency has implemented projects on small and medium-sized enterprise (SME) development through the building of entrepreneurial capacities and through enhanced access to loans. The SDC also concentrates on vocational education and training (VET) and connecting it with SME development.

*MercyCorps*

MercyCorps is one of the largest international NGOs in Mongolia that concentrate on enterprise development. MercyCorps has mainly collaborated with the USAID and the USDA, ensuring on the ground delivery of development projects such as the Gobi Initiative. The organization works to improve loan guarantee mechanisms, to increase agricultural productivity marketing capacity, and SME-friendly financial services. MercyCorps devote much effort to the quality of business development services on a fee-for-service basis and expanding such services into rural areas.

ADRA

ADRA has implemented the Micro Economic Development (MED) Program since 2002. The MED has offered small soft loans to self-help groups who possess no collateral or capacity to win bank loans, helping them to start a small business. The loans are provided through a loan guarantee fund. The MED provides local self-help groups and cooperatives with a range of business trainings and consulting. In 2012, the project was implemented in Ulaanbaatar and 37 rural *soums*, resulting in 5 new self-help groups and 61 cooperatives.

## 7.2 Umnugovi

The Gobi Benefit project in Umnugovi

Oyu Tolgoi LLC has funded the Gobi Benefit project since 2011. The Gobi Benefit was first implemented by Development Solutions in 2011 and Interconsulting, a business consulting firm, has been implementing the project since 2012. The goal of the project is to contribute to local economies by supporting non-mining business development in the four OT mine impacted *soums*, namely Khanbogd, Manlai, Bayan-Ovoo, and Dalanzadgad.



Photo 6: A dairy farm in Dalanzadgad

The main activities of the project are introducing concessional loans, providing information on available business training sessions, teaching how to write a business plan, conducting training sessions on human resources, marketing, finance, and production technology, and organizing study tours. Furthermore, Oyu Tolgoi LLC established a credit fund through two commercial banks, which would offer long-term (up to 3 years), low rate (monthly 1%) loans (up to MNT 15 million) to local entrepreneurs. Over the past two years, loans worth MNT 380 million were granted to 50 local businesses. Development Solutions reported that the project created 15 new businesses, strengthened 27 businesses, and generated 60 jobs.

A woman who runs a small dairy farm told how the project helped her:

I have raised sheep, goats, and camels since 1999 in the countryside. However, my family lost our livestock during the 2009 dzud. We left only with 300 animals and moved to Dalanzadgad in 2010. I applied for the Gobi Benefit and received instructions and advice on how to manage a small business. I wrote a business plan and the Oyu Tolgoi loan fund granted me a MNT 8 million loan, helping me establish a dairy farm. We bought 4 cows and now sell milk to local schools and cafes. We also produce some yogurt. We are now building a bigger farmhouse for 10 cows.

Table 3: Main information of Gobi Benefit project<sup>20</sup>

People who	2011 - 2012	2012 - 2013
Applied for the project enrollment	57	67
Came to interviews	57	58
Enrolled in the project	17	15
Received a loan	14	2
Attended a training session	39	0
Received on-on-one consultation	5	0
Participated in a study tour	3	0

Table 4: Gobi Benefit project clients<sup>21</sup>

	2011 - 2012	2012 - 2013
Total	17	15
Female	14	7
Male	3	8
Age 20-30	2	4
Age 31-40	6	5
Age 41-50	3	2
Age 51 and above	6	4

In 2012, Interconsulting LLC conducted a market analysis of the project area and an evaluation of the project outcomes. Of 50 businesses supported by the project, 9 businesses or 18 percent stopped their business. 7 of the 9 entrepreneurs stopped in order to get a job in mining. Keeping their employees is a main problem for entrepreneurs, as well. The evaluation found that even though local people began to realise the business opportunity created by infrastructure development and mining they lack technological skills. According the market analysis mentioned above, the main weaknesses of rural *soums* are problems associated with infrastructure development, cost, and land-use permits.

Interconsulting LLC organized an event to choose new local businesses in October, 2012. Total 140 people attended the event and submitted their requests. As a result of the interviews with applicants, 27 people were chosen to provide support services. The main areas of the selected

<sup>20</sup> This information was kindly provided by B.Munkhchuluun, the Oyu Tolgoi Information Centre in Dalanzadgad.

<sup>21</sup> *Ibid.*

businesses were bath and shower service, cleaning, sewing, vegetable production, bakery, and technical services. The amount of loans that the selected businesses requested was MNT 370 million. The project organized training sessions for the selected entrepreneurs in each mine-impacted *soums*.

In Dalanzadgad, there are 8 NGOs working for local business development. There is no active business development NGO in other *soums* of Umnugovi. Basically, the activity of local NGOs is limited to training sessions. Local NGOs often lose tenders and grants provided by the government and international organizations to Ulaanbaatar-based NGOs. The main factors that inhibit their sustainable activity are: a shortage of skilled employees, insufficient information and data on the market environment, and a lack of standards for service quality.<sup>22</sup> “Erdeniin Gobi,” one of the relatively sustained local NGOs, conducts vocational and production technology training sessions. A NGO “Business Formula” provides training for local people about writing a business plan. The NGO offers one-on-one consultation on writing a business plan. However, it requires the clients to pay 3 percent of the project budget as a consultation fee, which local entrepreneurs find difficult.

#### Development Solutions

Development Solutions implemented an EBRD funded project on strengthening SMEs and promoting supplier businesses for Energy Resources LLC, a Mongolian private mining company that owns and operates Ukhaa Khudag (Tavan Tolgoi) coking coal deposit located in Tsogttsetsii *soum* of Umnugovi *aimag*. The EBRD holds a minority stake in the company. The project was implemented within 5 months in 2011. Development Solutions received a list of goods and services and standards for local procurement of the company and information on existing local suppliers. After receiving applications from local entrepreneurs and conducting interviews with them, 7 trading businesses, 31 production businesses (dairy products, furniture, bakery, sewing, meat products), and 6 service businesses (hotel and beauty salon) were chosen as project clients in Dalanzadgad and two other *soums*. Development Solutions conducted feasibility analyses of 37 project clients and provided consultation based on the analyses. It was found that most businesses have difficulties in managing human resources, accounting, business planning, marketing, and contract settlements. Development Solutions conducted two-day long training sessions on marketing and quality control, three-day long production technology workshops, and consultations on occupational hygiene. In addition, the

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<sup>22</sup> Development Solutions. A report of the project on building capacity of SMEs and promoting mine-supplier services in Umnugovi *aimag*. 2011

project team organized training sessions on creating and managing business cooperation and groups. Development Solutions provided Energy Resources LLC with a list of local businesses and the products that they can supply to the company. In addition, a local trade fair was organized to introduce local businesses to the company and other stakeholders.

As a result of the project, 39 jobs were created, 9 businesses were strengthened, and 1 new business was created. Three project clients received bank loans of MNT 25-40 million to expand their businesses. 5 project clients supplied their products and services to the company.

### 7.3 Analysis

A broad range of interventions associated with enterprise development can be grouped into three general levels in order to better understand the key approaches that have been applied in Mongolia.

Table 5: Key approaches to enterprise development in Mongolia

Levels	Key approaches
<u>Macro</u>	<ul style="list-style-type: none"> <li>- assistance in designing regulatory frameworks</li> <li>- assistance in establishing credit guarantee mechanisms</li> <li>- providing SME loans</li> <li>- assisting in the capacity building of government agencies</li> </ul>
<u>Meso</u>	<ul style="list-style-type: none"> <li>- increasing affordable financial services</li> <li>- transferring knowledge and skills to local partners</li> <li>- increasing market linkages</li> <li>- supporting business consulting centres</li> </ul>
<u>Micro</u>	<ul style="list-style-type: none"> <li>- supporting businesses in selected sectors and geographical areas</li> <li>- improving the productivity and sales of businesses</li> <li>- providing a broad range of business training and consulting</li> </ul>

Most international aid organizations have tried to blend different approaches or to intervene in different levels in their efforts to promote enterprise development in Mongolia. This approach has some serious disadvantages. An independent evaluation of the GTZ's Small and Medium Enterprise Promotion project, which was mentioned in the previous section, highlights:

The relationship between the three levels of action involved – with SMEs as the micro level, competence centres as the meso level and ministries concerned as the macro level – has not

always been straightforward, primarily due to frequent changes in responsibility and personnel in the partner ministry.<sup>23</sup>

There has been surprisingly little effort to create closer cooperation among international aid organizations and to map significant overlaps and gaps between various SME programs. Most aid organizations have linked enterprise promotion with microfinance and loans. The Minister of Labour said that his team would work to create establish a baseline by mapping both support programs and SMEs to better formulate their strategy.

The issue of sustainability seem to be the main challenge that the SME initiatives confront, especially regarding the continuity of projects after their closure. It happens very often that the project terminates in a relatively short time after the project's funding ended. Usually, foreign experts leave the country and Mongolian business trainers seek to get more lucrative job offers or other opportunities. A number of SME support initiatives seek to integrate project-based SME support mechanisms into the broad organizational framework of business development to ensure sustainability.

Many SME support initiatives contain a soft loan component. The loan component is crucial for local businesses as the following story told by a woman who runs a sewing business illustrates:

I started a clothing business, hiring two disabled people. I received a start-up loan from the Umnugovi *aimag*'s Social Welfare Fund. Now we have 20 employees and most of them are disabled people. We now supply work clothes and safety wears to Oyu Tolgoi.

However, it often happens that business trainers and consultants are perceived by local entrepreneurs as loan mediators. It creates unhealthy relationship between local businesses and business consultants. Many people ask whether a SME project will assist them to receive a loan. When offering a loan, most SME projects require entrepreneurs to submit an advanced business plan. Many local entrepreneurs find that impossible even though they have passion for business and good business idea. There is a tendency for some local entrepreneurs to duplicate what others do or do similar businesses with others in part due to a lack of information and analysis of other potential markets.

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<sup>23</sup> GTZ. Centre for Evaluation, Saarland University. Small and Medium Enterprise Promotion 2007. p.3



## **8. Potential for Enterprise Facilitation® in Mongolia**

It should be emphasized that Dr. Ernesto Sirolli's approach to enterprise development was broadly welcomed by different types of stakeholders and perceived to offer more benefits to local businesses than the traditional approaches widely applied by the government and aid organizations in Mongolia. Enterprise Facilitation® offered Mongolian stakeholders a new perspective to understand the essence of external intervention to help local people and communities generate sustainable development.

The Sirolli Institute has some important advantages that increase the potential of Enterprise Facilitation® to be deployed in Mongolia:

- As SME Department officials emphasized, it is the right time to introduce an innovative, but tested model to enterprise development in Mongolia. All stakeholders agree that SME development is a key condition for the diversification and sustainability of economy. The Government of Mongolia recognizes the importance of SMEs and will increase its financial and technical support to SMEs. The President of Mongolia Tsakhia Elbegdorj's program for the next four years defined SME development as a key priority.
- Enterprise Facilitation® is likely to complement other SME support approaches that are applied in Mongolia and Umnugovi by linking local entrepreneurs to different sources of financial and technical support. Furthermore, the Trinity of Management® is an accessible, powerful tool for a broader community to create and manage a successful business.
- The necessity of a local EF was broadly recognized by Mongolian stakeholders during the Sirolli Institute's visit. The question was how to create social infrastructure that would fit political and economic infrastructures. In other words, some people, who accepted the significance of Enterprise Facilitation® in Mongolia, were concerned about the sustainability of the project if the right social infrastructure is not created. Some local business associations and NGOs such as the Umnugovi branch of the Mongolian Chamber of Commerce and Trade expressed their interest in joining a Board of Helpers or a Community Panel in Umnugovi.
- Sirolli Institute's experience in the field of enterprise development around the world over the past 30 years is a valuable asset. The application of Enterprise Facilitation® in different country settings has provided the Sirolli Institute with the opportunity to adjust and refine the approach for new, challenging settings.

- It is a widely accepted view that informal social networks or connections have significant influence on one`s life chances, career, and business. Mongolia is a society where the power of inward-looking social networks or connections based on close bonds such as family, kinship, classmates, co-workers and local homeland is very strong. Nomadic culture and the experience of socialist collectivism equally contributed to such social



Photo 7: Development Solutions and the Sirolli Institute at the Oyu Tolgoi Information Center in Ulaanbaatar

- relations. Over the past two decades of social transformation, inequality and inequity has dramatically increased in Mongolian society and so has the access to informal networks and important connections. In this regard, women, the poor, and migrants have a significant disadvantage. In local settings, social connections are a vital source of information and resources. Many successful businesses in Mongolia were businesses built by families and kinship groups. Some businesses succeeded in part because of their effective use of networks. Enterprise Facilitation® in part helps entrepreneurs gain access to information and resources through the social infrastructure it builds. Especially, it can help women and rural migrants connect to a diverse source of networks whereby they can start a new business or expand their existing business.
- EF`s broad reach in the local community and the supporting structures that engage a broad range of stakeholders have a potential to create a healthy entrepreneurship culture in many communities across the country. Political divide and discrimination in rural areas has become a vexing problem. There is an unhealthy political culture in that government support to businesses intentionally excludes some people based on their political party affiliation. Development aid programs and business loans are often influenced by such interventions, resulting in distrust and disconnections between local entrepreneurs. If created successfully, EFs and Community Panels can serve as a hub of local community networks and present a potential for a non-partisan development dialogue.
  - Development Solutions, a field partner of the Sirolli Institute is the leading business development NGO in Mongolia. Over the past five years, Development Solutions has worked with government ministries, local governments, international donors such as UNDP, USDA, USAID, and SDC, and Mongolian mining companies such as Oyu Tolgoi LLC and Energy Resources LLC. Development Solutions has core programs on SME support and market linkages.

It has local networks of business consultants in Ulaanbaatar districts and all *aimags*. Especially, Development Solutions has created a broad stakeholder network in Umnugovi *aimag* through its past projects on SME development. The Sirolli Institute and Development Solutions are preparing to organize a short Trinity of Management course for resource companies, community organizations, and government organizations at the American University of Mongolia in November 2013.

- EFs usually serve around 20,000 people. Dalanzadgad is the perfect fit for the first deployment of Enterprise Facilitation®. Other *soums* in Umnugovi such as Khanbogd and Tsogttsetsii and Ulaanbaatar *ger* districts are the next potential areas for Enterprise Facilitation®.

## 9. Conclusions

The rapid growth of the Mongolian economy, which is determined by the expansion of the mining industry, presents a great opportunity for the country to significantly reduce the rate of poverty and build a sustainable economic infrastructure. Mongolia views enterprise development and economic diversification as a foundation of sustainable development. The government of Mongolia has made significant improvements in the regulatory and policy framework for SMEs. The government seeks to increase financial and technical support to SMEs in coming years through effective local institutional channels. Even though international aid organizations have made significant contributions to enterprise development in Mongolia, a local, community-based, long-term business support mechanism has not been established. Through Enterprise Facilitation®, The Sirolli Institute offers an innovative and tested model for creating such a mechanism. The findings of this research highlight a high potential for the deployment of Enterprise Facilitation® in Mongolia, particularly in mining-impact areas. Enterprise Facilitation® is likely to complement other SME support approaches that are applied in Mongolia and Umnugovi by linking local entrepreneurs to different sources of financial and technical support.

## **Appendix**

### List of organizations attended Sirolli workshops in UB

1. USAID
2. Mercy Corps
3. BPI
4. Swiss Agency
5. EBRD
6. AusAid
7. Canada Fund
8. Aus Trade Commission
9. GIZ
10. Caritas
11. Asia Foundation
12. Peace Corps
13. JICA
14. KOICA
15. SME Agency
16. Khas Bank
17. Anglo-American
18. OT
19. MonEnCo
20. MNO
21. CGBM
22. Peabody
23. Transwest
24. Energy Resources
25. Hunnu Resources
26. Boroo Gold
27. Leighton Asia
28. Terra Energy
29. Areva
30. National Association of Baghs and Soums

### List of organizations attended a Sirolli workshop in Dalanzadgad

1. Udmiin Urguu, LLC
2. Anargobi, LLC
3. Uranbinder, LLC
4. Erdene-Goyo, LLC
5. Oyu Tolgoi LLC (3)
6. Goviin Kharsh, LLC
7. Labour Department, Umnugovi Governor Office(3)
8. KhasBank, Tsogttsetsii branch(2)
9. KhasBank, Dalanzadgad branch
10. Zadat, LLC
11. Association of Employers
12. Mongolian Chamber of Commerce and Trade

13. Galtuud, LLC
14. Kapitron Bank
15. IGS Co.Ltd
16. Nomko, LLC
17. Amjiltiin tomiyo, NGO
18. Goviin Hugjliin Zuuch, NGO
19. Yoliin Khishig, Cooperative
20. Gobi Uran Shaglaa, LLC
21. Trade and Development Bank