

Government of Mongolia & United Nations Development Programme

Project: MON/01/U01

Bringing herders' assets into full economic and productive use

SUBMITTED BY:

Training, research and project management

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Date Oct 25, 2003

CONTENTS

Chapter I: Introduction	Page
I.1 Introduction	3
I.2 Research approach	4
Chapter II: Research methodology	
II 1 The specific character of the research; a combination of methodologies	6
II 2 Research framework , and the main concepts	7
II 3 Sample selection and sample size	10
Chapter III: Results of the survey and analysis	
III 1 Herders' current situation	
III 1.1 Herders' family size and educational levels	12
III 1.2 Herders' information sources	13
III 2 Assessment of herders' asset base	
III 2.1 Livestock types and levels	14
III 2.2 Technical equipment	17
III 2.3 Herders fixed property	18
III 3 Analysis of herders' involvement in trade and capital circulation	
III 3.1 Evaluation of sales and supply channels	19
III 3.2 Herder households' income and expenditures	23
III 3.3 Appraisal of herders' living standards	26
III 3.4 Herders' economic attitudes	28
III 4 Assessment of herders cooperatives	
III 4.1 Assessment of the necessity for cooperation	29
III 4.2 Types of cooperatives in the countryside and their characteristics (examples)	34
III 4.3 Assessment of cooperative activities	37
III 5 Assessment of herders' credit needs	
III 5.1 Herders' credit needs, the purpose of credit guarantees, the amounts sought and the credit terms	41
III 5.2 Micro-finance services	48
Chapter IV: Conclusions and recommendations	
IV 1 Summary conclusions	53
IV 2 Policy recommendations	
IV 2.1 Strategic alternatives to develop soums' economies	57
IV 2.2 Expanding sales and supply channels, and, loans and savings services	60
IV 3 Management recommendations	
IV 3.1 Defining herders' training needs and training arrangements	62
IV 3.2 Economics training for soum administrations	64
Appendices	

<i>1</i>	Tables	Page
1	Subject of the study and research criteria	8
2	Research methods	9
3	Herders' educational levels and gender	12
4	Herders' educational levels by age group	13
5	Herders' household livestock structure	16
6	Comparison of the sales and supply channels	21
7	Productivity and cost of livestock products	23
8	Herder families' household income (Sample)	23
9	Herder households' expenditure account (Sample)	25
10	Attitudes to types of cooperative and living conditions	30
11	Correlation between herders' interest in establishing a cooperative and living conditions	31
12	Cooperatives' activity assessment	33
13	Correlation between loaned amount and purpose	45
14	Correlation between loan term and purpose	46
15	Correlation between loan term and value	47
16	Micro-financial services	48
17	Loans given by soum	49
18	Development model options	58

<i>1</i>	Charts	Page
1	Herders' educational levels	13
2	Number of cattle owning families	14
3	Distribution of horse owning families by holding size	14
4	Distribution of camel owning families by holding size	15
5	Distribution of Sheep owning families by holding size	15
6	Distribution of Goat owning families by holding size	16
7	Herder families' means of transport and technical equipment	17
8	Herders' Fixed Property	18
9	Sales channels for livestock market products	20
10	Supply channels for food and consumer goods	20
11	Types of herders cooperatives	29
12	Purpose of credit	41
13	Loan amount	42
14	Loan terms	42
15	Types of credit guarantees	43
16	Henders' loans	43
17	Loan conditions	44
18	Herders' training needs	62

1

Appendices

- 1 Ovorkhangai and Gobi-Altai aimag cooperatives' current conditions
- 2 Correlation of standard KHAAN and KHAS bank's herders' credit terms
- 3 The socio-economic situation in Kharkhorin, Zuunbayan-Ulaan and Togrog soums
- 4 Experiences of herders who have succeeded in involving capital in economic circulation

Chapter I: INTRODUCTION

I.1 Introduction

Objectives

- I.1.1** The overall aim of this project is to determine how herders might ‘unlock’ the potential of their capital assets (i.e. livestock) in order to increase their productivity. This includes their use as collateral for borrowing, or their direct realization. The specific objectives are to:
- a. Examine the current nature of production adopted by herders (i.e. provide a situation analysis)
 - b. Appraise the alternative mechanisms for enabling herders to purchase capital goods (tools and so forth) and thus, improve their productivity.
 - c. Examine how they might work together collectively within cooperatives.
 - d. Examine how they might diversify production into allied activities (e.g. meat processing).
 - e. Give attention to attitudes and social-psychological factors, which constrain behavior and choice.
 - f. Come forward with useful and practical policy proposals that can be implemented in both the near and longer terms.

Scope

- I.1.2** The project focuses on the Mongolian context, but also seeks out useful lessons from the international experience. It covers the following:
- a. The importance of access to credit and usefulness of mechanisms like revolving funds.
 - b. The performance of genuine herders’ businesses.
 - c. The attitudes of herders themselves.

Research Methodology

- I.1.3** Five methodological stages can be set out:
- a. A desk based study of published materials (studies and academic publications), the policy positions of the Mongolian government and the international agencies.
 - b. Situation analysis of the current state of production.
 - c. A survey of herders and herders’ businesses and cooperatives.
 - d. Analysis of data and collected evidence.
 - e. Policy formulation and reporting; a review of the current solutions and options (e.g. cooperatives, supply of credit, banking reform, aid, training and re-education).

Outcomes

- I.1.4** Two outcomes of the project are the delivery of:
- a. Findings based on sound evidence.
 - b. Useful policy recommendations, which are practical and capable of implementation.

I.2 Research approach

I.2.1 The research approach followed a number of stages and was agreed between ourselves and Poverty Research Group

Stage I: Research plans

I.2.2 This research project aimed to examine how herders' capital might be used more effectively and review the methods of economic management in rural areas (through local administrations). As far as we aware this kind of research project has not been attempted before. And so, it has been necessary to develop and use a new methodology and techniques.

I.2.3 The research program was implemented under the supervision of the United Nation's Development Programme-funded Poverty Research Group in the Ministry of Finance and Economy

I.2.4 Outputs and activities:

Research methodology and techniques
Research subject and various questions
Definition of the scope of the study
The preparation of data collection techniques
Draft of pilot survey questionnaire
Analysis of soums' micro-environmental factors and diagnosis

Stage II: Evaluation of current conditions

I.2.5 The questionnaire about the current situation and sale of livestock industry was asked of a sample of herders at selected localities. Additionally, we collected background information, preparing a list of works of scholars and students, and created a information database.

I.2.6 Outputs and activities:

Formulation of a pilot survey, which was conducted in Yoson-Zuil soum of Arkhangai aimag and, preliminary survey results.

The main questionnaire and interview questions where prepared, reformulated and made ready to put to subjects.

Stage III: Primary data collection

I.2.7 This stage was concerned with the primary field study of herders. The survey aimed to question 1,000 respondents, but in practice only 60% of respondents were questioned. In addition 65 soum's local governments and administrations were given an additional questionnaire.

I.2.8 The research team considered that a herder's survey alone was not sufficient to identify current conditions in rural areas and thus a questionnaire for local administrators was developed and conducted. The reason for this was that herders' opinions weren't sufficiently clear to identify the productivity of the livestock sector and the potential for economic innovation.

I.2.9 Outputs and activities:

- Formulation of the local administrative survey
- Analysis of the results of the main survey in report form
- Analysis of policy issues
- Preparation of rural area development strategy alternatives

Stage IV: Analysis

I.2.10 This stage followed on from the completion of the field survey which investigated herders' opinions about the livestock sector's performance, turnover in trade and the potential for cooperation. Around 1,000 questionnaires were processed using the SPSS package.

I.2.11 Outputs and activities:

- Basic statistics for the field survey results
- Investigation of specific issues:
 - Herder households' capital formation
 - Current means used by herders to obtain better performance and boost turn over in trade
 - Options for the supply information and identification of training needs
 - Herders' economic attitude to turnover circulation and innovation
 - Herders' opinion about credit
 - Herders' opinion regarding cooperatives
 - Local administrative activity and citizens participation

Stage V: Development of Recommendations

I.2.12 In this final stage we developed policy recommendations and made conclusions on current conditions and solutions to the problems facing the livestock sector. (Cooperatives, supply of credit, provision of bank services, training, and education)

I.2.13 Proposals for implementation were presented in an open discussion seminar attended by UNDP, Poverty Research Group of the Finance Ministry, the Ministry of Agriculture, the Agricultural Bank, KHAS Bank specialists, and leading researchers and scholars.

I.2.14 Outputs and activities:

- Research Project final report.

Chapter II RESEARCH METHODOLOGY

II 1 The specific character of the research: a combination of approaches

II 1.1 Appraisal of the options for bringing herders' property into productive economic use within Mongolia's nascent market economy system is a novel and innovative research topic, and thus this study is ground breaking. Three principal reasons underpin the need for research in this area: -

- Herders have already begun to look for ways to create additional value by taking part in market economic relationships to improve their livelihoods, to build saving deposits and to develop the sector.
- There is a need to define the methods and potential to use working capital more effectively by increasing productivity of the livestock industry, and the more efficient use of property.

Research has not previously been carried-out which relates to the needs and circumstances of today. This research adopts a wide frame and includes issues of society, economy, and the market environment.

II 1.2 We consider that here are 3 main issues associated with the assets and capital owned by herders and used in their livestock businesses. These 3 issues are: the social welfare of herders; the economics of livestock herding as a business; and the lack of study of the problems facing the sector systematically and the point of their intersection.

II 1.3 From the view of economic theory, herders can be considered as both producers and consumers. Thus, in order to carry out our research work effectively, we should combine sociological, economics and marketing research methods. Specifically:

- Sociological methods were used in the research related to the changes in local herders' social psychology, and in studying the marketing communication, and intensification and sophistication of the business of livestock rearing.
- Economics permits us insights into the structure of the market and potential of the local area economy on the basis of circumstances.
- Marketing research methods were used for studying current conditions to discover new methods or activities, new forms of production, and new services, and to let herders to expand on the basis of their own initiative.

II 1.4 Studying the concept of **Herders and Herders' business** using the above mentioned three research methods from all angles, integrating the results and defining the correlation between them, is the nature of this research approach.

II 1.5 The basis of the research, its purpose and component tasks were formulated as well as the analysis and explanations processed in each task. The economy of the soum and herders', characteristics, the socio-psychological trends, clarification and evaluation can be gained from the key questions in the survey.

II 2 Research framework and the main concepts

II 2.1 The main target areas of this research are:

- Herder families and their property
- Cooperative livestock businesses.

The topic areas and parameters were defined as follows:-

II 2.2 **Herder family:** Number of herder family members, their educational level, and their knowledge about the market economy, and herders' educational needs.

II 2.3 **Herders' property:** a) Herder families' savings, a short-term investment needs, working capital. b) livestock c) fixed assets such as winter shelters, spring shelter, pasture, buildings, technical equipment, means of production etc.

II 2.4 **Cooperative livestock businesses:** Cooperative businesses' membership, herder families' consumption, channels of sale and supply, herder families' income and expenses, methods of cooperating, possible ways of increasing herder families' income

II 2.5 **Cooperation:** Herders' initial and current psychological disposition to join cooperatives, the process of cooperating., cooperative formation, development and success of cooperatives, lessons, future trends, and more advanced means of cooperation in the future.

II 2.6 **Credit and financial services:** The credit policy supporting herders and businessmen in livestock husbandry, knowledge about access to credit, herders' knowledge of how to increase their asset base.

II 2.7 This part of our work looked these issues in the context of herders, herders' property, and the business of livestock industry according to organization theory, and the micro-environmental effects of local rural areas (soums).

II 2.8 There are many indirect influences to be considered from the external environment, the approach of the soum administrations and the political, economic, social, cultural and technological influences on herders. These are in addition to influences and many factors that include customers, suppliers, owners, competitors and partners. In order to make the survey more productive and achieve reliable and sound results, we needed to consider the following 3 basic factors: the household economy, the soum economy and trends in social attitudes.

II 2.9 **Indicators for the household economy:** Valuation of herders and herder families' property. The definition of factors related to the herder household economy which mutually influence the soum economy.

II 2.10 **Indicators for the soum economy:** Measures for the main factors that have an effect on the connection between herders' businesses with the mainstream market and soum market centers. Further indicators include size and structure of financial market and soum infrastructure

II 2.11 **Social psychological trends:** Herders' knowledge about the market economy and their skills, the development of their thinking, cooperative relations and ways of working.

Table 1: Subject of study and the criteria used

Criteria	Family economy Numerical data for herder families' household economy	Soum economy Size and structure for soums' livestock industry	Social psychological trends Herders' opinions
	1	2	3
1. Herders families and their assets			
Educational level of Population	Family members, their educational levels	Soums' demography. Migratory movements. Educational levels and professional skills of soums' populations	
Working property	Money , credit, goods and products	Soums' banking sector and financial market	Herders' opinions about ways of increasing the effectiveness of working property
Fixed property	Built structures and number of head of cattle, winter pasture, spring pasture, pasture-land, wells, and mechanical equipment	Structure and number of head of cattle, registration and property documentation, Geographical locations	Opinions about having a real estate, independent on nature
2. The livestock industry as a business.			
Products	Level of production of a herder family	Total quantity and value of soums' raw materials production of domestic animal origin	
Consumption	Quantity and value of food and consumers' goods	Total quantity of soums' food and consumers' goods and their turnover	
Sale and supply channels	Channels for selling livestock raw materials, channels of supplying consumers' goods and their turnover.		Opinions about selling raw materials and supplying consumer goods
Budget	Income and expenditure of herder families, possibilities for creating additional value (rich, average, poor)	Income and expenditure amount of the soum's budget	
Knowledge and information	Knowledge about the market economy, technical equipment for obtaining information (radio, TV, press)	Capacity for giving information to herders	Training needs regarding the market economy , Knowledge about market processes
Cooperation	Membership of cooperatives, economic value	Economic base of cooperatives	Opinion about cooperatives

Table 2: Research methods

Criteria	Family economy Numeric data for herder families' household	Soum economy Value and structure of soums' livestock industry	Social psychological trends Herders' opinions
	1	2	3
1. Herders families and their assets			
Educational level of Population	From herder by questionnaires	State and local government statistical information	N/A
Working property	From herder by questionnaires	Soum's budget , bank reports	Interviews with herders and businessmen engaged in cattle breeding and cooperatives
Fixed property	From herder by questionnaires, Soum's statistical information	State and local government statistical information	Interviews with herders and businessmen engaged in stock breeding and cooperatives
2. The livestock industry as a business			
Products	Developing a methodology for calculating herder families' production income and expenditure	Calculating the total production income and expenditure of soums using developed model, Information about average cost of goods	N/A
Consumption	Developing a methodology for calculating herder families' production, income and expenditure	Calculating the total production income and expenditure of the soum using the developed model Information about average cost of goods	N/A
Sale and supply channel	From herders via survey questionnaires Soums' statistical information Interviews with herders		Interviews with herders and businessmen engaged in stock breeding and cooperatives
Budget and Financial issues	Interviews with herders and calculating herders' budget	Developing a method to calculate a Soum's total goods, and monetary circulation. International and Mongolian statistical information	N/A
Knowledge and information	From herder by questionnaires	Questionnaires from local government officials	Interviews with herders and businessmen engaged in stock breeding and cooperatives
Cooperation	Questionnaires from herders, and discussions	Develop a method of diagnosing the current situation	

II 3 Sample selection and sample size

II 3.1 Research methodology for the pilot survey.

We obtained opinions by the way of a questionnaire filled out during visits to herder households. This questionnaire also enabled us to determine the living standards and trends in the social and economic attitudes of herders' families. To reveal very clearly, any key problems, and to put forward solutions to achieve the research goals, a pilot survey was performed. The advantages of pilot survey are as follows:

- a) To ensure the questions in the questionnaire match the survey goals and requirements of the methodology. And so to assist us to correctly define the additional methodology for finding out the potential for determining the objective variables (herder's productivity, property, credit, cooperative) to be gained from the questionnaire results.
- b) And to highlight the probability of those respondents filling out questionnaire correctly, and the impact of their different educational levels and knowledge of the market.

II 3.2 Size and sample selection.

These are the next issues considered; a number of criteria were used:

- a) The first selection criterion was used location of the sample. Mongolia has approximately 340 soums and 380 - 400 herders' families are living in each soum; 400-600 herders' families live in rural soums where livestock predominates, and 30-100 herders' families live in agricultural (crop) soums.
- b) Secondly, the standard of living of Herders' families was considered. Herders can be divided into three categories (rich, middle income and poor) according to the national classification standard. Local government officials would be asked for their help to prepare a categorized list from which the samples can be randomly drawn. This split was based on secondary sources and it was generally assumed that the sample proportions would be; rich herders 20%, middle-income herders 40% and, poor herders 40%.
- c) The questionnaire would be only be put to genuine herder households. One member of the selected household (usually, its head) would be taken to represent his or her family.

II 3.3 Research Target Areas

Areas were selected in the following way:

1. Selection of the targeted areas aimed to represent the main economic regions of Mongolia:
 - a) From the western region – Zavkhan aimag
 - b) From the central region – Ovorkhangai aimag
 - c) From the Eastern region – Khentii and Dornod aimag
 - d) From the Gobi region – Omnogov aimag
 - e) From the forest or northern region – Selenge aimag .
2. Following criteria were considered to select soums from within the regions

- a) Soums, which are located close to Aimag, city or central market areas
- b) Soums, which are on inter-aimag roads by location.
- c) Soums, which are located at a remote distance from aimag, city or central market areas
- d) The selected soums must also be evenly spread to east, west, south and north directions.
- e) Structure of cattle and different kinds of geographical zones (forest, desert and steppe).

Population information, geographical locations and distance is described in more detail in Appendix 1..

II 3.4 Note, the following data sources were used for this exercise:-

- a. Population and Housing Census 2000, National Statistical Office of Mongolia (Selenge, Zavkhan, Ovorkhangai, Sukhbaatar, Khentii and Omnogovi aimag's census results booklet).
- b. Data is taken from the Census booklet tabulation Nos. 6 and 7.
- c. The number of local herder households was estimated based on the average number of rural households.
- d. The samples constituted 8-20% of the total local herders households (on average 10% of total households in the regions surveyed); this equates in crude numbers to 23-103 herders' households per sample (on average 46 herder households per soum).

Chapter III

RESULTS OF SURVEY AND ANALYSIS

III 1 HERDERS' CURRENT SITUATION

III 1.1 Herders' family size and educational levels

III 1.1.1 The average number of family members nationally is 2.2 compared to 4.8 for rural herders' families. Of those surveyed, 23 % had a family size of 1-3 members, 58.6 % had 4-6 , 18.1 % had more than 7. The data shows that family size in rural areas is 2.6 times higher than in the city.

Herders' educational levels

III 1.1.2 The results show that 6.3 % of herders had never studied in any school, 27.3 % had finished the 4th class, 34.4 % had finished 8th class, 20.8 % had finished 10th class, The relatively lower level of herders' education causes a lack of knowledge of; planning and working purposefully; how to increasing their living conditions, developing their stock-breeding skills, and generally how to succeed in the market economy.

Table 3: Herders' educational level and gender

Educational level	Sex				Total
	Male	Percent	Female	Percent	
Illiterate	40	6.1%	23	6.7%	63
Completed 4 th class	182	27.6%	91	26.6%	273
Completed 8 th class	231	35.1%	113	33.0%	344
Completed 10 th class	123	18.7%	85	24.9%	208
College and technical school	46	7.0%	18	5.3%	64
Higher education	37	5.6%	12	3.5%	49
Total	659	100%	342	100%	1,000

III 1.1.3 Referring to gender and educational level, the survey shows: Herders who are illiterate are 6.1 % of men, and 6.7 % of women; those completing the 4th class male 27.6 %, female 26.6 %; completing 8th class education - 35.1% male, 33.0 % female; and 10th class education, 18.7 % male, 24.9% female, having a professional qualifications or training - 7% male, 5.3% female; and having graduated from higher education, 5.6% male, 3.5% female. The survey underlines the lower level of education in rural areas.

III 1.1.4 There is also some difference between male and female herders. According to table 3, a number of female herders with 10th class education is 6% higher than their male counterparts, however the number of female herders with no education is 0.6% less than male ones.

III 1.1.5 If we compare educational level by age, the middle age group (31-50) who have attained 4th, 8th, and 10th class levels, are more educated than younger herders. Young herders' lower level of education is related to the transition period at the beginning of 1990s, when herder families tended to leave their children out of school.

*Note: Class means a number of years of schooling.

Table 4: Herders' educational level by age group

Education	Age Group						Total
	Up to 20	21-30	31-40	41-50	51-60	Over 61	

Illiterate	3	12	13	8	16	11	63
Completed 4 th class	10	22	76	62	68	35	273
Completed 8 th class	9	63	126	102	31	13	344
Completed 10 th class	11	47	53	64	20	12	207
College and technical school		11	18	23	9	3	64
Higher education	-	11	13	14	6	5	49
Total	33	166	299	273	150	79	1000

III 1.2 Herders' information sources

III 1.2.1 According to our survey, 51.5% of herders receive their information from the radio, 15.4% from television, 3.0% from newspapers, 2-3% through бага and souм's administration offices and 17.0% from other herders. The number of information channels is being increased. While many people will be surprised and doubt that 15.4% of herders receive their information from television, it is apparent that groups of herders often come together at wealth family's ger or dwelling to watch their television set.

III 1.2.2 The vast majority of herders answered that they obtain their information primarily from television or radio. This shows they are able to get information in timely fashion. On the other hand, 2.3% of herders answered that they get information from бага and souм's administrations thus showing that local governors offices are keeping herders poorly informed.

III 2 ASSESSMENT OF HERDERS' ASSET BASE

III 2.1 Livestock types and levels

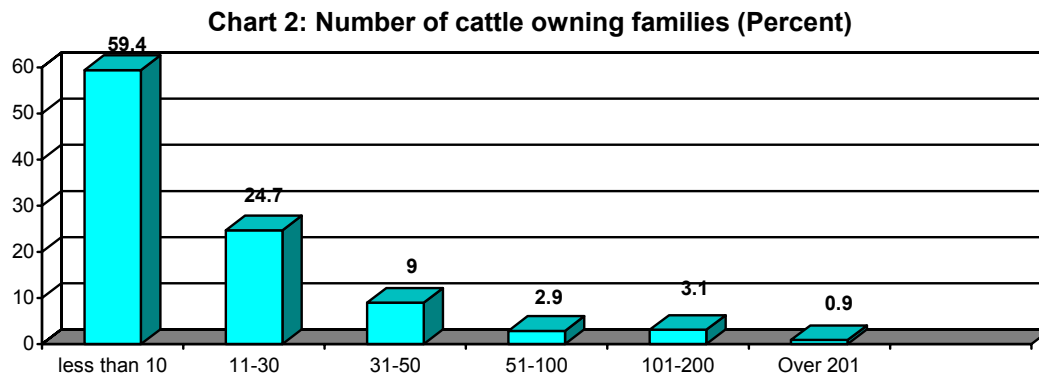
III 2.1.1 Herders' assets can be classified into three categories: livestock holdings, technical equipment and fixed capital.

III 2.1.2 Type of livestock was considered under 5 categories (camels, horses, cattle, goats and sheep) and classified according to the standard National Statistical Office (NSO) definition.

A. Cattle

III 2.1.3 Our study shows that ; 59.4% of total surveyed have less than 10 cattle; 24.7% of them 11 to 30; 9% 31 to 50; 2.9% have 51-100; and only 0.9% have more than 201 cattle. The analysis indicates an interesting result that only 39 respondents have between 51 and 200 cattle.

III 2.1.4 If we compare the number of large livestock with the number of family members; families which have large livestock are generally the larger families - mainly those with more than 4 members. Underpinning this is the fact that large livestock requires a lot of



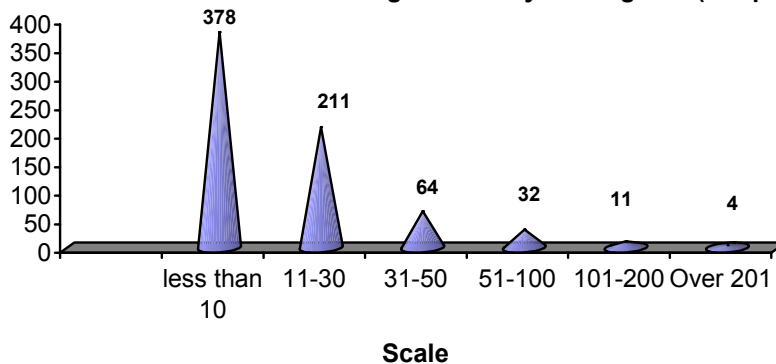
labor and this creates work. Also in the last 2-3 years natural disasters have deeply affected the livestock sector, reducing the numbers of large cattle.

B. Horses

III 2.1.5 The survey shows that 54% of the 700 respondents held less than 10 horses; 30.1% of them 11-30 horses; 9.1 % have 31-50; 4.6% own 51-100; 1.6% have 101-200; and a mere 0.6% of those questioned have more than 201 horses. In all, a very low 15.9% of respondents have more than 31 horses.

III 2.1.6 The horse is the most useful animal for travel and carrying loads, and is not generally used as meat.

Chart 3: Distribution of horse owning families by holding size (Frequency)



C. Camels

III 2.1.7 The study results show that : 67.2% of the respondents have less than 10 camels; 21.9% of them 11 to 30 camels; 5.7% 31 to 50 camels, 2.4% have 51-100, and only 0.5% have more than 201 camels.

III 2.1.8 These statistics bear out the fact that in the last 2 decades, the numbers of camels in the whole country is decreasing. Only 42% of respondents now own camels.

D. Sheep

III. 2.1.9 The survey results show that 16.6% of 905 respondents are recorded having less than 10 sheep; 15.1% of them 11-30 sheep; 25.5 % have 31-50; 23.6% own 51-100 ; 11.6%

have 101-200; 5.7% have 201-500; 1.1% have 501-999; and only 0.7% of the total have more than 1,000 sheep.

III 2.1.10 Almost all of the herder families, who participated in the survey own sheep; 68.1% of respondents have more than 31 sheep. But above 200 animals, the numbers and percentages shrink dramatically; only 52 herder families own 201-500 sheep, 10 own 501-999 sheep, and a mere 6 herder families own more than 1,000 sheep. Thus if we define those herder families, which own 501 sheep and more as ‘rich’; we find there were only 16 families in this category within our sample.

Chart 5: Distribution of sheep owning families by holding size(Frequency)

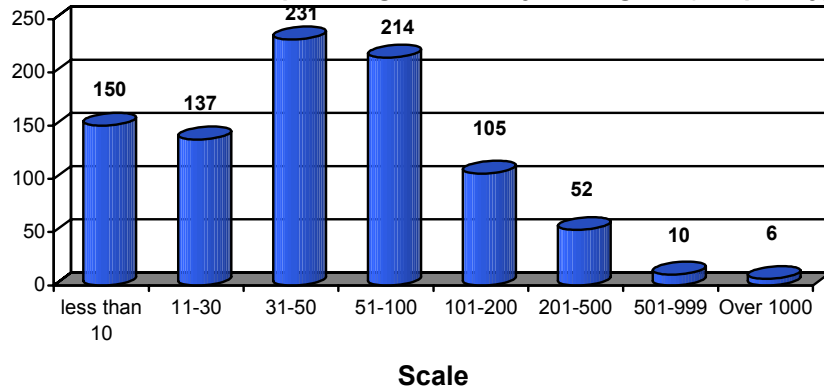
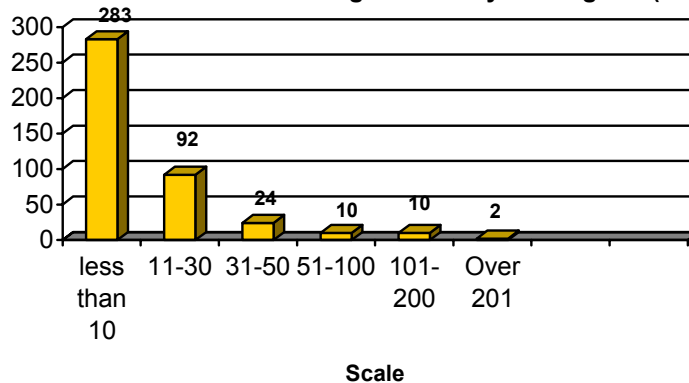


Chart 4: Distribution of camel owning families by holding size(Frequency)



F. Goats

III 2.1.11 Amongst the 936 respondents, who kept goats; 11.2% of goat owners have less than 10 animals, 20.0% have 11-30; 25.0% have 31-50; 17.9% have 51-100; 15.3% have 101-200; 9.7% have 201-500; 0.7 have 501-999; and a tiny 0.1% have more than 1,000 goats.

Chart 6: Distribution of goat owning families by holding size /Percent/

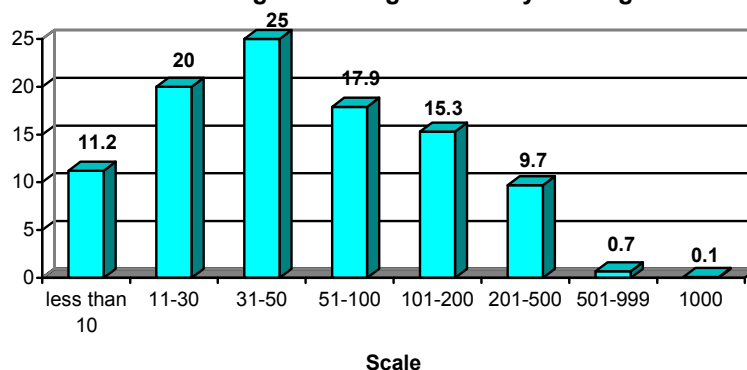


Table 5: Herders' household livestock structure (Comparison of five livestock types)

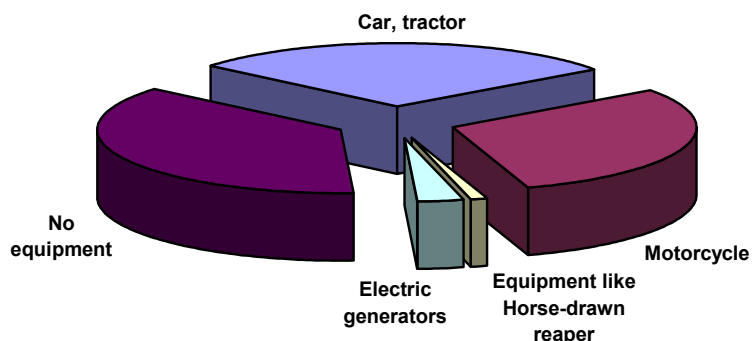
Scale	Camels	Horses	Cattle	Sheep	Goats	Average
1. less than 10	283	378	385	150	105	260
2. 11-30	92	211	160	137	187	157
3. 31-50	24	64	58	231	234	122
4. 51-100	10	32	19	214	168	88
5. 101-200	10	11	20	105	143	57
6. 201-500	2	4	6	52	91	31
7. 501-999	-	-	-	10	7	8
8. More than 100	-	-	-	6	1	3

III 2.1.12 From the above, we can see that the structure of the herders' livestock holdings are dominated by cattle and goats. This is explained by herders' desire to keep more productive kinds of livestock.

III 2.2 Technical equipment

III 2.2.1 Herder's transport equipment status was classified using five categories (see below); 297 respondents answered they own a motorcycle; 288 respondents own a car and tractor; and very few of them owned any other kind of equipment. This shows that most of herders, who participated in the survey don't own any technical equipment and that those families that do generally represent richer households.

Chart 7: Herder families' means of transport and technical equipment



III 2.2.2 Essentially, herders use motorcycles as the main form of transport. At present, the insufficient equipment levels for primary processing of raw materials and produce, means that only small amounts of extra income are generated for families.

III 2.2.3 The main impact of low equipment ownership levels amongst herders can be expressed in terms of their inability to exploit their livestock assets productively. Only 0.8% of the respondents answered they own small-sized pieces of equipment suitable for manufacturing. It can also be concluded that the herders have little initiative to run a small-sized manufacturing businesses and lack creative minds.

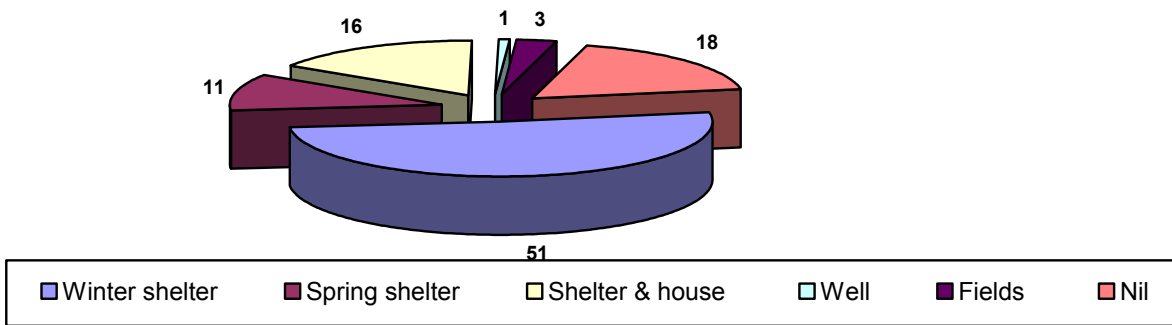
III 2.2.4 In all, 3% of the respondents answered that they have access to an electricity supply, yet 34% of the respondents gave no answer to this question. From the answers given it can be said that number of poorer herders is increasing year by year, because of the lack of basic equipment.

III 2.3 Herders Fixed Property

Herders' fixed property can be classified into; winter shelters, spring shelters, shelters with houses in the soum center, wells and arable fields.

III 2.3.1 The survey reveals that 51% of respondents answered that they own a winter pasture and 11% of them own a spring pasture. Usually 2-3 families live in the same winter and spring pastures. Herders who live close to the soum center and where children attend the local school, generally own a shelter and a house in soum center.

Chart 8: Herders' Fixed Property (Percent)



III 2.3.2 Herders generally use public wells and operate them manually. Only 1% of respondents privately own a well, similarly 3% of respondents own crop fields and this proportion is insufficient and surprisingly low value. As stated previously, 17 respondents answered that they have no fixed property at all. These herders' families own nothing other than their livestock, and these people account for a disturbingly large proportion.

III 3 ANALYSIS OF HERDERS' INVOLVEMENT IN TRADE AND ECONOMIC CIRCULATION

III 3.1 Evaluation of Supply and Sales channels

III 3.1.1 As herders are both producers and customers, they have separate sale and supply channels.

III 3.1.2 Each soum's sales channel for livestock market products and/or raw materials, and the supply channel for food and consumer products varies due to their different infrastructure and market environments.

III 3.1.3 To the question, "How do you sell your livestock products and raw materials?" herders answered as follows; 21% of them use products as payment for borrowed products; 22.4% of them sell for cash to soum centers' trading companies, 33.8% of them sell to mobile merchants from the city or aimag center; 31.7% of them sell on their own or together with other herders. Herders do not appear to be creative or entrepreneurial, and prefer to sell to the mobile merchants.

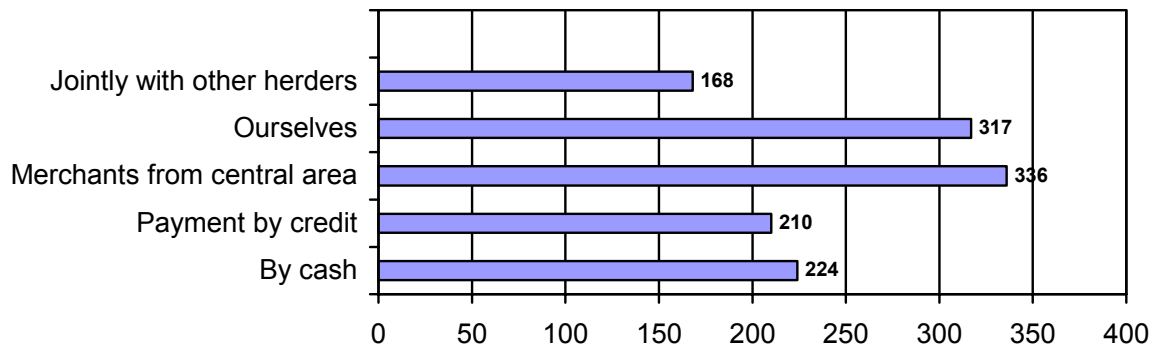
III 3.1.4 As herders have no well defined sales market, they sell to the merchants who offer the highest prices in the period. In all, 168 herders answered that they sold products together with other herders. This method of sales is not suitable. Although people who live in a neighborhood sell their product together, the marketing and selling of livestock products not generally well organized.

III 3.1.5 Regardless of the method of sale, transactions are predominately carried out with mobile merchants and although this is more profitable for the herders, it has a bad effect on the local economy, as money flows out of the local area.

III 3.1.6 Paying for borrowed products has become a clear form of exchange akin to bartering for the herders who have only a small amount of livestock and no substantial income.

III 3.1.7 Amongst the herders questioned, the dominant method of selling livestock products is to mobile merchants. They display little initiative to sell their products; other ways. In addition, the sales channel and the prices obtained are far from stable, and they sell their products on that day's or month's price which is profitable for them. There is no consideration of maximizing the value by changing sales days or methods.

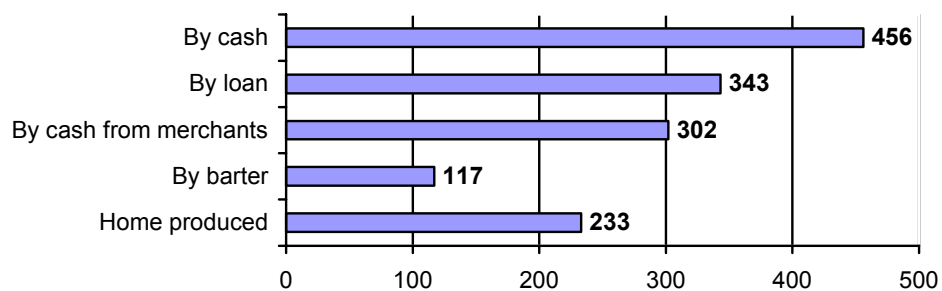
Chart 9: Sales channels for livestock market products (Frequency)



III 3.1.7 During the course of the survey, we discovered that the method of sale of livestock products didn't vary much with type of animal but depended more on the specific character of the market economy at the locality.

III 3.1.8 To the question "Where and how do you buy your consumer products?" herders answered as follows; 34.3% of them by borrowing from soum companies; 30.2% of them from merchants, coming from the city or aimag; 45.6 % answered from the local soum companies or stores; 11.7% by barter from merchants from the city or aimag, and a more 23.3% answered that they buy in cash.

Chart 10: The supply channels of food and customer goods (Frequency)



III 3.1.9 Most herders use livestock products as a form of payment at soum center Trading Companies for products purchased or taken under a loan-type arrangement. This suggests that herders face cash shortages so they take food initially on loan, and when the livestock products are ready they repay the loan value to the company. These sorts of relationships have emerged from long-term experience of working together - they trust each other - and the company is able to provide herders with quality products and sell them at a suitable cost to the herders.

III 3.1.10 In the following we compare the channels for the supply of food and consumer goods with the sales channel for the sale of livestock raw materials and evaluate each. We find in summary:

1. It is apparent that 38.6% of herders sell to merchants who come and buy livestock raw materials, whereas 27.5 % of buy food and consumer products from the same merchants. A large proportion both buy and sell constituting 24% of all respondents. But those selling produce are substantially more than those buying from merchants. Overall this shows that there is little active management of sales and supply channels of soum market economies. Most of the sales and supply transactions for food and consumer products are being made by barter with the mobile merchants.

Table 6: Comparison of the sales and supply channels

Answers		Food and customer goods supply					Percentages
		By for cash from soums trading companies and cooperatives	With loan from soums trading cooperatives and companives	By cash from city, aimag and, soums small merchants	With barter from city, soum and, aimag's small merchants	Buy themselves from city, aimag and, boarder crossing	
Sale of raw materials and livestock products	Sell in aimag center, city and boarder crossing with other herders	2	1	2	3	3	5.8%
	Sell in aimag center, city and boarder crossing one by one	7	12	8	9	13	25.9%
	Sell to small merchants who came from aimag and soum center	13	16	13	24	7	38.6%
	Give for loan payment to soum's trading company and cooperatives	6	14	3	11	3	19.6%
	Sell to soum's trade company and cooperative for cash	6	4	3	5	1	10.1%
		18.0%	24.9%	15.3%	27.5%	14.3%	

2. Herders do supply a large proportion of produce to the central market on their own (25.9%), buy food and consumer products from there (13%), and also take loans from soum companies (12%). This is a viable and more economically efficient means of selling products, but it can't provide working capital and cash needs. Loans are an

effective source of finance but they tend to be used simply for consumption and has a poor effect on work ethic and incentives.

3. Most of the herders buy food and consumer products from the soum companies using loans. This shows that the trading company's service is close to the customers at least.

To comment further: -

III 3.1.11 Small merchants think only of their own profit, and cannot meet herders' needs with quality products. Alternatives are available to establish some business-trading organizations such as herders' trading cooperatives which support the development of the local area. Unfortunately herders are still supporting small mobile merchants who contribute little to local development.

III 3.1.12 Borrowing everyday goods and products from the soum trading cooperatives and companies, has a negative effect on the local economy; it reduces the potential for economic circulation, financial intermediation and the supply of credit.

III 3.2 Herder Household's Income and Expenditure

Herder families' income

III 3.2.1 Herder families' incomes can be calculated on the basis of productivity standards for livestock raw materials. The local market livestock product cost as at March 2003 is used in the following estimations.

Table 7.A: Productivity and cost of livestock products (Prices as at March 2003)

Type of livestock / Productivity	1. Wool, cashmere (kg)		2. Molt hair, horse hair (kg)		3. Skins and hides (piece)		4. Meat (kg)	
	Productivity	Price	Productivity	Price	Productivity	Price	Productivity	Price
1. Camel	4.5	1,700						
2. Horse			0.26	150	0.09	6,000	12.76	425
3. Cattle			0.27	150	0.14	8,000	21.7	624
4. Sheep	1.3	150			0.2	2,500	4.8	822
5. Goats	0.24	1,8000	0.01	150	0.2	5,000	3.04	506
Supply time (Month)	May, June		May, June		Nov, Dec		Nov, Dec	

Table 7.B

Type of livestock / Productivity	5. Milk and fermented milk (Liter)		6. Intestines (piece)	
	Productivity	Price	Productivity	Price
1. Camel	0.0			
2. Horse	23.8	300		
3. Cattle	102.2	330		
4. Sheep	3.7	330		
5. Goats	6.9	330	1	200
Duration of preparation	May, June, July, Aug, Sep		Nov, Dec	

III 3.2.2 The table below provides an example set of income calculation for a herder named Sumya, from Yoson-Zuil soum, in Ovorkhangai aimag, whose family has 5 members. This family has 20 horses, 15 Cattle, 75 sheep, 150 goats, and a well.

Table 8.A: Herder family household income (Sample)

Livestock		1. Wool, cashmere (kg)		2. Molt hair, horse hair (kg)		3. Skins and hides (piece)		4. Meat (kg)	
Type	Amount	Productivity	Price	Productivity	Price	Productivity	Price	Productivity	Price
1. Camel	0	-	-	-	-	-	-	-	-
2. Horse	20	-	-	5.2	780.0	1.8	10,800.0	255.2	108,460.0
3. Cattle	15	-	-	4.1	607.5	2.1	16,800.0	325.5	203,112.0
4. Sheep	75	97.5	14,625.0	-	-	15.0	37,500.0	360.0	295,920.0
5. Goats	150	36.0	648,000.0	1.5	225.0	30.0	150,000.0	456.0	230,736.0
Total	260		662,625.0		225.0		215,100.0		838,228.0
Product's share of income			23.4%		0.01%		7.6%		29.6%

Table 8.B

Livestock		5. Milk and fermented milk (Liter)		6. Intestines (piece)		Total income (tugrug)	Share in income by livestock type
Type	Amount	Productivity	Price	Productivity	Price		
1. Camel	0	-	-	-	-	-	0.0%
2. Horse	20	476.0	142,800.0	-	-	262,840	9.3%
3. Cattle	15	1,533.0	505,890.0	-	-	726,410	25.7%
4. Sheep	75	277.5	91,575.0	-	-	439,620	15.5%
5. Goat	150	1,035.0	341,550.0	150.0	30,000.0	1,400,511	49.5%
Total	260		1,081,815.0		30,000.0	2,827,993	
Product's share total income			38.3%		1.1%	100%	100.0%

III 3.2.3 As we can see, Sumya's annual sales income is MNT 2,828,000 and his monthly income is about 235000 tugrugs. Production rates as a percentage of total income are; 23.4% for wool/cashmere, 29.6% for meat, 38.3% for milk and fermented milk (airag) and 7.6% for skins and hides.

III 3.2.4 The percentage share of income from goats is 49.5 %; the similar percentage for cattle is 25.7%, and 15.5% is for sheep, the percentage of income occupied by horses is considerably less. Sumya's family explained that their livestock structure is due to the higher market price of cashmere than other raw materials and the productivity of cattle was boosted by the way they had organized livestock/ herd structure.

III 3.2.5 In addition to the change in livestock structure, a change in the use of pasture was observed during the survey.

Herder families' expenditure

III 3.2.6 Statistical data for Mongolia, 2002, shows the average amount of food required for a person in a month is linked with the number of family members in the calculation of a herder family's expenditure. These costs have been calculated according to the price base at March 2003. The costs of food that are used from their own family household, are calculated without value added costs.

III 3.2.7 For example: The annual needs of a family, which has 5 members is 1,617,441 tugrugs, with the average needs per month running at 135,000 tugrugs.

Table 9: Herder household expenditure account (a family of 5 members)

Type of expenditure	Measure	Average needs * per person	Price ** (tugrug)	Needs based on monthly expenditure		Needs based on annual expenditure		
				demand	Price	demand	Price	
Total expenditure					117,420		1,409,040	
I.	Total expenditure by cash				73,433		881,190	
1	Food expenditure				<i>31,812.5</i>		<i>381,750.0</i>	
1	Flour, flour products	kg	9.9	450.0	49.5	22,275.0	594.0	267,300.0
2	Rice	kg	1.2	650.0	6.0	3,900.0	72.0	46,800.0
3	Sugar	kg	0.8	650.0	4.0	2,600.0	48.0	31,200.0
4	Potatoes	kg	0.7	350.0	3.5	1,225.0	42.0	14,700.0
5	Vegetable	kg	0.4	350.0	1.8	612.5	21.0	7,350.0
6	Fruit	kg	0.2	800.0	0.8	600.0	9.0	7,200.0
7	Vegetable oil	kg	0.1	1,200.0	0.5	600.0	6.0	7,200.0
2	Consumer goods expenditure				<i>26,444.0</i>	-	<i>317,328.0</i>	
1	Textiles					2,104.0		25,248.0
2	Clothes					6,793.0		81,516.0
3	Shoes					6,662.0		79,944.0
4	Soap etc					771.0		9,252.0
5	Household goods					3,038.0		36,456.0
6	Medicine					1,187.0		14,244.0
7	Fire wood and fuel					1,712.0		20,544.0
8	Household repair materials					206.0		2,472.0
9	Other goods					3,971.0		47,652.0
3	Public service expenditure				<i>15,176.0</i>		<i>182,112.0</i>	
1	Transport and telecommunication					4,710		56,520.0
2	Everyday goods					111		1,332.0
3	Education					4,856		58,272.0
4	Health care					215		2,580.0
5	Tax					1,070		12,840.0
6	Re-settlement					4,214		50,568.0
II	Foods used from own household				43,988		527,850	
1	Meat and meat goods	Kg	10.6	600.0	53.0	31,800.0	636.0	381,600.0
2	Milk and milk goods	Kg	15.8	150.0	78.8	11,812.5	945.0	141,750.0
3	Melted lard	kg	0.1	750.0	0.5	375.0	6.0	4,500.0

III 3.3 Appraisal of herders' living standards

Herder families' living conditions

III 3.3.1 We estimated the income and expenditure for each of the three consumption group of herder families: the wealthy, those with average incomes and the poor.

III 3.3.2 A 'wealthy' family was judged to have over 51 heads of animals, average income families 11-50 and the poor less than 10. So from our sample; 22 'wealthy' families exist with more over 51 camels; 47 families with over 51 horses, 45 families over 51 cattle. And there are 116 'average-income' families who have 11-50 horned cattle or camels, 275 families have horses and 218 families have cattle. Finally 282 poor families have up to 10 horned cattle or camels, 378 families have horses and 385 families have cattle.

III 3.3.3 In total there were 68 families with more than 201 sheep and 99 families with the same amount of goats to be counted to be 'wealthy'; 550 families with between 31-200 sheep and 545 families with goats are in the average income group; 287 families with up to 30 sheep and 292 families with few goats can be regarded as 'poor'.

III 3.3.4 In total 7.8% of all herders involved in the questionnaire are in the wealthy group, 47.2% in the average category and 45.0% in the poor group.

III 3.3.5 Some points need to be considered in estimating herders living condition according to the number of cattle they own:

1. First, herders material well-being directly depends on the number of cattle they have as a source on family income, production, and a basis for their living standards.
2. The type and quality of animal; pedigree and herd composition do however vary. This along with numbers in soums, bagas and aimag's differs depending on natural zones (desert, forest, steppe) or and economic realities (infrastructure, roads, transportation, state of market, etc.)
3. Herders living conditions and number of cattle depend on the number of people able to work.
4. Family living conditions with the same number of cattle can still be different due to household management and the degree of the family's and/ or company's diligence.

III 3.3.6 The factors mentioned above should be considered as well as the different number of cattle and living conditions in different rural or natural zones, soums and bagas. In order to make the survey results more accurate; we developed a method to calculate herders' income budget depending on the number of cattle they own. In the following we look at some examples.

Budget for a wealthy herder family

III 3.3.7 If we take a wealthy family that has on average 10 camels, 25 horses, 25 cattle, 125 sheep and 125 goats, in total 310 animals. then:

1. They receive 45 kg of wool from 10 camels
2. 6.5 kg of cashmere, 2.3 hides, 319 kg of meat and 595 liters of airag from 25 horses, in total, 304,300 tugrugs income
3. 6.8 kg of molt hair, 3.5 hides, 542.5 kg of meat, 2,555 liters of milk from 25 cattle, in total , 865,175 tugrugs income
4. 162.5 kg of wool, 25 hides, 600 kg of meat, 462.5 liters of milk from 125 sheep, in total, 479,375 tugrugs income

5. 30 kg of cashmere, 1.3 kg of hair, 25 hides, 380 kg of meat, 862.5 liters of milk from 125 goats, in total, 924,625 tugrugs income

III 3.3.8 These separate components total to an income of 2,572,150.0 tugrugs per year: 11.8% from horses, 33.6% from cattle, 18.6% from sheep and 35.9% from goats.

III 3.3.9 We can see that keeping an equal number of horses and cattle makes a real difference to the profit level: cattle are more lucrative, the same with sheep and goats – goats (via the cashmere yield) bring more profit. Monthly gross profit is more than 286,000, which can support 4-6 families and enable them to accumulate capital.

A Middle income herder family budget

III 3.3.10 If we take a middle income family that has 5 camels, 15 horses, 15 cattle's, 85 sheep and 85 goats, in total 150- 250 head; then they produce;

1. 22.5 kg of wool from camels (5)
2. 3.9 kg of molt hair from horses (15), 1.4 hides, 191.4 kg of meat, 357 liters of airag, in total, 182,580 tugrugs income
3. 4.1 kg of molt hair, 2.1 hides, 325.5 kg of meat, 1533 liters of milk, in total, 519,105 tugrugs income
4. 110.5 kg of wool, 17 hides, 408 kg of meat, 314.5 liters of milk from sheep, in total, 325,975 tugrugs income
5. 20.4 kg of cashmere, 0.9 kg of moult hair, 17 hides, 258.5 kg of meat, 586.5 liters of milk, 85 rolls of small intestines, in total, 1,655,610 tugrugs income

III 3.3.11 Overall for the average income family, horses account for 11% of profit, cattle 31.4%, sheep 19.7% and goats 38%. Monthly gross profit is 184,000 tugrugs, this is enough to support 4-6 families. From this they are able to spend 150,000 MNT and leaving 30,000 MNT.

Poor herder family budget

III 3.3.12 If we take a poor family that has 1 horse, 5 cattle, 15 sheep and 15 goats, in total 36 heads: Then they produce:

1. 0.3 kg of molt hair, 0.1 hides, 12.8 kg of meat, 23.8 liters of airag from horses, in total, 12,172 tugrugs income
2. 1.4 kg of molt hair, 0.7 hides, 108.5 kg of meat, 511 liters of milk from cattle's (5), in total, 173,035 tugrugs income
3. 19.5 kg of wool, 3 hides, 72 kg of meat, 55.5 liters of milk from sheep (15), in total, 57,525 tugrugs income
4. 3.6 kg of cashmere, 0.2 kg of moult hair, 3 hides, 45.6 kg of meat, 103.5 liters of milk, 15 rolls of small intestines from goats (15), in total 110,955 tugrugs income, that makes 353,526 tugrugs profit annually.

III 3.3.13 Thus, horses account for 3.4 % of total profit, cattle 48.9%, sheep 16.3% and goats 31.4%.

III 3.3.14 The monthly gross profit for our notional poor family, is around 40,000 tugrugs which for 4 families with an expenditure 118,000 tugrugs simply is far from sufficient and they remain in debt. If we take a monthly family income of 40,000 tugrugs and there are two adults in a family, each of them receive 20,000 tugrugs. That means they have an income well below the minimum living standards level.

III 3.4 Herders' Economic Attitudes

III 3.4.1 In order to research herders' attitudes to the concepts which underpin the market economy, we asked them to answer the following question: "What would you do, if in your neighborhood, a factory was built and you had an opportunity become a shareholder by selling some of your livestock?". In response; 53.3% answered they would invest money, 1.5% they wouldn't, 16.6% were unsure and 27.5% had no idea.

III 3.4.2 Clearly, herders are interested in investing in other business, but there are many families with few cattle. And they still prefer following the majority, and are not keen to make decisions.

III 3.4.3 An open question was also put about herders' proposals for increasing productivity; 53.4% of them haven't done anything to achieve this, 32.3% want to improve the pedigree of their stock, 4.3% want to move livestock to other pasture, 7.8% support intensive cattle-breeding, 1.6% are trying to make cattle healthier, 0.5% prefer using fixed pastureland and 0.1% want to join cooperatives of some form or other. We can conclude that the majority of herders haven't done anything certain to improve productivity and are not interested in doing so.

III 3.4.4 However, from the responses we observe that, 32.3% are concerned about the pedigree of their stocks, particularly cattle. This is connected with a desire to increase productivity by improving breeding. Similarly, 7.8% are interested in intensive farming and cattle breeding. A considerable number of herders are working on this and productivity increases should begin to follow.

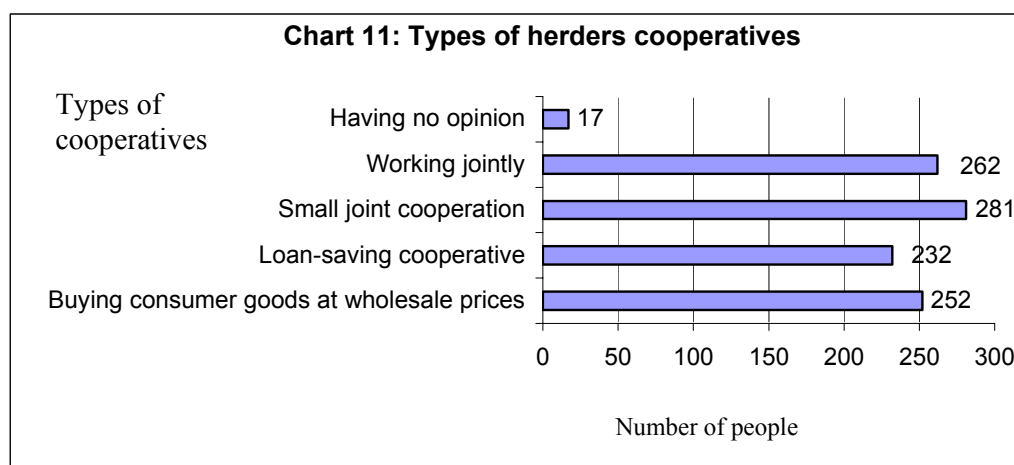
III 3.4.5 It's noted that herders' creativity and market attitudes are limited. This is directly connected with a lack of knowledge and information about the market economy.

III 3.4.6 Specific experiences of herders who are bringing their property into economic use are given in Appendix 4

III.4 ASSESSMENT OF HERDERS COOPERATIVES

III 4.1 Assessment of the Importance of Cooperatives

III 4.1.1 To the question: “What sort of cooperatives do you like to be able to participate in?” the largest percentage (47.4%) answered that they would like to cooperate in selling raw materials. So they view cooperatives as a better means of selling raw materials and making more profit than selling it separately or to mobile merchants.



III 4.1.2 As is apparent from the results; 26.2% of herders want to collaborate, 28.1% to run joint small businesses, 23.3% selected loan- saving cooperatives as beneficial, and only 0.17% have no opinion.

Interest in cooperatives and differences in the Age of Herders

III 4.1.3 Besides the overall interest in selling raw materials for high prices, we notice differences in the age among respondents. For example:

People of age under 20 years tend to prefer loan-saving cooperatives

People aged 21-30, prefer joint small business

People aged 31-40, prefer buying consumer goods by wholesale prices

People aged 41-50, prefer forming joint small business

People aged over 51, prefer collaborative labor (building shelters, digging wells, preserving fodder for the winter)

III 4.1.4 Herder’s interest in forming cooperatives, can be divided into 5 groups: (1) gathering raw materials together and selling them for high prices on the market, (2) Purchasing consumer goods together at wholesale prices, (3) Joint loans and savings cooperatives, (4) Setting up joint small enterprises (felt, wooden furniture, etc.), (5) Working together (building shelters, digging wells, preserving fodder).

III 4.1.5 The clearest interest in cooperatives is for pooling raw materials and other agricultural outputs and jointly marketing and selling them for high prices on the open market. There was no substantial difference between ages, educational levels and family members. But the level of interest depends on the number of cattle rather than the type of cattle.

III 4.1.6 For instance, as is clear from a comparison of results grouped by number of cattle; families with small numbers of animals (with 11-50 cattle) are more interested in pooling raw material outputs and selling them on. This difference occurs because wealthy families are able to sell raw materials by themselves on the market, and poor families either give them for previously borrowed goods, or they do not take the initiative to sell them for higher prices.

Table 10: Attitudes to types of cooperative and living conditions

<i>Ways of cooperating</i>	<i>Poor</i>	<i>Middle</i>	<i>Wealthy</i>
Pooling raw material outputs together and selling them for high prices in the market place	32.5%	38.7%	29.0%
Purchasing consumer goods at wholesale prices	16.4%	16.0%	16.1%
Joint loans and savings cooperatives	14.4%	10.4%	16.1%
Setting up joint small enterprises	19.0%	14.7%	25.8%
Working together	17.8%	20.2%	12.9%
Total	100%	100%	100%

III 4.1.7 The practice of marketing raw materials together and selling products for as high a price as is possible, is connected with the main income source for all 3 groups of herders, so all of them naturally agree on the importance of these sorts of cooperative, and also on mechanisms for the purchasing of consumer goods at wholesale prices.

III 4.1.8 Wealthy families showed more interest in joining cooperatives generally and setting up small enterprises specifically. It indicates that they have enough capital, and equally, they are more interested in putting their capital into circulation.

III 4.1.9 Poor families are predominantly interested in collaborating with labor, which indicates that they value working together.

III 4.1.10 However, families with poor living conditions who own a few cattle, and predominantly have large family sizes, showed interest in two types of cooperative: purchasing consumer goods by wholesale prices and getting a loan from loans and savings cooperatives to make purchases. As a result of their interest to work for wages in small enterprises established by others and generate extra income, “running joint small enterprise” type was placed 2nd place and “collaboration with labor for building the shelters, digging wells and preserving hay” 3rd place by these families.

III 4.1.11 Families with average living conditions preferred to focus on livestock-rearing, strengthening practices and reducing the cattle risk rate, so they tended to prioritize the working together option. This is, because their incomes do not wholly go on food and everyday needs. All herders are interested in purchasing food and consumer goods at wholesale prices to reduce expenses, but as well as this, they want to run small enterprises requiring a reasonable level of investment. These enterprises include processing dairy products, sewing of garments and make wooden furniture. Also they often need loans to meet their everyday requirements and livestock-rearing needs.

III 4.1.12 Wealthy families consider it more important to invest in small enterprises such as; raw materials sale, felt making and hide processing. In addition, we noticed their interest in buying

household goods and procurement of raw materials at wholesale prices, increasing their accumulated capital through loans and savings cooperatives as an individual investment, and cooperating by searching out better pastureland.

Table 11: Correlation between herders' requirements to establish cooperative and living conditions

Answers	Living standards		
	<i>Poor</i>	<i>Middle</i>	<i>Wealthy</i>
Family income, expenditure balance	Minus (-70,000 tug)	Balance (-30,000 - +30,000 tug)	Saving (+70,000 tug)
Purpose of loan	Household	Small enterprise, livestock-breeding	
Amount of loan	100,000-300,000 tugrug	300,000-500,000 tugrug	1,000,000- 3,000,000 tug
Credit guarantee	No	Livestock	Livestock, valuables , winter shelter
Family budget	No	Partly	Yes
Interest in learning new techniques	Yes	Yes	Yes
Interest in collaborating	Work		Loans & Saving, Small enterprise

III 4.1.13 To the question: "What do you require to establish a cooperative?"; 12.9% of respondents expect help from the administration, 21.5% that they need a bank loan, 21.5% - highlighted financial aid, 16.6% required training on how to establish a cooperative, and 15.4% said, all herders would need to be a sound agreement for collaboration to work. This shows that there is a need for assistance and regulation, herders have few skills to work on their own initiative to set up cooperatives.

III 4.1.14 Indeed, the majority of respondents answered they would require support from the administration, and equally a bank loan and financial aid. This shows they still haven't shaken-off of their former view of being directed from above and having everything prepared for them. However, there were many that are sure to establish a cooperative using their own capacity to come to an agreement, after receiving some basic advice how to do it.

III 4.1.15 It would be more fruitful if herders made a decision on the matter without instruction from above. The responses to questions underlined the necessity to support cooperatives financially and assist herders to establish them by providing the knowledge and information needed to manage this.

III 4.1.16 We also focused on this matter, to examine whether herders need administrative support in establishing cooperatives. Leaving it to their efforts on working solely on their own in providing a market environment, without encouraging their enthusiasm, won't as yet, bring many positive results.

III 4.1.17 In Dorvoljin soum (Zavhan), Galshir soum (Hentii), Bat-Ulziit soum (Ovorkhangai) and Zuunkharaa soum (Selenge), LGO and PRM promote cooperatives and other activities. In

some soums where herders' enthusiasm isn't supported from above and is seen as appropriation of others' possessions, and their living conditions remain low.

Cooperatives' Activities

III 4.1.18 In all, 27.1% of all survey participants were cooperative members and 72.9% were not.

III 4.1.19 Of the total, 12.7% of them said that there was little difference between the present cooperatives and the former collective farms; 32.8% think cooperatives fit market economy well, 48.7% do not have an opinion and 0.1% thought, that cooperatives would go to bankrupt.

III 4.1.20 Around 13.5% think cooperative activity is good, 36.9% satisfactory and 49.5% as poor. This suggests doubts about the value of cooperatives and an unwillingness to collaborate. Also it shows that local area cooperative activities need further support and development.

Table 12: Cooperative's activity assessment

<i>Assessment about cooperative</i>	<i>Poor</i>	<i>Satisfactory</i>	<i>Good</i>
Selling goods at better prices	58.1%	29.7%	12.3%
Quality of goods	39.2%	48.0%	12.7%
Price of consumer goods	44.6%	40.5%	15.0%
Service to herders	55.9%	28.6%	15.4%
Communication between rural and urban areas	56.9%	33.2%	9.9%
Managerial skills	42.5%	41.6%	15.9%
Average	49.5%	36.9%	13.5%

III 4.1.21 In the countryside, people are accustomed to certain traditional forms of cooperation, such as; joint labor /to preserve hay for the winter or move the livestock to better pastures. They have experienced this in the field but they are not accustomed to cooperating with their property or capital, they are too cautious to cooperate in these areas and they prefer to wait.

III 4.1.22 Although there is a great interest in joining cooperative to sell raw materials together (32.5%), this would be seasonal and their intent to borrow would leave the cooperative with no capital for circulation.

III 4.1.23 The interest and need to cooperate are considerable but three things hinder it:

1. Herders poor education about the economy,
2. They are too cautious to enter into property relations
3. Cooperatives lack proper legal and management regulations.

III 4.2 Types of cooperatives in the countryside and their characteristics

III 4.2.1 In order to assess current cooperative types, their influence on members and the soum economy we studied the situation in Kharkhorin, Zuunbayan-Ulaan, Togrog soums of Ovorkhangai aimag and Darvi soum of Gobi-Altai aimag. The following gives a snap-shot of activities underway using examples and commentary.

A. “Ugooj bayan Ulaan” cooperative in Zuunbayan-Ulaan soum of Ovorkhangai aimag.

This is a shareholding company established on the remnants of the former collective farm trade center. It has been operating as a cooperative since 1999. It used to be quite a successful cooperative both supplying and selling with a large turnover and its own fixed capital. In recent times, economic conditions have weakened and it has become stagnant so isn't capable of competing with smaller business units and individuals. In 2002, the cooperative administration was changed and it is now looking for new ways to develop

B. “Ugooj mandah” cooperative in Togrog soum, Ovorkhangai aimag.

This small cooperative was formed in 2003 from herders' group collaborations and consists of 10 herders' families, its main purpose is to develop partially settled livestock husbandry and to breed pedigree stock by implementing pastureland management and by better uniting and organizing their collaborative work force. Technical assistance from the “Gobi proposals” project has been given to help establish the cooperative. The project also supports training to help herders obtain knowledge gradually about the market economy, to run collaborative business, set up a cooperative and develop the cooperative's business plan.

C. “Gunj Kharkhorin” cooperative in Kharkhorin soum, Ovorkhangai aimag.

This was established in 2002 with the purpose of meeting the local demand for loans and savings. It has been expanding quickly since its establishment.

D. “Khujirt Javhlant” cooperative in Darvi soum, Gobi-Altai aimag.

This was first a shareholding company established on the remnants of a collective farm then in 1997 changed its status from a limited company to a cooperative. It's main activities are focused on the supply, sales and loans activities. It also provides a public service water supply. Through its membership, activity and scope it is one of the biggest cooperatives in Mongolia.

E. “Buyan-Undral” company in Darvi soum, Gobi-Altai

This was established from a former collective farm then in 1995 it changed from a shareholding company to limited company. This is a model of a successful company running sales, supply and loan activities.

III 4.2.2 “Khujirt Javkhlan” cooperative and “Bayan Undral” company in Darvi soum both are successfully running similar activities in this soum. All families in the soum are members of these two business units and they greatly influence the soum economy.

III 4.2.3 In appendix 1 the current situation of the cooperatives of Ovorkhangai and Gobi-Altai aimags is presented (#1.1), economic indicators (#1.2), and range of activities (#1.3)

III 4.2.4 “Ugooj bayan Ulaan” cooperative in Zuun-Ulaan soum had 607 members and made annual profits of about 20 million tugrugs in 1999. Also several times it took first place at the competition organized annually by National Union of Agricultural Cooperatives. It was quite

successful in dealing with 70% of the whole population in the soum; selling about 80% of the raw materials and providing virtually the whole soum with food and consumer goods.

III 4.2.5 As time passes, the range of activities has however decreased owing to numerous competitors (largely individuals and small trading centers). As it could not provide the right level of service to the members and partners and didn't encourage them or offer financial incentives, there was a quick reduction in the number of members and now cooperative activity is almost stagnant. In 2002, annual profits were 18 million tugrugs and the cooperative had made a loss. Some things have affected its present weak state: insufficient financial incentives for the members, improper managerial methods in stimulating members, cooperative members meetings weren't held regularly and cooperative principles were ignored.

III 4.2.6 This is a fairly typical example of many cooperatives established from the remnants of the former collective farms and collective farms' trading centers. It is a top priority to examine organization, management and marketing and take decisions as whether it would be better to rearrange or abolish these cooperatives, and to create proper conditions for establishing a new cooperatives immediately. We should start as soon as possible because any further delay might encourage country people to reject cooperatives as a business model..

III 4.2.7 "Ugooj mandal" cooperative in Tugrug soum was established with the technical aid from a foreign aid project. It offers a new model of a cooperative that was formerly a herders group. It has been operating for about 2 years and was set up by the "Gobi zone economic development initiative" a project funded by the American International Development Agency.

III 4.2.8 This project team also organized step-by-step training on topics such as master herder training, herder group businesses organization, cashmere marketing and cooperative training for about 300 herders who live in the desert zone. At the end of these training sessions, herders group members learned to cooperate and some of them are now attempting to set up cooperatives.

III 4.2.9 Group members of Tugrug soum, came forward with proposals to form a cooperative and so, within the assistance of "Pastureland management development" project, a formal cooperative was established. The cooperative aims at becoming an exemplary organization in the very near future, its main activities are pedigree cattle-breeding and developing a partially settled livestock industry on the basis of planned use of pastureland. However, the cooperative's membership and activities' extent are uncertain.

III 4.2.10 Appendix 2 provides greater detail on the economic performance of operational cooperatives.

III 4.2.11 "Gunj Kharkhorin" cooperative in Kharkhorin soum could serve as a model for many new loans and savings cooperatives that have sprung-up in the past 3 years. Firstly, members paid 500,000 tugrugs as an investment share and started their activities by creating a resource fund. At present they have accumulated a 100,000 tugrugs resource fund, and focus mainly on loans. According to the financial rules, they founded a loan risk fund. By the end of 2002, the cooperative's net income was 93.5 thousand tugrugs which has increased share-profit to 18.1% per member.

III 4.2.12 Loans and savings cooperatives and their membership and scope, have been expanding owing to regular demands for loans especially in the more populace soums, furthermore it reduces the need to rely on loans from external sources.

III.4.2.13 The "Khujirt Javkhlan" cooperative in Darvi soum in Gobi-Altai aimag has 520 members. It mainly sells livestock raw materials prepared by the members and provides them

with consumer goods and food. The cooperative gives the members a dividend from the profits twice a year. The profit is gained from selling raw materials for high prices on the centralized market and through cross-border trade. It also distributes share-profit to the members at the end of every year. The cooperative gives cash or a goods loan equal to 80% of the agreement price, for raw materials supplied between them. By providing financial incentives to the members, the cooperative's fund increased by 9% a year, annual income by 50% and profit per member by 10%.

III 4.2.14 The “Buyant undral” company in Darvi soum, Gobi-Altai is a limited company has 305 investor-members (*but note; according to the company rules the number investors shouldn't be over 51*). The company receives raw materials from herders and sells them on; in return it provides them with goods and food. The rules and practice requires that the company makes agreement with each of its investors and grants loans equal to 70% of the amount specified in the agreement. Where the agreement obligations are breached, a member's capital subscription is reduced by 50% and if he refuses to vote he will lose his right to receive price dividends. The company's regulatory fund increased by 25% a year, annual income by 18.6% and net income by 20.1%.

III 4.3 Assessment of cooperative activities

III 4.3.1 The main way to collect raw materials from members is through the supply of products by agreement, made by the cooperative with its members every year.

III 4.3.2 The percentage of agreements completed for 2002 for “Khujirt Javkhlan” cooperative in Darvi soum was 42%, for “Buyan undral” company in Darvi soum was 27%, yet for “Ugooj bayan Ulaan” cooperative in Zuun bayan Ulaan soum, was only 4%.

III 4.3.3 In the “Ugooj bayan Ulaan” cooperative raw materials supplied by appellation and type has decreased, in “Khujirt Javkhlan” and “Buyan undral” it also decreased except for the supply cashmere. The main reason for this fall is that there was lack of techniques to involve cooperative members in this activity, insufficient financial incentives and sometimes the cooperative's rules were ignored.

III 4.3.4 As to the cooperative in Zuun Ulaan soum, there weren't any proper financial incentives, a constant fall in annual financial returns to members, no appropriate economic management as well as a loss of democratic management and members' monitoring. All of these failings caused a loss of belief and economic interest in the cooperative.

III 4.3.5 As to the cooperatives in Darvi soum, although they used proper financial incentives, appropriate economic management and the membership was steady, the fulfillment of agreement obligations is decreasing.

III 4.3.6 Moreover, the supply of raw materials decreased in appellation and type, this suggested that herders had found an alternative way to sell raw materials for higher prices than the cooperative. Also the number of local brands and type of raw materials are relatively few.

III 4.3.7 There is a urgent to develop a new marketing strategy to study advantages and disadvantages of alternative methods of selling goods, and the ways to obtain additional income from a single type of cattle.

III 4.3.8 In total, 28% of member-families belong to “Ugooj bayan Ulaan” cooperative, 1% to “Ugooj mandakh”, 0.4% to “Gunj Kharkhorin”, 61% to “Khujirt Javkhlan” and 29% to “Buyan undral” company. And 90% of the whole population in Darvi soum belong to 2 business units. This shows the extent to which soum populations are covered by cooperatives.

III 4.3.9 From the above, further expansion in the membership at “Ugooj mandal” cooperative is probability limited by the type of its activities. However, for the other cooperatives, the potential for growth is quite high.

III 4.3.10 About 70% of total income throughout soums is accounted for by income generated by selling raw materials (See soum income structure).

III 4.3.11 Net sales income of raw materials in Zuun-Ulaan soum is 884,448.7 thousand tugrugs, in Tugrug soum 562,136.2 thousand, in Kharkhorin soum 2,571,917.2 thousand and in Darvi soum, 393,541.9 thousand.

III 4.3.12 At present, 2.8% of raw materials total income comes from “Ugooj bayan Ulaan” cooperative, 0.02% from “Ugooj mandal” cooperative, 10.9% from “Khujirt Javkhlant” and 18.3% from “Buyant undral” company.

III 4.3.13 There is considerable scope for the cooperatives to extend their activities and increase income by 80-90%. For that, they need to develop more sophisticated working mechanisms.

III 4.3.14 The key factor for success of cooperatives in Darvi soum is providing a loan service which is in great demand from rural residents, in connection with activities of supply and selling raw materials. Developing this service would be the most appropriate way forward. Therefore we should make more detailed assessments and develop a business plan in order to more efficiently use external financial resources.

III 4.3.15 Incorporating and linking these cooperatives with the countryside micro financial service program, implemented by Asian Development Bank in 4 western aimags, could be a rapid solution of the problems mentioned above.

III 4.3.16 The type and range of cooperative activities has a great impact on a soum’s society and economy.

III 4.3.17 Although soums may differ from each other by geographical location, climatic conditions, cattle structure, traditional livestock methods, living standards and ethnic composition, the most wanted and common type of cooperatives for 308 soums, which are dominated by cattle-breeding would be a business, bases on selling raw materials and supplying food and consumer goods. Moreover, the combination of these activities with a loans and micro-credit service is perhaps the most appropriate variant.

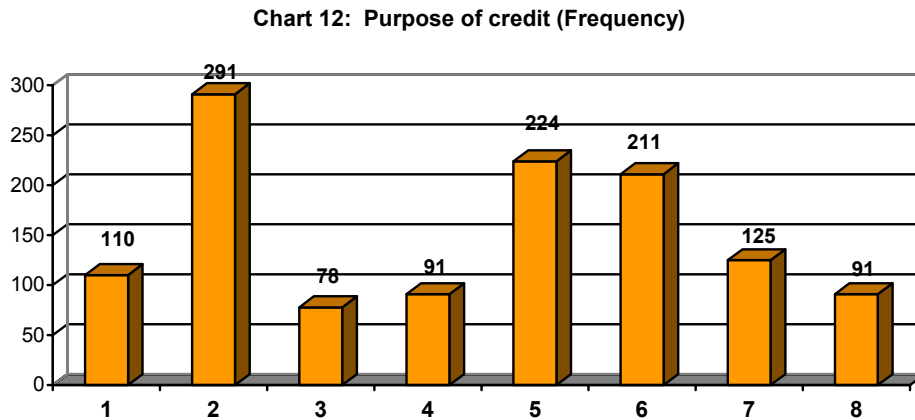
III 4.3.18 Darvi soum has had a relatively successful experience in this direction. So Darvi soum should pursue a policy aimed at supplying raw materials and protecting the soum’s domestic market for micro financial services from the external threats, as well keeping open competition freely among companies and cooperatives within the soum.

III 4.3.19 As to the “Zuunbayan Ulaan” cooperative there is a need to conduct research in the field about soums with similar conditions, complete assessments (management, marketing, finance, activity), find models for democratic management and membership monitoring. Restoring the cooperative to productive activity arrangements depends on the success of the main business activity, and give financial incentives according to members interests and develop new economic activities.

III 5 ASSESSMENT OF HERDERS' CREDIT NEEDS

III 5.1 Herders' credit needs, the purpose of credit, guarantees, the amounts sought and the credit terms

III 5.1.1 To the question: “Do you require loans?” 81.1% of respondents answered “yes” and 18.9% of them said “no”. The following graph shows the purpose of the loans sought:-



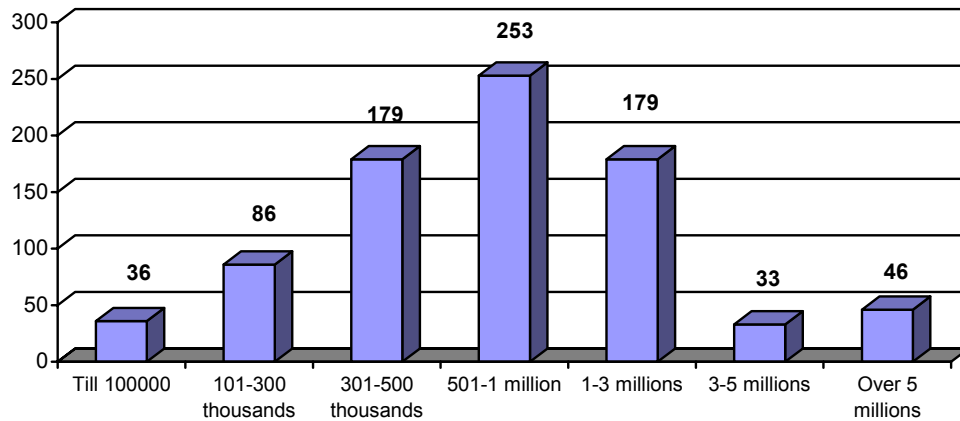
III 5.1.2 Key to the graph: **1.** 110 respondents were keen to obtain a loan to spend the loan on food and consumer goods, **2.** 291, on cattle-breeding, **3.** 78 on school tuition, **4.** 91 for buying vehicles and equipment, **5.** 224 to facilitate business activities, **6.** 211 to promote crop-growing, **7.** 125 on raw material processing, and **8.** 91 on marketing and selling raw materials.

III 5.1.3 The largest number (291 people) would spend loans on cattle-breeding (preserving hay, veterinary services, building wells and shelters), and a similarly high number (211 respondents) would take up arable agriculture. It is clear that herders are interested in pursuing businesses besides cattle-breeding.

III 5.1.4 From the 812 respondents who wanted a bank loan 4.4% required up to 100,000 tugrugs, 10.6% required 101,000 – 300,000 tugrugs, 22.0% required 301,000 –500,000 tugrugs, 31.2% required 501,000-1,000,000 tugrugs, 22.0% required 1-3 million tugrugs, 4.1% required 3-5 million and 5.7% required over 5 million.

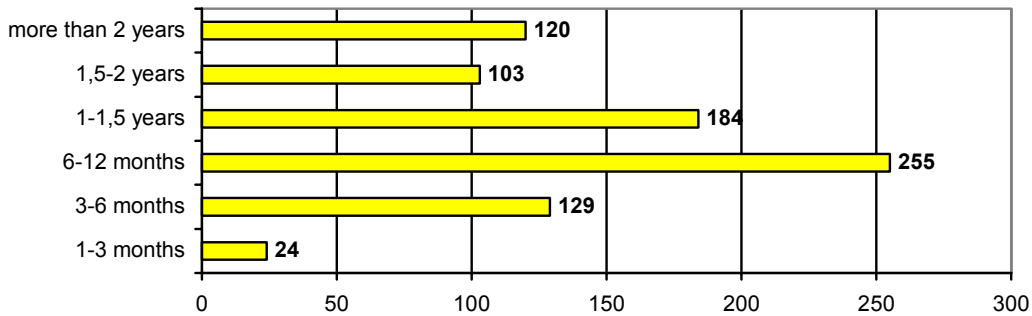
III 5.1.5 So the average loan amount sought is between 300,000-500,000 and 500,000 - 1 million.

Chart 13: Loan amount (Frequency)



III 5.1.6 Regarding the loan term; 2.9% sought a period of 1-3 months, 15.8% 3-6 months, 31.3% 6-12 months, 22.6% 1-1.5 year, 12.5% 1.5-2 years and 14.7% more than 2 years. So the average loan term sought is 6-12 months.

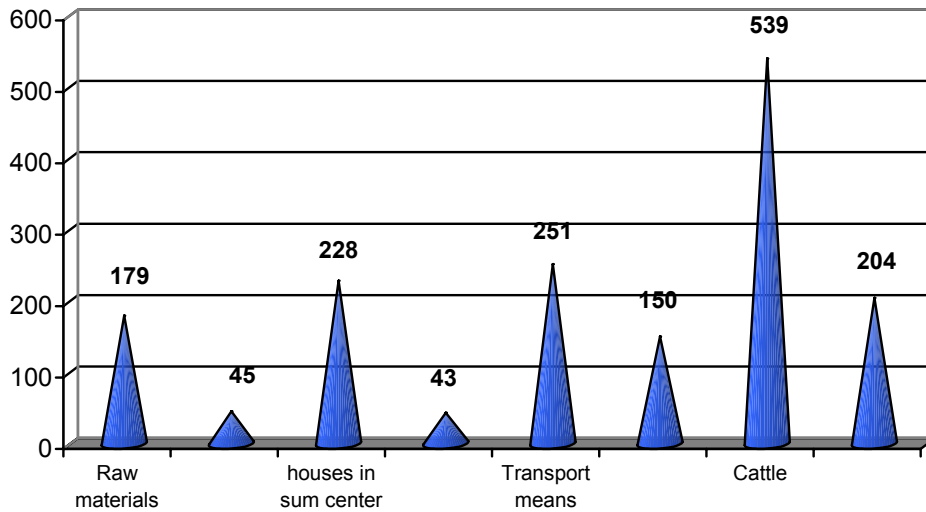
Chart 14: Loan term (Frequency)



III 5.1.7 Turning to the types of credit guarantee (see chart 15 below) , the following were suggested: raw materials, vegetable allotments, houses in soums, winter and spring shelters, equipment, vehicles, personal valuable items (e.g snuff box). From the results; 539 respondents suggested cattle as a guarantee , 150 personal valuable items, 251 vehicles, 43 equipment, 204 - winter/spring shelters, 228 - houses in soums, 45 - vegetable allotment and 179- raw materials

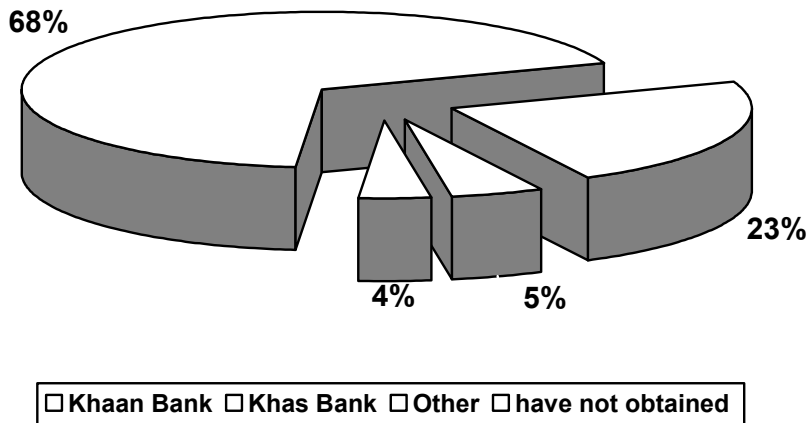
III 5.1.8 Cattle, personal valuables and winter/spring shelters predominated as credit guarantees. These are the only real property items that herders can offer as a pledge. Also we can see a great interest to offer raw material as a pledge.

Chart 15: Types of credit guarantees (frequency)



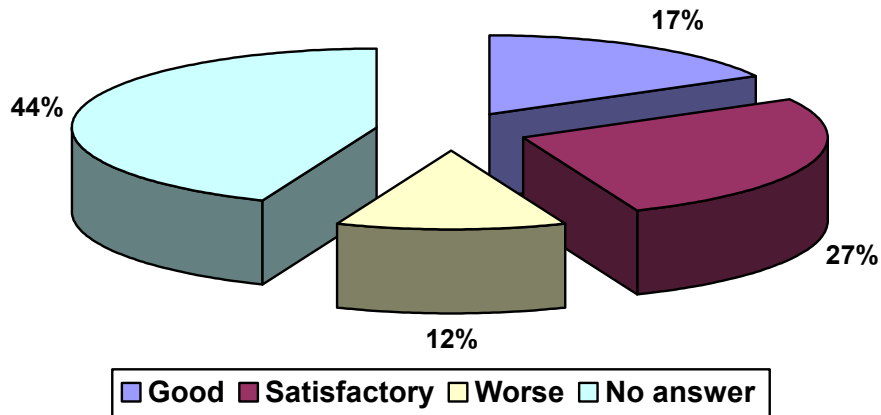
III 5.1.9 Turning to sources of finance, out of 1,000 respondents 496 never had a loan before, 248 had obtained one from Khaan bank, 53 got it from Khas bank and 43 from other banks or financial institutions.

Chart 16: Herders' loans



III 5.1.10 Respondents who received loans described the conditions as follows; good 17.4%, not good 26.6%, 12.0% bad and 44.1% didn't answer. Clearly, herders are not quite satisfied with loan conditions on offer - and 38.6% indicated conditions were not satisfactory. This is illustrated in the chart below.

Chart 17: Views on Loan conditions (Percent)



III 5.1.11 As a follow-up, respondents were asked about how the banks could improve their services and boost loan take-up; 45.2% wanted to see a reduction in the interest on loans, 17.5% of them an increase in the term of loan, 2.6% of the surveyed wanted changes in the main conditions of payment, 2.4% changes in the conditions of interest payment, 0.2% changes in the amount of loan and 3.5% changes in the types of credit guarantee.[NU1]

III 5.1.12 To summarize; Herders prefer loans term in the range from 6 months to 1 year, with about 2% interest and an amount of 300,000 to 1 million tugrugs .

III5.1.13 Looking at the purpose loans are used for, we find many interesting results. From the table below it is clear money borrowed is spent on; school tuition (100,000 to 500,000 tugrugs), then on the sale of raw materials (300,000 –3 million); on buying vehicles, new gers, electricity supplies, TV and aerials (300,000 – 1 million); on food and household goods (100,000 – 1 million); on buying portable equipment for raw material processing (300,000 – 3 million); on crop-growing, vegetables, cattle feed (100,000 – 1 million); working capital for trading (300,000 – 3 million) and on animal husbandry production (haymaking, veterinary hospital, shelters, wells) 100,000 – 3 million tugrugs.

Table 13: Correlation between loan amount and purpose

Loan purpose	Amount of the loan							Total
	Less than 100 thousand	101-300 thousand	301-500 thousand	501-1 million	1-3 million	3-5 million	Over 5 million	
School tuition	8	18	21	14	10	3	1	75
Expenses associated with the sale of raw materials	3	8	15	29	24	3	5	87
Vehicles, new gers, electricity supply, TV and aerials	1	8	23	33	19	3	1	88
Buying food and household goods	8	14	20	38	10	10	3	103
Portable equipment for processing raw materials	2	2	22	29	44	6	14	119
Crop-growing (vegetables, cattle feed)	6	22	27	73	46	7	18	199
Working capital for trading activities	7	13	45	66	66	8	9	214
Animal husbandry production (hay making, veterinary , shelters, wells),	14	29	72	103	36	13	14	281
Total	49	114	245	385	255	53	65	

III 5.1.14 The preferred loan term, for buying food and household goods is 6-12 months, for animal husbandry production 3-6 months, for school tuition 6-12 months; for buying vehicles and electricity supplies 3-12 months; for working capital for trading 3 months – 1.5 years; for crop-growing 3-12 months; for buying portable equipment for raw material processing 6 months – 3 years. Refer to the table below for detailed figures.

Table 14: Correlation between term and purpose

Loan purpose	Loan term						Total
	1-3 months	3-6 months	6-12 months	1-1.5 years	1.5-2 years	Over 2 years	
School tuition	5	8	28	13	6	12	72
Vehicles, new gers, electricity supplies, TV and aerials	2	22	15	12	17	12	80
Buying food and household goods	4	15	40	14	14	12	99
Portable equipment for processing raw materials	6	12	27	27	22	16	110
Expenses from raw material sale	5	35	16	17	14	87	174
Working capital for trading activities	6	47	58	53	23	21	208
Animal husbandry production (haymaking, veterinary hospital, shelters, wells),	9	39	91	50	28	50	267
Crop-growing (vegetables, cattle feed)	28	56	57	19	31	191	382
Total	65	234	332	205	155	401	

III 5.1.15 Turning to a comparison between term and value, it is also noticeable that small loans are generally short-term and the large amounts long-term.

Table 15: Correlation between loan term and value

Loan value	Loan term						Total
	1-3 months	3-6 months	6-12 months	1-1.5 years	1.5-2 years	Over 2 years	
Less than 100 thousand	5	12	6	6	1	5	35
101-300 thousand	5	27	31	7	4	3	77
300-500 thousand	10	36	69	28	7	13	163
501-1 million	-	27	90	56	25	36	234
1-3 million	1	10	23	58	43	29	164
3-5 million	-	2	2	6	10	10	30
Over 5 million	1	1	5	12	2	22	43
Total	22	115	226	173	92	118	746

Comparing credit needs and cattle numbers

III 5.1.16 Of the cattle-owning respondents interested in receiving a loan; XX had more than 5 cattle, 16 between 101 and 200 cattle, 15 had 51-100 cattle, 38 had 31-50 cattle, 139 had 11-30 cattle and 322 had 10 cattle.[NU2]

III 5.1.17 Similarly with respect to those owning horses and seeking a loan; 325 respondents had up to 10 horses, 172 had 11-30 horses, 53 had 31-50 horses, 18 had 51-100 horses, 9 had 101-200 horses, and just one with more than 201 horses.

III 5.1.18 Turning to camel-owners; 261 respondents with up to 10 camels, 71 with 11-30 camels, 22 with 31-50 camels, 10 with 51-100 camels and 8 with 101-200 camels, are interested in receiving a loan.

III 5.1.19 And in terms of sheep ownership, the numbers were; 121 respondents with up to 10 sheep, 124 with 11-30 sheep, 191 with 31-50 sheep, 160 with 51-100 sheep, 91 with 101-200 sheep, 33 with 201-500 sheep, 4 with 501-999 sheep and 4 with more than 1,000 sheep.

III 5.1.20 Finally referring to goat owners; 86 respondents with up to 10 goats, 163 with 11-20 goats, 198 with 31-50 goats, 139 with 51-100 goats, 104 with 101-200 goats, 54 with 201-500 goats, 7 with 501-999 goats and a one with more than 1,000 goats, require loans.

III 5.1.21 Bringing these results together, families with up to 30 heads of large livestock and those with 30-150 heads of small livestock are most interested in receiving loans. It is almost impossible for families with few cattle to receive a loan yet for those with a large number of cattle (more than 50 heads of large livestock or 150 heads of small livestock) have little need for credit.

III 5.1.22 Finally, although there is a clear demand for loans and financial aid, herders do not have sufficient knowledge about how to use the financial resources effectively, and they do not have reliable sources of guarantee capital. Equally, a high level of bank interest is payable and a corresponding high risk for the banks.

III 5.2 Micro-finance services

III 5.2.1 We also conducted research using secondary sources into Micro-finance initiatives. This included reviewing such studies as “Micro-finance research” undertaken in June, 2002 by UNDP to investigate the current quality and availability of loan services for rural people and the final report of the “Financial Services Delivery in the Countryside Project” made with the same aims in July, 2002 by Credit Mongolia.[NU3]

III 5.2.2 We carried out some investigation of these matters through our survey questionnaire put to both individuals and groups of herders. During these interviews views were exchanged comparing the advantages and disadvantages of loans given from Khaan Bank for herders, from Khas Bank for groups of herders, “Financial Service Delivery in the Countryside” project loans, cooperative loans, quick cash loans and non-urgent loans, loans and savings cooperative loans, and credit advanced by pawn-brokers and from individuals.

III 5.2.3 Loan research was carried out in Kharkorin, Zuunbayan Ulaan and Tugrug soums in Uvorkhnagai and Darvi soum in Gobi-Altai.

Table 16: Micro-finance services

	Zuunbayan Ulaan soum	Tugrug soum	Kharkorin soum	Darvi soum
<i>Official financial sector</i>				
Bank	Agricul.Bank	Agricul.Bank	Agricul.Bank	Agricul.Bank
	Mon.Post.Bank		Mon.Post.Bank	
		-		-
NBFO	-	-	-	
Savings and Loans cooperatives		-	Gynj-Kharhorin cooperative, “Bekh” cooperative	-
<i>Non-official financial sector</i>				
Cooperatives and companies giving loans	-	-	-	1. Buyant- undral comp. 2. Hujirt Jabhlant cooperative
Pawn brokers	-	-	1	-
Individuals	2	No informafion	No informafion	No informafion

III 5.2.4 The official financial sector include Trade Bank branches operating in soums, non-banking financial organizations (NBBO) and savings and loans cooperatives (SLC).

III 5.2.5 The non-official financial sector refers to cooperatives that render their members financial and non-financial service, companies, pawn broker loans and individual moneylenders.

III 5.2.6 Within each of the 4 chosen soums, a branch of Agricultural Bank operates and in Zuunbayan Ulaan and Kharkhorin soums there is a branch of the Mongol Post Bank. In Kharkhorin soum 2 Loans and Savings Cooperatives and 1 pawn broker offer loans; and in Zuunbayan Ulaan soum 2 money lenders operate, and in Darvi soum there are 2 loan companies. Although there are also several other smaller individual money lenders it was quite difficult to research their activities reliably.

Table 17.A: Loans granted within soums / by the end of 2002, in thousand tg /

	Zuunbayan Ulaan soum	Tugrug soum	Kharkorin soum	Darvi soum
<i>Official financial sector</i>				
Agricultural bank	15,300.0	12,450.0	18,900.0	8,500.0
Khas Bank	2,300.0	5,150.0	-	-
Mongol Post Bank	-	-	-	-
‘Gynj-Kharhorin’ Cooperative.	-	-	321.0	-
“Bekh” cooperative.			73.7	-
<i>Non-official financial sector</i>				
Buyant- undral Co.Ltd	-	-	-	21,700.0
“Hujirt Javkhlant” cooperative	-	-	-	21,471.0
Pawnshops			8,200.0	
Individuals	320.0	-	-	-

III 5.2.7 For Kharkhorin, Zuunbayan Ulaan, Tugrug soums in Uvorkhangai and Darvi soum in Gobi-Altai, only Herders loans granted by the Agricultural Bank, Khas Bank and Mongol Post Bank were considered. For other areas, all loans were considered.

Table 17.B: Loans given versus loans required within soums

	Zuunbayan Ulaan soum	Tugrug soum	Kharkorin soum	Darvi soum	Total
Loans required for whole soum	405 781,0	327,649.7	537 827,4	376,198.0	1,647,456.0
Loans given from official and non-official sectors	17,920.0	17,600.0	27,494.7	51,671.0.0	114,685.7
Percentage of loan given to the whole soum	4%	5%	5%	8%	-
Loan from bank	17,600.0	17,600.0	18,900.0	8,500.0	62,600.0
Loan given from soum	320.0	-	8,594.7	43,171.0	52,085.7.0

III 5.2.8 Thus from the above, loans delivery met only 4-8% of total demand.

III 5.2.9 Approximately 98% of the loans given within Zuunbayan Ulaan soum, 100% of loans given within Tugrug soum, 60% in Kharkhorin soum and 16% in Darvi soum were given from

commercial banks and at least 2 million tugrugs have subsequently left the soum in the form of interest payments.

III 5.2.10 If the loan demands in these 4 soums alone were met by commercial banks, interest of 14.2 million tugrugs would have to be paid by Zuunbayan Ulaan soum, 11.5 million by Tugrug soum, 18.8 million by Kharkhorin soum and 13.1 million by Darvi soum. So the profit being created in soums is going out of the countryside.

III 5.2.11 The Agricultural Bank has been giving herders' loans since August 2001. Herder loans vary depending on seasons: in winter loans are given for herders with more than 350 heads of cattle and in summer for herders with more than 150 head of cattle. Also a loans are limited during the most financially difficult periods, such as preparation for the "Tsagaan sar" holiday, preserving hay in fall, and for basic needs like childrens' school tuition fees, making stock shelters cold-proof and moving livestock to better pasture in winter time. In case of weather calamities herders' loans are curtailed.

III 5.2.12 Appendix 2 provides a comparison of Agricultural Bank and Khas Bank loans detailing the criteria. (2.1), and the standard terms for herder loans (2.2).

III 5.2.13 As of March 2003, 8.7% of all loans made by the Agricultural Bank were given to herders.

III 5.2.14 In contrast, Khas Bank, herder loan are available only for groups of herders who have also been involved in the training arranged by "Gobi Proposals" project. This project pursues a policy of providing a basis for herders to cooperate through learning and training. A number of herders received a loan of 2 thousand [NU4]in 2002 against 12 thousand in 2003, and one group received loan of 3 million tugrugs in average. Khas Bank loan prospects for herders group depend on this project continuing.

III 5.2.15 In 2001-2003, a pilot was conducted whereby loans were given for 3 soums within the Financial Service Delivery in the Countryside project managed by Credit Mongol, the non-banking financial organization. In July 2003, a project report was prepared describing a model approach for the delivery of micro finance services and explicit recommendations on the management of herders' loans.

III 5.2.16 It was noted in the report that it was quite possible to expand giving 'Quick Cash' loans for use by individuals and economic units, but to teach herders how to obtain non-official group loans would be more expensive. Essentially, the demand for these kinds of loans is limited due to difficulty applicants have in finding collateral for members.

III 5.2.17 Loan Advisory Committees (LAC) have been set up in some soums to facilitate the giving of loans to herders and soum inhabitants. The membership of these committees typically includes 3 бага governors and 2 people's representatives. The Committee doesn't make decisions but provides information about the borrower and thus reduces risk of default.

III 5.2.18 According to the Credit Mongol report 51% of borrowers were herders, 93% of the loans were used for trading purposes, 3% agriculture, 1% timber industry and 3% service sector.

III 5.2.19 Although non-banking financial organizations have devoted a lot of energy to improving the small loans service in the countryside, they don't pay any attention to the purpose of loans and how the applications granted might affect the local soum economy.

III 5.2.20 The above figures indicate that virtually every borrower, living in soums with small populations and few productive resources, borrows to set up and to run trading businesses.

III 5.2.21 The granting of loans without policy guidelines or management has the following drawbacks:-

- a. Every borrower is effectively engaged in only two activities: sale of raw materials and supply of food and consumer goods. So there is growth in retailing and local prices for consumer services have tended to rise.
- b. The financial sector in rural areas has no incentive, and therefore does not actively support other kinds of new enterprises and services.

III 5.2.22 The relative costs of administering loans granted within soums and bagas for micro finance services from non-banking organizations and trade banks with headquartered in Ulaanbaatar city is high. It is difficult and costly to conduct loan appraisals, make decisions and provide remote monitoring of loan agreements. Branches of the Agricultural Bank and Credit Mongol sponsored non-banking organization in soums have to recruit and train their own staff, including loan specialists and accountants. Khas Bank has also incurred costs at its central branch, including the training of specialists in herder group loans.

III 5.2.23 Rural repayment rates for non-banking organizations approach 100% of the sums borrowed, demonstrating that it is possible to train personnel and acquire the necessary experience.

III 5.2.24 According to a Credit Mongol project report “In Mongolia the loss of cattle is a occurs frequently. Natural disasters and cattle diseases give rise to high risks, even over short time periods, and this negatively affects the development of the country.” This line of thinking represents the main rationale for Mongolian bank branches to reticence in granting loans to herders.

III 5.2.25 We conclude therefore that soums in the countryside require a permanent financial service that doesn't retreat in the face of difficulties, and that this need be met not by the central commercial banks but local financial offices like the Loans and Savings Cooperatives.

III 5.2.26 During the past 2 years there has been a tendency for the demand for Savings and Loans Cooperatives (SLC) services, in populous soum centers, to grow alongside financial needs. Following agreement from local SLC members, a savings and loans cooperative can be established by gathering a small amount of money together and creating a regulatory fund. Demand for cash loans is high in both the countryside and city so the number of people who want to borrow is increasing rapidly. This might lead to the running down of the cooperative's resources. Although this problem might be ameliorated by donor interventions, such as the Country Finance Project and the Agricultural Finance Program resourced by the Asian Development Bank, this support is limited and is only available in those aimags involved in one of these projects.

III 5.2.27 Savings and Loans Cooperatives restrict their loans to the members and individuals who invested. When a large loan is required, a cooperative draws up a pledge agreement like those used by the large commercial banks.

III 5.2.28 Although the interest charged on loans, received from Savings and Loans Cooperative, is high compared to commercial banks, a certain percentage of interest goes to member's account (his/ her money invested in business) as quota income. Moreover, the tax paid on profits by the Savings and Loans Cooperative income directly benefits the soum's budget.

III 5.2.29 A Savings and Loans Cooperative functions as a community bank so it is less likely to divorce loan giving from proper consideration of the consequences of its decisions.

III 5.2.30 Local cooperatives and companies are by definition responsive to the member-herders interests and be flexible in giving them basic need goods on credit, cash loans when necessary and credit during the raw materials preparation period. These are all areas which the commercial banks currently avoid.

III 5.2.31 Some cooperatives are quite successful in combining sales and supply activities with loans and savings. This kind of enterprise could be useful in involving the whole population of the soum and satisfy local social-economic needs.

III 5.2.32 As there are no officially registered pawnshops in the country, the giving of loans with high interest rates amongst reliable acquaintances by individual money lenders is fairly widespread in the locations studied. However, Kharkhorin soum differs from others with the biggest population of 13 thousand.

III 5.2.33 In spite of the very high interest rates charged on loans received from individuals and pawnshops, it remains the best way for rural people to obtain cash for very urgent financial needs.

III 5.2.34 The most appropriate way forward is supporting supply and selling businesses, and loans and savings services based on herders' seasonal demands to provide an economic boost to soums mainly engaged in livestock-rearing, and enabling a local small market to develop.

Chapter IV

CONCLUSIONS AND RECOMMENDATIONS

IV 1 Summary Conclusions

- IV 1.1 This project which examines different options for bringing herders' capital into productive use is a research project that aims to promote gains the Mongolian economy which is dominated by livestock-rearing. Its' ultimate objectives are to increase rural family incomes, boost economic circulation, and promote both savings and capital accumulation.
- IV 1.2 The Mongolian Government and UNDP approved the research team in September 2002 and the project was implemented from February 2003.
- IV 1.3 The practical ways in which herders can cooperate with each other, with their labor and property, to boost productivity, are already used widely, and are becoming increasingly important at the present time.
- IV 1.4 Although cooperation though joint-labor has always been advantageous to meet seasonal demands, such as like milking, haymaking and moving livestock to better pastureland, the returns from this are far from stable and cannot successfully be sustained on a permanent economic basis.
- IV 1.5 With regard to property, the forms of cooperative established on the remains of the former collective farms or those cooperatives that involve many families are unable to provide an appropriate level of service and cannot give the returns to herders that they require. However, those cooperatives that have few but skillful members who are able to cooperate with their property on the basis of their market knowledge and market relations, have prospered since the transition.
- IV 1.6 Besides expanding the types of cooperation, it would be advantageous not only for local economy and herders, but also for the managements if these businesses combined several activities. For instance, this could be one way of increasing a cooperatives capital if a cooperative involved in selling raw materials and supplying consumer goods, also runs a loans and saving service.
- IV 1.7 Many financial institutions are operating in the rural areas including; the Agricultural Bank, Khas Bank, Mongol Post Bank, non-banking financial organizations and Savings and Loans Cooperatives. Yet their own business objectives are of primary importance for them. It means that less attention is paid to herders or their customers in gaining circulation capital and improving their living conditions.
- IV 1.8 For instance, the profit gained from interest on loans granted within soums instead of helping to develop local economy or encourage customers, accrues directly to the commercial banks. The Banks demand high interest payments to compensate for weak profitability and the high risks of doing business in the countryside. But if a certain part of profit from loan interest was spent in the soum economy, the factors which drive the high risks would be reduced, and in turn, herders' interest to obtain loans form banks would have be increased.
- IV 1.9 There are two principal ways to assist herders in gaining circulation capital:

First, implementing a customer-oriented marketing policy in the country (encouragement for those who repaid a loan on time and for existing customers, loans for local development, etc.),

Second, Government support for Savings and Loans Cooperatives, which were established on herders' own initiatives.

IV 1.10 The following measures would be helpful for herders to put their capital into economic use:-

Recommendation 1: Use of strategic development models in the countryside

IV 1.11 We recommend the implementation of three generic strategic models to maintain development in the countryside, which reflect specifics of local infrastructure and development of the marketplace. These are titled as: (1) intensive, (2) independent and (3) supported, development models. The selection of which is appropriate to particular soums requires consideration of the local infrastructure, population and ecology of 329 soums in Mongolia. We have been studied and classified each with the aim of defining a development strategy for each soum and creating the necessary legal and management conditions for the acquisition of skills and knowledge, financing and industrialization.

IV 1.12 Mongolia requires both a government policy and common conception about the methods and theory of government's role in the local market economy. In addition government policy towards the countryside requires inputs from theoretical and methodological research that matches legal regulations and management to local market structure and conditions. We are very interested in continuing research on this issue.

Recommendation 2: Supporting the development of cooperatives

IV 1.13 We recommend the establishment of multi-function cooperatives (Sales/Supply and Loans/Savings cooperatives) in those soums where the initiative to cooperate is evidenced by the demands of both herders and local administrations. Moreover, we put forward a recommendation that step-by-step training is provided on working practices, technical issues and financial management. We believe this training should be delivered by experienced specialists, and we ourselves have developed a sub-project to carry out these activities and formed a team.

IV 1.14 At present it is necessary to study both the mistakes and success of those cooperatives which are currently operating, in order to disseminate information to others. Indeed we should pay particular attention to the reasons of failure, in order to prevent such mistakes in the future. The provision of topical training on management issues and budget preparation is another priority.

Recommendation 3. 4: Training content and implementing methods

IV 1.15 In order to implement recommendations 1 and 2, it is very important to provide herders, local civil administrators and livestock business people with appropriate basic knowledge on the market economy. It is fruitful to train people in connection with local practical experiences based on real-world examples.

IV 1.16 It is also necessary to continue research using econometric techniques, economic theory, and other methods in order to create proper and profitable market relations in the countryside. This is in addition to strengthening livestock production, sales and supply channels, herder support and well adapted financial and insurance sub-systems. As a

semi-closed system soums with small populations present special advantages for setting up a sound economic monitoring system, in which policies can be tested.

IV 1.18 Conclusions on the improvement of cooperative activities

1. In the countryside people are accustomed to cooperate to preserve hay for winter or moving livestock to the better pasture but they are too cautious to cooperate with their property (especially livestock) and they prefer to wait for change.
2. Although there is a great interest in cooperating to sell raw materials (over a third of respondents to our survey), this is seasonal and their interest is more in borrowing than investing. .
3. Thus the need to cooperate is understood but the following factors hinder it:
 - ▶ Herders' poor education about economy
 - ▶ They are too cautious to enter into new property relations
 - ▶ Cooperatives' lack of legal and management regulations
4. As for those cooperatives established on the remains of former collective farms and collective farms trading centers, it is a matter of the utmost most urgency to undertake a review of the organization, management and marketing activities in the field, in order to make a decision whether it would be better to rearrange or abolish the cooperative, to create proper conditions for establishing a new cooperative to replace the old. We should start as soon as possible with this process, because any further delay might make country people refuse cooperatives in the future.
5. The decrease in the quality and type of produce shows that herders have found another way to sell raw materials at higher prices outside the cooperative system.
6. It is vital that marketing specifications of the cooperative are defined and stable activities are established (combine the economic interests of members, increase raw materials and return from one type of cattle, increase members income, choose sales and supply channels, etc.) and develop an effective marketing strategy. The cooperative set up and their activities and extent will affect both a soum's society and economy.

IV 1.19 Conclusions on the financial market in the countryside

1. When natural disasters occur herders are forced to confront difficulties no resources, due to their lower income and no money savings. Moreover, they have come to believe that this problem will be solved with the help of outsiders.
2. Low cash resources puts obstacles in the way of starting and developing new enterprises in soums.
3. The majority of herders are poor and middle income families have no cash resources, moreover their livestock production resource is shrinking and living conditions are getting worse due to a lack of community and cooperative working.
4. In soums especially in highly populated soums, there is a great need for loans, therefore cooperatives' activities and their membership are expanding. So it is necessary to increase loan and savings cooperatives' liquidity through external resources.
5. Although there is a great demand for loans in the countryside, credit is not always available. The loans given from a few commercial banks are not sufficient for herders and do not satisfy their demands.

6. Herders market and business knowledge is poor. They are not accustomed to adapting to weather and market changes for the sake of profit, making the necessary changes in livestock number and herd composition, and expressing a preference for quality before quantity. As yet their desire to learn on their own is insufficiently strong, however there are some herders who want to learn but do not know how to.
7. The activities of commercial banks does not coincide with herders' annual production cycle and their seasonal financial needs. It is more advantageous to set up micro finance services in the countryside (at soum level) depending on livestock's seasonal profit, raw materials prices and market specifics in each soum.
8. Interest on loans received from non-local bank and financial organizations and the organizations' obligatory tax on profit, do not remain in the soum so this also slows down the possibility to accumulate capital in the countryside.

IV 1.20 Conclusions on product market in the country

1. The absence of small markets in soums and unsatisfactory administration and monitoring has permitted raw materials prices to fall, consumer goods supply to become irregular and herders' turnover to remain low. All these failures mean that little surplus is generated in the rural economy.
2. The current few inadequate channels for selling raw materials and supplying consumer goods is one of the reasons why herders' income is low.
3. Herders need step-by-step practical training to learn how live and work in a market economy, cooperate in business and acquire knowledge about finance.

IV 2 POLICY RECOMMENDATIONS

IV 2.1 Strategic alternatives to develop soums' economies: Tailored Development Models

The following recommendations are made for government, donors and ministry policy-makers

Rationale:

IV 2.1.1 From the results of our assessment of herders' productivity and economic needs, we conclude that the rapid development of financial services are important both for herders and local governments in soums where cattle-breeding dominates. We also believe there is a need for state policy monitoring and intervention. Therefore we have developed a strategy and set of activities to support productivity and financing needs in the countryside.

Methodical bases

IV 2.1.2 We argue that zonal development in soums should go with development strategy, and that alternative models should be adopted after consideration of soums population characteristics, their ecology and the quality of infrastructure. Three alternative models are proposed: (1) Soums' Intensive Development, (2) Soums' Independent Development and (3) Soums' Supported Development. These three models will form an integrated economic and social strategy for developing the countryside.

IV 2.1.3 The first model; **Soums' Intensive Development**, is directed towards boosting food production for soums with good infrastructure which are located close to major market

centers. This model combines intensive cattle-breeding with intensive crop-growing and develops farms in correlation with recent improvements in technology.

IV.2.1.4 During the implementation stage, we advocate that the State holds to course of action which supports free competition in marketplace and the accumulation of capital from forming local profits. For this we recommend a step-by-step policy to keep prices flexible, give small enterprise owners access to credit for the first 1-5 years at concessional rates, offer tax incentives and create favorable regulatory and institutional conditions for small business development.

IV.2.1.5 Implementation of programmes and project is directed to develop small and medium enterprises and farms.

IV.2.1.6 **Soums' independent development** alternative involves soums with relatively weak infrastructure and large budget profit and expenditure loss. Here we will combine semi-settled cattle breeding with crop-growing.

IV.2.1.7 And we will hold a policy based on people's economic needs, form specialized human resource in soums and affirm legal arrangements for local authority economic independence on the state policy level. Then there will be created favorable conditions for profitable trading from the country towards places with concentrated market.

IV.2.1.8 During the implementation we will keep a course to the state support for free competition in market and forming local budget profit. For this we will pursue step-by-step policy to keep prices flexible, give small enterprise owners credit ease for the first 1-5 years and tax incentives and create favorable conditions for small business development.

IV.2.1.9 Implementing program project is directed to develop small and medium enterprises and farms.

Table 18: Development alternatives

Criteria	Development alternatives		
	Intensive development	Independent development	Supported development
Infrastructure	Good	Relatively bad	
Type of the livestock production	Fully settled Farm combining intensive cattle breeding and intensive agriculture	Semi-settled cattle breeding and agriculture	Pastureland based cattle breeding
Location	Close to centralized market	Relatively remote from centralized market	
Budget income and expenditure	Return to local economy		State budget subsidy
Programs and projects to be implemented	Develop small and medium enterprises and farms		Reduce the poverty
Ways of market management	Free market competition	Internal competition in soums with state monitoring	

Centralized market involves cities, aimags and border-crossing point.

IV.2.1.10 The strategy will be implemented in correlation with zonal development and in some soums will work a team according to “Management agreement” trial. So we will gain experience on country market management according to local people interests and needs and decrease budget loss.

IV.2.1.11 **Soum’s development support** alternative involves soums with relatively poor infrastructure and located remote from the concentrated market. Here pasture cattle-breeding dominates. In order to improve people’s living condition, more attention will be paid to reducing poverty, education and health.

IV.2.1.12 Besides supporting local authority and legal arrangements to provide human resource on the state policy level, a policy to educate people within the soums and based on main interests of people will be pursued. With support from the state a network to provide food and consumer goods by wholesale prices will be set. Organizations possessing the wholesale net will be given tax incentives and other privileges.

IV.2.1.13 We will keep a principle to change from soums development support alternative to soums independent development, then to the intensive development alternative in the country development strategy. These three alternatives will be done by three stages: optional or basic study, preparation stage and progress stage.

Examples

IV.2.1.14 Out of 19 soums three soums in Uvorkhangai were compared: Kharhorin, Zuunbayan-Ulaan and Tugrug. They are all in the same aimag but ecology, population, infrastructure and composition of cattle are relatively different.

IV.2.1.15 Intensive development soum, Kharhorin is in forest zone, population is 13500, population density is 5.7, crop-growing is available, about 50% of all cattle is sheep, from 1995-1996 the budget profit was balanced, market relations are forming. This soum is entirely suitable for intensive development by its natural and human resources and infrastructure.

IV.2.1.16 Independent development soum, Zuunbayan-Ulaan has forest in the north and steppe in the south, population is 4600, population density is 1.9, resources for pasture and about 50% of all cattle is sheep, rich in natural resources. Over the last years has been increased a number of people who want migration to UB city, good infrastructure, poor market relations and high rate of school dropping out. The soum is suitable for Independent development alternative and there is possibility to work without budget loss.

IV.2.1.17 Development support needed soum. Tugrug is located in desert zone, population is 2800, population density is 0.5, average people rate in a family 4.4, 55% of all cattle is goats, remote from concentrated market, two taxpayer units, 16.2% profit of budget loss in 2002, lately the number of cattle is decreasing and migration to cities is increasing.

IV.2.1.18 Lack of specialized people. Families owning electricity suppliers (104) and TVs (63) are fewer comparing to other soums. In providing management and specialists, developing people and setting up a wholesale center this soum is supported by the state but this is should be intensified.

IV.2.1.19 Social and economic criteria of Ovorkhangai aimag's Khorkhorin, Zuunbayan-Ulaan and Tugrug soums' Appendix No 3.

IV.2.2 Expanding selling and supply, loans and savings service

IV.2.2.1 Setting up versatile cooperatives (sale \ supply\ loans and savings cooperatives) in soums where people and administration are ready to cooperate (by proposal from soum) and are provided experienced specialists and financing.

IV.2.2.2 It is important to support versatile cooperatives to develop soum's market influencing to society and economy in soums mainly focused on livestock-rearing. The followings will help to do it:

- ▶ Establishing sale and supply network at the request from soum can be counted as a part of the wholesale network establishment program carried out by Mongolian Government, so training to implement and practice it should be arranged.
- ▶ Get land owning permission and build warehouse to establish "Soum's own product sales" center at the centralized market (in the future, with plan to be expanded as a raw materials stock exchange)
- ▶ Use loans and savings service as a support for setting up sale and supply network, support loans and savings service
- ▶ Find financial resources to develop and implement non-banking organization project in soums
- ▶ It is more efficient for local economy to give activity support to develop and implement sale and supply, loans and savings versatile cooperatives model's financing project as well as setting up production sale wholesale network connected with concentrated market at the request from soums.

IV.2.2.3 Soum activity type and extent have big influence to the soum society and economy. Soums might differ by geography, location, weather, cattle structure, traditional way of breeding, living conditions or diligence but for 308 soums mainly focused on cattle-breeding the most common model of cooperative would be a cooperative running raw materials selling and consumer goods supply business combined with loan service.

Combining supply (sale and loans) savings service has the following advantages:

IV.2.2.4 For herders

1. Selling raw materials by the highest price on the centralized market
2. Purchasing food and consumer goods by wholesale price from the concentrated market and sell guaranteed goods to the members by reasonable price
3. Members who placed property (raw materials, cattle, valuable things, credit guarantee), invest property as one kind of savings and receive interest income
4. Members who needed capital (for livestock-rearing or everyday purpose) can receive a loan from cooperative and bring profit to the cooperative
5. All members get a share profit from cooperative activities

6. Cooperative can preserve hay, have a veterinary medicine, arrange finding better pastureland and prepare livestock for sale or slaughtering
7. Possible to provide additional labor force and specialists if needed
8. Opportunities to train members and administration staff
9. Members know each other so it makes loan amount and credit guarantee less risky and no extra expense for that therefore the interest on loan is low
10. As a result of supporting soum's initiative to form wholesale network , herders receive the trading profit from selling raw materials, food and consumer goods.
11. A family's present income can be increased by purchasing foods/consumer goods by wholesale prices in large amount, increasing raw materials supply amount to sell later by high price and educating soum inhabitants about wholesale and retail price differences.

IV.2.2.5 For soum

1. short-term results: expanding cooperative activities improves herders living conditions (economic and social)
2. Medium-term results: there are chances to bring profit to soum's budget and local turnover capital increases.
3. Long-term results: cooperative activities will be expanded and improved production and employment rate. Cooperatives will be united by their activities and becoming the big one and so people would have necessary skills to manage cooperatives.
4. Income tax of loans and savings cooperative goes to the local economy.
5. Financial capacity in the country will be improved and appeared a cash accumulation. At the next stage would be formed the conditions for product and financial market by combining loans\savings activity with sale\supply activity.

IV.2.2.6 Economic leverage for the cooperative activity

1. Purchase food and consumer goods only by cash
2. Keep attention on the quality of raw materials and production
3. Give sales price and term suggestions in written form
4. Members received a loan should obey agreement obligations
5. Consider a knowledge received from training equal to financing
6. Invest property in the form of cash and share percentage should be indicated in cooperative regulations.

IV.2.2.7 Supply (sale and loans) savings service should be combined with insurance and it is required to be done immediately.

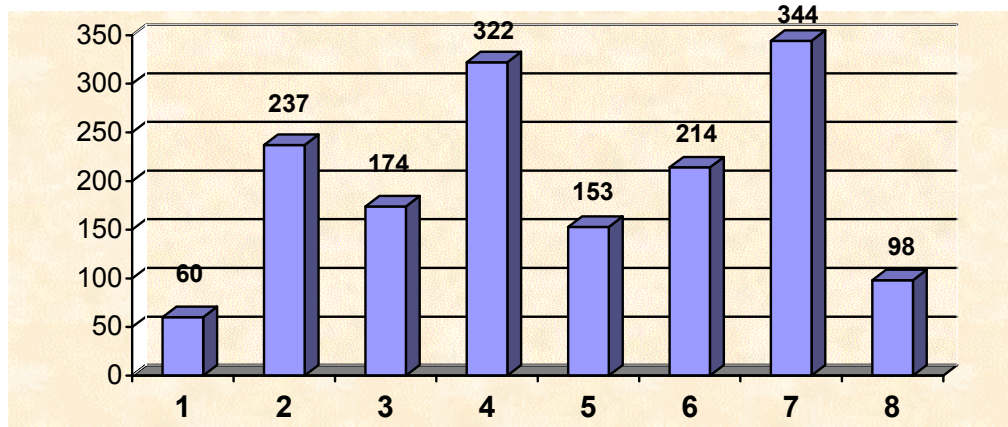
IV.3 MANAGEMENT RECOMMENDATIONS

IV.3.1 Defining herders training needs and training arrangements

IV.3.1.1 About 90% of herders are interested in taking part in training. That shows their huge desire to learn besides breeding cattle.

IV.3.1.2 They really want to find other ways to increase their income and be involved in training on how to do it. The survey showed an information necessity on this matter. Also they needed a legal knowledge in doing any business and recommendation how to get a bank loan or filling out documents necessary for it.

Chart 18: Training need of herders (by frequency)



IV.3.1.3 1. no opinion, 2. useful legal rules for herders, 3. herder's credit, 4. about cooperation, 5. household income and expenditure account, 6. increasing income earned from livestock, 7. other ways to earn income, 8. cattle breeding techniques.

IV.3.1.4 To the question "What kind of training are you interested in?" 40.8% of respondents wanted to know how to calculate profit/expenditure and wished in future, focused on a training content which would help to fix herders' budget. Also relatively little interest in other points makes us suppose these points should be studied more accurately later.

IV.3.1.5 From the respondents who completed 8th class, 114 people wanted to learn about herders' collectives and 127 people wanted to know some other ways to earn besides cattle breeding. These two trainings were the most wanted. Taking into consideration their eagerness to learn, we should reflect it in our training content and program in future.

IV.3.1.6 That 30% of herders' with higher education wanted to learn about herders' collectives and 25% showed a great interest in learning about other ways of earning besides cattle breeding.

IV.3.1.7 Difference in age caused no problems for the training content so training topics, content and types should be integrated with herders' educational level as well as with curriculum and manuals.

IV.3.1.8 There is a great need for knowledge on market economy and there has been no training for herders before to acquire necessary skills and systematic knowledge.

IV.3.1.9 Training on market economy for herders:

1. Calculation method of herder family's income and expenditure, family budget
2. Ways of selling products on the market, market demand and quality of product
3. Management basis to collaborate in cooperatives and specifications of techniques (3 and more families (khot ail), groups)
4. Training to give Knowledge on profitable use of loans
5. Ways to form appropriate composition in the structure of cattle

IV.3.1.10 It is important to conduct these trainings according to the recommendations of the researchers from the Academy of Management, Agricultural University, School of Finance and Economy and Institute of Trade and Industry. And they should be based on local resources and possibilities.

IV.3.2 Training content for local authorities in soums and bagas

IV.3.2.1 Increase of herders' capital turnover is an internal source not only for improving their living condition and but also for local development. Nowadays, local authorities are more worried about budget financing, orders, directives and regulations instead of trying to manage local economy corresponding to market relations.

IV.3.2.2 It's important to prepare training content and manuals before arranging training for local authorities. For instance, the following step-by-step training is for the leaders of People's Representative Meeting, Local Governor's Office, soum/baga governors and public servants:

- a. Soum's society and economy planning methods
- b. Grounds and needs for establishing loans and savings cooperatives and a micro financial organizations
- c. Cattle insurance system (whole herd), its development
- d. Measures to give a loan to herders and recommendations on its well-use
- e. Cooperatives in Mongolia, their history, lessons and prospects for the future
- f. Principles of a cooperative in market relations and their implementation methods
- g. Small business collaborative management
- h. Channels of selling cattle products and supplying food and consumer goods and their management

Expanding cooperation training

IV.3.2.3 We have to keep people informed about advantages and success of current cooperatives and other types of cooperative work as well as to find reasons of failure and prevent from them in the future. People's Representative Meeting and Local Governor's Office should support to arrange the topical and step-by-step trainings necessary to run cooperative activity, work on projects, calculation and management that all based on herders' initiative and enthusiasm.

The end.

[NU1]??
[NU2]??
[NU3]Bank?
[NU4]??