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**Creating better Business Environments for Enterprise Development;
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**Chambers of Commerce and Industry as Key
Drivers of Change for Local Business Reform?
Methodology and first Experiences from Mongolia**

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ABBREVIATIONS

BMZ	German Federal Ministry for Economic Cooperation and Development
DIHK	Association of German Chambers of Industry and Commerce
EGPRS	Mongolian Economic Growth and Poverty Reduction Strategy
EITI	Extractive Industries Transparency Initiative
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
LED	Local Economic Development
M&E	Monitoring and Evaluation
MNCCI	Mongolian National Chamber of Commerce and Industry
NGO	Non-governmental Organization
SME	Small and Medium Enterprises
ToT	Training- of-Trainers
USD	US - Dollars

EXECUTIVE SUMMARY

During the last years, Mongolia experienced high economic growth. While, in line with this development, overall poverty was decreasing, rural poverty is on the rise. The share of poor people in the countryside (43%) is far higher than in urban areas (30%). In its Economic Growth and Poverty Reduction Strategy (EGPRS) released in July 2003, the Mongolian Government recognized the critical role of the private sector as the driving force behind sustainable growth and poverty reduction. The establishment of a sound institutional and regulatory environment is one of the cornerstones of the strategy.

With the purpose of improving the business environment in 15 out of 21 of Mongolia's provinces, the Mongolian National Chamber of Commerce and Industry (MNCCI), the Association of German Chambers of Industry and Commerce (DIHK) and SEQUA – Partner of German Business engaged into a partnership project in March 2006. The major thrust is to turn local chambers into key drivers for local economic development, thereby contributing to a “sound institutional ... environment” as outlined by the EGPRS. In a participatory process with local stakeholders, analyses of competitive advantages and disadvantages of the participating provinces are conducted. On this basis, small LED projects for strengthening advantages and overcoming constraints are defined. These either target important sub-sectors of the respective local economy or try to improve the administrative and regulatory environment. The idea is that the success of these small projects will contribute to generating income and employment, the membership of the local chambers will increase and, finally, through monitoring dialogues with the local government and other stakeholders, the chambers will have a stronger say in local business affairs.

First indications suggest that the main contribution of the partnership project to business reform will be through the process itself. Local stakeholders welcomed the opportunity of receiving a systematic feedback on the competitiveness of their local economy, and the action planning workshops resulted in project proposals relevant to poverty alleviation. In general, local participation was high. If local chambers maintain the momentum, implement their small projects swiftly and engage into a constant dialogue with other stakeholders, they will gradually move into key drivers of local economic development. At the same time, expectations that the small LED projects would themselves target the business environment do not appear to materialize at this early stage. This is partly owed to the fact that this project is private-sector driven. MNCCI and local stakeholders are more interested in direct interventions for economic development rather than indirect ones. Nevertheless, it can be assumed that the more chambers are strengthened the more they will act as advocates for business reform on local level.

1. THE CONCERN: STRUCTURAL CHANGES AND INCREASING RURAL POVERTY IN MONGOLIA

During the last years, Mongolia experienced high economic growth. GDP grew by 5.6% in 2003, 10.6% in 2004 and an estimated 6.2% in 2005. The main drivers of this growth were sustained favourable weather conditions, a substantial increase in the number of livestock, higher commodity prices in the world market (gold, copper and cashmere), expansion in transport and communications and greater capital inflows. Overall economic management of the Mongolian government is considered positive by the World Bank which is projecting an annual average GDP growth rate in the range of 5.0% until 2010.

The agricultural sector, especially nomadic herding, used to be the major engine of growth in the second half of the 1990s, the World Bank estimates that over half of the population relies on agriculture for some part of the income. Around a third of Mongolia's population of 2.5 million relies on herding as the primary source of livelihood. As a result of the growth of mining activities and the tertiary sector, agriculture's share in total GDP has declined from 38% in 1995 to 25% in 2004. At the same time the trade, transport, communication and services sector has raised its share in total GDP from 35% to 46%. The share of manufacturing has seen a slight increase from 27 to 29%, mainly owing to mining. Thus, it appears clearly that Mongolia is undergoing rapid structural change. Still, due to its dependence on a small number of key commodities (gold, copper, cashmere) the economy continues to be vulnerable to fluctuations in commodity prices and natural disasters.

In line with these developments, overall poverty was decreasing. According to data obtained by the most recent household surveys (2002), the percentage of Mongolians living below the poverty line of 25.000 MNT (21 USD) shrank from 43 percent to 36 percent. Access to electricity and water rose by 50 percent and the ownership of selected consumer durables doubled during the 1998 to 2003 period. The World Bank's poverty assessment for Mongolia assumes that this trend continued in the following years. Notwithstanding this positive trend, rural poverty is on the rise. The share of poor people in the countryside (43%) is far higher than in urban areas (30%), whilst at the beginning of the transformation process in 1990, poverty was more an urban phenomenon. The assessment emphasizes that a quarter of the herders can be considered chronically poor. Their herds are very small and they are expected to have little chance of developing herding into an economically sustainable way of living. For them, supplementary and/or alternative sources of income are deemed the only options for escaping poverty.

2. THE APPROACH: TURNING CHAMBERS OF COMMERCE AND INDUSTRY INTO KEY DRIVERS FOR LOCAL BUSINESS ENVIRONMENT REFORMS

2.1 Need for business reforms

In its Economic Growth and Poverty Reduction Strategy (EGPRS) released in July 2003, the Mongolian Government recognized the establishment of a sound institutional and regulatory environment as one of the cornerstones behind sustainable growth and poverty reduction. Furthermore it recognized the critical role

of the private sector as the driving force in this process. However, according to a recent World Bank report (World Bank, 2006d, p. i) “.....the broad policy statements made in the EGPRS need to be translated into a coherent private sector development strategy that clearly identifies specific steps that the government might undertake, in partnership with the private sector and international donors.”

The World Bank emphasizes the need for business reforms in the fields of tax legislation, tax administration as well as the operations of the customs services and the inspections agencies. It also recommends interventions in the financial as well as transport sectors. What are the key issues in these areas?

- Taxes are perceived to be high and tax administration to be burdensome. Many inspections are being carried out and a large number of fines are assessed. Tax inspectors also enjoy a relatively high degree of discretion which invites corruption.
- Customs operations are considered intransparent. Processes are often delayed and businesses report that bribes have to be paid in order to avoid excessive duties.
- The domestic private sector is hesitant to invest in fixed assets. High interest rates and short lending terms contribute to this. Structural factors such as inadequate accounting practices on part of the businesses and difficulties in debt recovery make lending risky.
- Transport options for exporters and importers are limited. Crossing charges at the border to China are high, customs formalities are cumbersome and transit time to the port of tianjin in China are unpredictable.

2.2 Challenges for local stakeholders

Local decision-makers are faced with a number of challenges. Some key questions are: How to create jobs outside nomadic herding? How to create a bright future for our young people and make them stay in our region? How to best benefit from the opportunities arising from the fast economic growth in neighbouring China and Russia? What are local potentials for economic development and how to identify them? How to prioritize local government spending and how to convince the central government to provide more funds for the region?

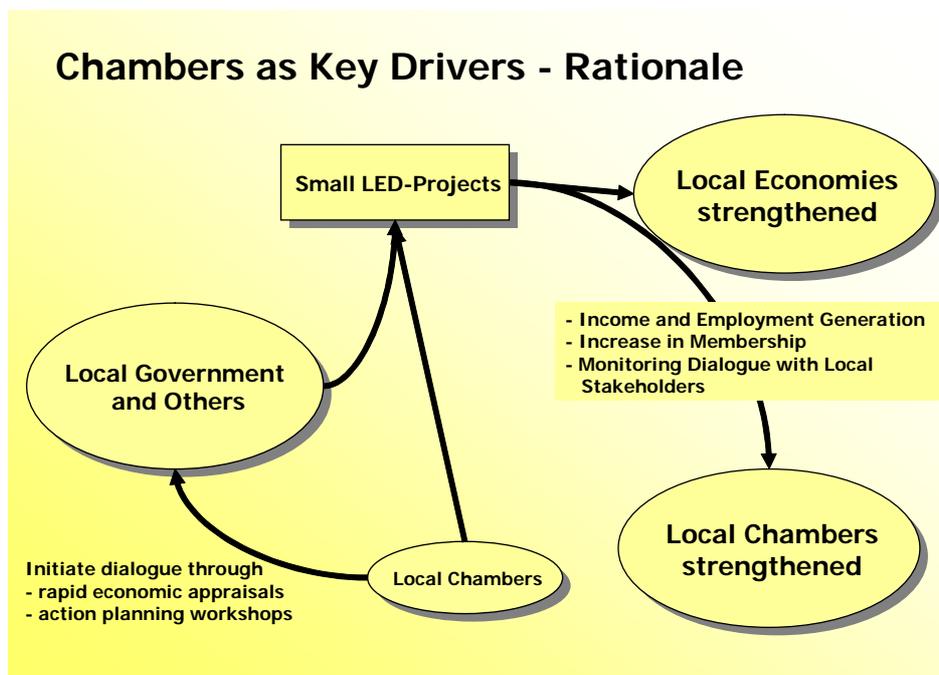
The key answers to deal with the described challenges are business reforms in order to create a business environment promoting necessary changes. Of course, many problems cannot be solved by local decision makers, but are in hands of the national government. Nevertheless it is the task of the local governments to analyse the economic situation in their regions, improve the economic environment and formulate demands for business reforms vis-à-vis national decision makers.

To provide local decision makers with a set of tools addressing the restraints of local economic development of their region and search for solutions is the main thrust of the partnership project. Facilitators in this process are the Mongolian National Chamber of Commerce and Industry (MNCCI) and its 15 affiliated regional chambers (CCI's)

2.3 Context and objectives of the partnership project

The project is a partnership between the Mongolian National Chamber of Commerce and Industry (MNCCI), the Association of German Chambers of Industry and Commerce (DIHK), SEQUA – Partner of German Business and the Federal Ministry for Economic Cooperation and Development (BMZ). It started in March 2006 and its first phase will last until February 2009. While MNCCI and DIHK are the institutional partners of the project, SEQUA acts as implementing agency on behalf of the DIHK. The BMZ is the funding and monitoring agency.

The goal of the partnership project is to improve the business environment on sub-national level in order to contribute to diminishing poverty in the rural areas. In a participatory process with local stakeholders, supported by a team of external, national and international, consultants, analyses of comparative and competitive advantages and disadvantages of the participating provinces are conducted. On this basis, small LED projects for strengthening advantages and overcoming constraints are defined. These either target promoting important sub-sectors of the respective local economy (e.g. improving marketing of local vegetables) or try to improve the administrative and regulatory environment (e.g. by informing the local business community on the new tax law). The idea is that the success of these small LED projects will contribute to generating income and employment, membership of the local chambers will increase and, the most important, through constant monitoring dialogues with the local government and other stakeholders, the chambers will have a stronger say in local business affairs. In the end, the institutional base for a conducive business environment on local level in Mongolia will be improved (see also the following Graph).



In order to safeguard outreach and significance of the project, it is planned to cover all provinces with chamber representations (15 out of a total of 21 provinces in Mongolia).

The intervention logic and objectively verifiable indicators are summarized in table 1:

Intervention Logic	Indicators
<p>Overall Goal:</p> <p>The economic environment in Mongolia enables SMEs to accelerate their growth.</p>	<ul style="list-style-type: none"> At least 60% of local decision-makers and entrepreneurs interviewed in rounds one and two of rapid appraisals (2006) state that the regional business environment improved since the beginning of the project. At least 60% of local decision-makers and entrepreneurs interviewed in rounds three and four of rapid appraisals (2007) state that private and public sector launched specific initiatives for improving the regional business environment.
<p>Project Purpose:</p> <p>MNCCI and the local chambers affiliated to it are strengthened in their role as initiators, facilitators and service providers for a more business friendly economic environment on regional level.</p>	<ul style="list-style-type: none"> At least 60 % out of 120 entrepreneurs and 60% out of 60 local decision-makers (e.g. department heads of the provincial administration) interviewed during the appraisal, state in a survey conducted in August/September 2008 that the respective regional chamber is more actively and effectively engaged in regional business environment reforms. Every regional chamber and MNCCI's headquarters have introduced at least one new service until August/September 2008, which is being regularly asked for by SMEs. Membership with MNCCI headquarters have increased by at least 20% and with local chambers by at least 40% until the end of the the first project phase.
<p>Result 1:</p> <p>Rapid and participatory economic appraisals on competitive and comparative advantages and disadvantages have been conducted in all project areas.</p>	<ul style="list-style-type: none"> In all regions, at least 25 resource persons (chamber, local administration, local legislative, entrepreneurs, NGOs) have taken part in semi-structured interviews. At least one workshop for discussing appraisal results and planning small projects for regional economic development was conducted in each of the regions until end of 2007 with participants from private and public sectors.
<p>Result 2:</p> <p>Action plans for improving the economic situation in the regions have been designed and are being implemented in a participatory process.</p>	<ul style="list-style-type: none"> Until the end of 2007 an action plan was defined for each of the regions under participation of the public and private sectors. At least 60 % of the activities stated in the action plans were actually implemented after one year
<p>Result 3:</p> <p>Staff members of MNCCI, local chambers and other stakeholders are capacitated in methods of participatory and rapid economic appraisal and make use of them.</p>	<ul style="list-style-type: none"> At least 10 staff members of MNCCI and 10 local experts were trained in participatory and action-oriented approaches and tools of local and regional economic development (ToTs) until April 2007. Trainees have conducted rapid and participatory appraisals in rounds three and four (2007) on their own.

3. THE DEVELOPMENT PARTNERS

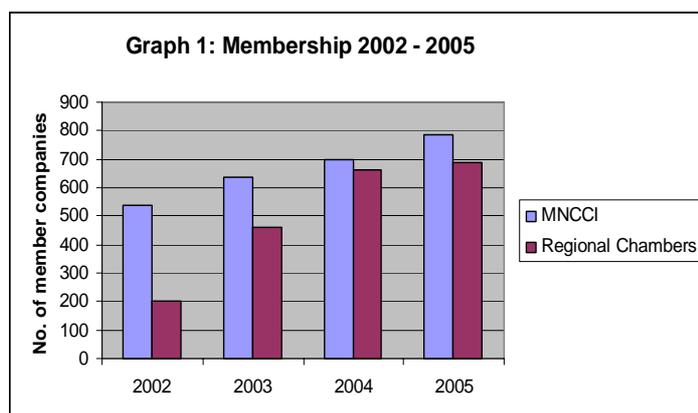
3.1 The Mongolian partners

The *Mongolian Chamber of Commerce* was founded in the year 1960. Until the collapse of the Soviet Union and the centrally planned economies, membership was compulsory for all – mostly state – companies. In 1990 the organization changed its name to *Mongolian National Chamber of Commerce and Industry (MNCCI)*. At the same time, membership became voluntary. While, on national level, the Mongolian chamber law only allows the creation of a single chamber, it accepts affiliated chambers on sub-national level.

Mongolian law has assigned MNCCI the tasks of representing the interests of its members, putting forward proposals for improving the business environment, issuing certificates of origin, establishing arbitration laws, conducting trade fairs and exhibitions and engaging into export and import inspections. The tasks stipulated in the bylaws of MNCCI go far beyond those defined by law. These include business matching schemes between national and international entrepreneurs, study tours, exchange of experiences with international business membership organizations, conducting business management and legal trainings, fostering the development of SMEs and others more.

The number of local chambers affiliated to MNCCI, which are covering the territory of one Province (=Aimak), has increased drastically over the last years. While at the end of 2002, there were only 6 local chambers, in 2006 there are 15. Equally, the number of member companies has climbed significantly (see graph 1).

With the exception of one regional chamber the establishment of all of them was based on local initiative. The national chamber does not provide subsidies but rather encourages its regional affiliates to develop services for their own revenue generation.



With a total staff of 90, MNCCI can be considered strong in organizational terms. Its regional affiliates, though expanding, are still small. Typically, they dispose of an office with basic infrastructure and work with one director and one or two assistants. Their capacities for strategy formulation, project management, monitoring, communication and service provision are limited and needs to be improved. On the positive side, they are well respected in their local communities, provide valuable business information and have successfully engaged into service provision such as the organization of local exhibitions and trade fairs.

Thus, MNCCI was deemed an ideal partner for this project. Besides having a mandate for engaging into business reform, it provides a relatively stable and

dynamic network of regional affiliates, which still needs some support for acting more effectively as key drivers. Since the project will be covering the majority of Mongolia's provinces, the prospects for outreach are good.

3.2 The German partners

The *Association of German Chambers of Industry and Commerce (DIHK)* is the umbrella organization of 81 chambers of Commerce and Industry on sub-national level in Germany and a network of 120 chambers representing German business interests worldwide. All German companies registered in Germany, with the exception of handicraft businesses, the free professions and farms, are mandatory members of a chamber. The DIHK speaks for more than 3.5 million German entrepreneurs. It has entrusted a sister company, SEQUA gGmbH – Partner of German Business, with the management of the partnership project with MNCCI. Since its foundation in 1991 SEQUA has been supporting the worldwide development activities of Germany's private sector. A service organization in questions of project acquisition and implementation, SEQUA mobilizes the know-how and commitment of business organizations and enterprises for the benefit of international cooperation.

The Federal Ministry for Economic Cooperation and Development (BMZ) is funding and monitoring the partnership project. Since the 1980s it runs a programme targeting the strengthening of business membership organizations in developing countries. As advocates for business environment reform and service providers for members and non-members it is expected that their promotion would impact positively on the respective country's economies, specifically the small and medium companies.

4. THE METHODOLOGY

4.1 Principles

As already mentioned above, the main thrust of the partnership project is to provide local decision-makers with a set of tools addressing their key concerns as outlined in chapter 3.1 in a systematic way. It is inspired by a concept originally designed by the World Bank's Urban Development Unit under the term "local economic development". The concept was adapted to the rural setting in Mongolia. Efforts of spurring the growth of local economies¹ are based on the following principles:

- *Holistic approach:* Any regional economy is shaped by a variety of different aspects which all impinge, in one way or the other, on the potential for local employment generation. If these aspects are addressed in an isolated, stand-alone manner, one may not be able to remove all growth barriers and unleash the economy's full potential. For example, in Uvs Province in Mongolia local stakeholders intend to create jobs and income by promoting sea buckthorn.

¹ The project partners discussed whether the use of the term „local and regional economic development“ would be more adequate, since the territory covered by one regional chamber is one province (up to 80.000 km²). However, since the term "region" in Mongolia is commonly used for describing the four regional development zones of the country, comprising up to 5 provinces each, it was agreed to use the term local economic development.

Extending the cultivated area alone would not be enough. Simultaneously, one has to expand local cooling capacity, simplify export regulations and improve marketing.

- *Involvement of relevant stakeholders:* It is imperative to get all relevant stakeholders (local administrators and legislators, business associations, community organizations and NGOs) at one table in order to achieve long-lasting successes in local and regional economic development. If it becomes a joint effort, it is easier to act in a holistic way, mobilize resources and people and access information more widely.
- *Committed local leaders and local government backing actively the effort:* Identifying and mobilizing committed and influential local leaders is a critical success factor. They can often be motivated by emphasizing the potential gains of an initiative for local economic development: A chamber of commerce and industry may substantially increase its membership and local governments may enhance their tax revenues when the economy is doing well.
- *Strategic partnerships:* Many issues can only be successfully addressed by looking for support from other government entities and/or development agencies. Networking lies at the core of implementing local economic development initiatives.

4.2 Tools

In more practical terms, these are the tools meant for kick-starting and sustaining initiatives for spurring local economic development in 15 provinces in Mongolia:

- *National inception workshop:* The main thrust, methodology and administrative procedures of the project were discussed at a national workshop with participation of all 15 local chambers of MNCCI. Whether and to what extent these would take part in the project was an open question before the project. Finally, all of them expressed their interest. Due to limited resources their inclusion occurs gradually.
- *Participatory and rapid economic appraisals:* Typically lasting four days, these appraisals examine comparative and competitive advantages and disadvantages in the following fields: general trends of the local economy, administrative and regulatory environment, companies, support institutions, human and natural resource endowment and infrastructure². The appraisals are participatory in the sense that their results are primarily based on the perceptions and information provided by local stakeholders (e.g. local administration, local parliament, entrepreneurs, regional chamber, NGOs). Normally, 25 to 35 semi-structured interviews are conducted per each region.
- *Validation and action planning workshops:* Usually placed at the end of an appraisal, local stakeholders draft an action plan with the purpose of capitalizing on the advantages of a local area and removing barriers for economic growth. Each action plan comprises up to three so called small LED projects which are expected to produce tangible results within one year. The partnership project

² An example of a complete matrix of the results of the rapid economic appraisal is displayed in annex 1.

supports each action plan with a grant of up to 8.000 EUR per annum. Local stakeholders have to bear at least 10% of the overall cost. The workshops last one full day and deal with the presentation of appraisal results (morning) and action planning (afternoon). They are conducted in a very interactive style in order to stimulate local ownership of the process.

The identification of small LED projects is based on a set of criteria which had been discussed and endorsed during the national inception workshop. According to these criteria, it should contribute, directly or indirectly, to reducing poverty by means of stimulating local economic growth, it should have good prospects for sustainability and potential for replication in other regions of Mongolia. The implementation of the project should also foster cooperation between local stakeholders.

- *Monitoring and evaluation:* M&E is done at different levels and includes the project's output, outcome as well as impact. Apart from kick-starting the whole process, the rapid economic appraisals also served for collecting baseline information for the monitoring system.
- *Coordination and coaching:* The implementation of the small LED projects is being followed up by a project unit located within MNCCI. It consists of two staff members of the national chamber who are obtaining a moderate salary topping-up for their extra services.
- *Benchmarking forum:* After one year of operation a benchmarking forum with all local chambers will take place in Ulaanbaatar. Local stakeholders will present advances in the execution of their small LED projects, discuss implementation problems and ways to overcome them. The forum is also conducted with a view of spurring a sense of competition among the local chambers. Apart from this, the upcoming year's activities will be planned.
- *Training of LED-Facilitators:* In order to build the capacities of local chambers, MNCCI, local governments and other stakeholders, staff of these organizations will be trained in the approach. The "real-life" simulation of a rapid economic appraisal lies at the heart of the training. Capacity building is a prerequisite for the sustainability and replication of the approach.

4.3 First experiences

4.3.1 Appraisal results

In 2006, two "rounds" of appraisals of comparative and competitive advantages and disadvantages were conducted, the first in the Provinces of Arkhangai, Uvurkhangai and Uvs (May/June), and the second in the Provinces of Selenge, Tuv and Khovd (September).

- **General trends:** The regional economies of two out of these six Aimaks (Uvs and Khovd) are developing relatively well. In two provinces (Arkhangai and Uvurkhangai), significant increases in savings and credit volumes with the local banks indicate some dynamism, whereas the two provinces in the vicinity of the capital Ulaanbaatar (Selenge and Tuv) experienced a decline in their regional gross domestic product and severe population losses. The structural dependency

on nomadic herding is still high. Overgrazing is a problem in all regions, especially in Uvurkhngai, Khovd and the southern part of Tuv. Better management of pasture land, sustainable forestry and an intensification of animal husbandry are key challenges in this respect. In the majority of the six provinces, local value-added is still very low. However, especially in Uvs and Khovd local producers are increasingly venturing into the processing of agricultural commodities with quite some success. These provinces are located far from the capital Ulaanbaatar. Due to high transportation costs within Mongolia, this distance protects them from cheap import products which are mainly shipped into the country through Ulaanbaatar. In general, unemployment and underemployment are still very high.

- **Government – business interactions:** Entrepreneurs view governmental organizations mostly as „inspectors“ and try to avoid contact with them. Most of them wish government employees being more flexible and acting more as advisors rather than just “policemen”. According to them, some problems such as non-compliance with norms and standards are a result of lack of knowledge and financial resources for putting them in practice. Some executive government employees stressed that an advisory role makes it necessary for the officers to change their attitude and acquire more knowledge. Activities such as training government employees in communication techniques, promoting the removal of red tape, holding public discussions regarding the relationship between government and private sector could be contributions to improve the local business environment and build trust among both sides.
- **Taxes:** Most respondents rated their present tax obligations as too high. They are coping with this situation by avoiding tax payments. At the same time, they unanimously stated that the new national tax law taking effect from the 1st. of January 2007 will ease their situation. The new law will reduce the tax rates and simplify tax administration. However, the agricultural sector will continue to enjoy tax exemptions, which is subject of controversial debates among local stakeholders. Since taxes need to be sourced from non-traditional sectors instead, such as financial services, industry and mining, this may inhibit rather than promote structural change. On the other hand, the preferential treatment provides a competitive advantage for cereals and crop producers, who otherwise might be crowded out by cheap imports. Diversifying agriculture and venturing into agri-based processing is indeed one of the very few options for local employment and income generation.
- **Red tape and corruption:** Red tape and corruption are a controversial issue. Local stakeholders tend to say that there are too many unnecessary licensing procedures. For example, a bakery has to obtain a specific license for each of its products. Local producers react by avoiding paying them and bribing officials instead. In one of the provinces, the Vice-Governor intervened directly in order to help local businesspeople solve their licensing problems.
- **Financial sector:** All the regions are remarkably well penetrated by banks even in remote areas. High transaction costs related to poor physical infrastructure and low population density resulted in high interest rates and short lending periods, which many local respondents claim is negative for them. On the other hand, rising competition among the banks and an increased cost consciousness on part of the banks clients’ may lead to lower interest rates. Where local companies built good relations with their bank and are known to be good customers, they managed to obtain longer-term loans (up to five years) for investment purposes at

acceptable interest rates. Some banks are also considering venturing into leasing as a financial product.

The evidence gathered in the field suggests that there are indeed severe constraints for business development on local level. Taxes are high, tax evasion is widespread, interactions between government and businesses are often characterized by an attitude of “policing”, unnecessary red tape exists and loans are mostly short-term and expensive. At the same time, some of the problems are actually being dealt with, such as the tax reform. And when taking a closer look at the issues, they become quite complex. For example, bureaucracy is needed to guarantee high standards of hygiene of food products. And regarding difficult access to longer-term loans, it is not just a matter of the supply side (the banks) but also one of the demand side (the businesses): Evidence obtained through interviews with local companies clearly revealed that their capacity for making profitable use of long-term loans is limited. In general, there is a great need for dealing with issues of the local business environment in more detail and in the form of a structured dialogue between local stakeholders.

4.3.2 Fields of intervention

On the basis of the specific appraisal results for their province local stakeholders formulated small LED projects in order to address some of the key issues. First experiences illustrate a diversity of projects, though the focus is on promoting specific sub-sectors. Few of them intend to improve the overall environment for doing business in rural areas. All projects hold a high potential for replication in other regions.

Arkhangai:

- Improve solid waste management in Tsetserleg and introduce a system for the recycling of reusable material.
- Conduct information campaign on the new tax law.
- Improve marketing of meat and dairy products (better quality controls and enhanced cooling capacities).

Uvurkhngai:

- Improve processing and marketing of yak-products.
- Develop a concept for the recycling of reusable material in Arvaikheer.
- Conduct trainings for officers of aimak and soum administrations (communication and public relations).

Uvs:

- Promote cultivation and marketing of sea buckthorn.
- Conduct two exhibitions with the purpose of promoting the dissemination of high-quality breeds in livestock.

Selenge:

- Improve conservation and packaging techniques of processed vegetables.
- Promote the tourist potentials of Selenge Province and design package tours.

Khovd:

- Engage into the processing of potatoes.
- Improve packaging and conservation of vegetables.

Tuv:

- Improve packaging and marketing of vegetables.
- Disseminate techniques of high-quality animal feeds production.
- Engage into the marketing of the province's locational advantages as compared to Ulaanbaatar.

5. FIRST OBSERVATIONS WITH RESPECT TO SUSTAINING BUSINESS ENVIRONMENT REFORM EFFORTS

Notwithstanding the relatively short implementation period of the partnership project, which began in March 2006, appraisal results have led to the following general observations that are promoting, but also limiting business reform by the chosen approach:

- The *methodology itself* proved to be accepted by all stakeholders – either the public or the private sector - involved in the process, because it is fast, clearly designed and action-oriented.
- *Interaction of chambers with local governments is different:* The local chambers display very different ways of exerting influence on local decision-makers. One of the chambers, for example, forges alliances with NGOs and trade associations and acts more like an “external” or “opposition” force. However, the more common model is to build partnerships with the local administration and act more like a force from within. It still remains to be seen, which strategy turns out to be more successful. Evidence in the field suggested that it might be healthy for the chambers to keep a certain distance from local powers. Otherwise it might be difficult to tackle touchy issues such as corruption.
- *Different dynamics in the workshops:* While all the action planning workshops managed to come up with worthwhile results, their dynamics regarding public and private sector proved to be very different. In Uvs, participants were discussing enthusiastically and critically appraisal results and the debate was extended to criticise the representatives of the local administration regarding issues of good governance (“Why has tax payers’ money been wasted for building a new government building?”). Just in this province regional chamber and local administration are cooperating closely, which obviously does not prevent local entrepreneurs from voicing critical concerns. Participants in the other provinces were more interested in practical things such as the small projects for local and regional economic development. In Uvurkhangai very few representatives of the local administration were present, while in Arkhangai, Uvs, Tuv and Selenge local top government officials took part in the discussions.
- *Reservations towards interventions impacting on the public sector:* While local chambers are mostly open for above described activities with the local government for creating a better business environment for their members, the national head organisation in Ulaanbaatar, MNCCI, has outrightly rejected proposals for small LED projects to improve the performance of public institutions, because “... it is not our task to do the government’s job.” For this reason, most of the small LED projects are sub-sector interventions such as processing and

marketing of yak-products; cultivation of sea buckthorn; packaging, conservation and marketing of vegetables and marketing of tourist potentials. Still, in these interventions private sector institutions, individual experts, local government and NGOs will be cooperating with one another. Thus, the collaborative thrust of the partnership project comes in indirectly, by everyone working together for getting the small LED projects on track.

- Lastly, the *strong centralism of decision-making in Mongolia limits the relevance of the approach*. With the promulgation of the Public Sector Management and Finance Law in 2003 most of the taxes that had previously been shared between central and local governments were centralized along with service delivery in all major sectors. While local governments push hard for a revision of this law, other sources state that fiscal control and management have improved to the benefit of all citizens. Since a “reform of the reform” is appearing unlikely, the scope of manoeuvre for local governments will remain narrow. And this directly relates to poverty. For example, mining is considered to hold a potential for additional employment and income generation in quite some regions. Nevertheless it was not considered an issue to deal with in the action plans. The major reason for this is that legislation and administration of the mines is centralized. Although revenue and responsibility sharing schemes are under discussion at the moment, local stakeholders do not feel that the way is already paved for their more active involvement. And if they are not involved in decision-making, the anti-mining mood in the country will continue to flourish.

6. FINAL CONCLUSIONS: LOCAL CHAMBERS AS KEY DRIVERS FOR BUSINESS REFORM?

After half a year of project execution, it is difficult to respond to the question with a clear cut yes! or no! First indications suggest that the main contribution of the partnership project to business reform and the Mongolian Economic Growth and Poverty Reduction Strategy (EGPRS) will be through the process itself. Local stakeholders welcomed the opportunity of receiving a systematic feedback on the competitive advantages and disadvantages of their local economy, and the action planning workshops resulted in project proposals undoubtedly relevant to local economic development and poverty alleviation. In general, local participation was high. If local chambers maintain the momentum, implement their small projects swiftly and engage into a constant dialogue with other stakeholders, they will gradually move into key drivers of local economic development.

At the same time, expectations that the small LED projects would themselves target the business environment do not appear to materialize at this early stage. This is partly owed to the fact that this project is private-sector driven. MNCCI does not want to, in its own words, “do the governments jobs”, and local stakeholders are keen in seeing tangible things happen quickly. For them, building know-how in storage and conservation techniques, so that vegetable growers are not forced to sell their produce at a low price immediately after harvesting, is just a far more straightforward approach towards poverty reduction than training local officers in public relations or conducting an information campaign on the new tax law.

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9. ANNEXES

Annex 1: Matrix of the Rapid Economic Appraisal of Uvurkhangai

Annex 2: Action Plan Sea buckthorn (Uvs Province).

Annex 1: Matrix of the Rapid Economic Appraisal of Uvurkhangai

LRED Mongolia: Results of regional analysis of Uvurkhangai Aimak

	Strengths	Weaknesses
General trends	<ul style="list-style-type: none"> The regional economy grew within the past few years.. Some enterprises plan expansion and modernization investments. 	<ul style="list-style-type: none"> The official unemployment is low, however, underemployment is high. Regional economy still highly depends on nomadic rearing of livestock. The economy of Kharkhoren has not yet recovered from the recession of agriculture.
Legal and administrative general conditions	<ul style="list-style-type: none"> New tax legislation will reduce economic strain for enterprises and broaden the tax base. Small enterprises and self-employed persons consider the tax burden to be appropriate. Prohibition to use forest resources. There are very active Soum administrations in the Aimak (e.g. Bat-Ulzii) Targets of Uvurkhangais' economic policy are clearly defined. Low-cost communal services 	<ul style="list-style-type: none"> Larger enterprises consider the tax burden as too high. It is unclear how the Aimak administration will reach its economic targets. The prohibition to trade premises in Kharkhoren strongly limits the local possibilities for development. Many entrepreneurs feel badly informed on economic laws as well as norms and standards. Still no visible concept for socially and ecologically acceptable mining. NGOs and private sector consider themselves to be insufficiently involved in formulation and realization of governmental economic policy. The quality of communal services (e.g. waste management, water supply) is not sufficient.
Enterprises	<ul style="list-style-type: none"> Active entrepreneurship exists in the Aimak. 	<ul style="list-style-type: none"> Few enterprises work in milk, meat, wool processing (yak, sheep, goat). Prohibition to use forest resources has decreased competitiveness of wood-processing enterprises.

LRED Mongolia: Results of regional analysis of Uvurkhangai Aimak

	Strengths	Weaknesses
		<ul style="list-style-type: none"> Up to now enterprises from Uvurkhangai do not sufficiently use the touristic potential. The hotel quality in the centre of Aimak is inadequate. The net income of many small(est) enterprises is scarcely above the official minimum wage.
Institutional environment	<ul style="list-style-type: none"> There is a close bank network in the Aimak, saving deposits and credit volumes have increased. Competition between banks results in lower interest rates. Worldbank project with long credit periods for larger enterprises facilitates their investments. The chamber is active, offers a range of important services and is being managed professionally. Administration of Aimak and entrepreneurs confirm that chamber work is proficient. Aimak has a fairly good network of training and consulting institutions (NGOs, private university in Kharkhoren, chamber). The quality of the laboratory of the department for norms and standards is considered to be good, the veterinary laboratory in Avaikheer has been modernized. The association of yak breeders is very active. 	<ul style="list-style-type: none"> Many enterprises consider the interest rates as too high and the credit periods as too short. The work of the veterinary laboratory is evaluated as insufficient.
Natural and human Resources	<ul style="list-style-type: none"> Large reservoir of unqualified employees. 	<ul style="list-style-type: none"> Limited availability of qualified specialists (e.g. engineers, technicians, skilled workers).

LRED Mongolia: Results of regional analysis of Uvurkhangai Aimak

	Strengths	Weaknesses
	<ul style="list-style-type: none"> • Large range (regionally limited) of skilled workers in the wood sector (e.g. Bat-Ulzii) and farming (e.g. Kharkhoren). • Many touristic attractions exist (e.g. Orkhon-natural park, Erdenezuul). • Deposits of mineral resources exist (gold, copper coal). 	<p>technicians, skilled workers).</p> <ul style="list-style-type: none"> • Young people leave the Aimak (e.g. to Corea, UB). • The Aimak scarcely benefits from the use of mineral resources. • Quality of pasture lands decreases (overgrazing, aridity). • Strong decline of forest resources in the Aimak. • Aridity and deforestation caused a drawdown of ground-water table.
Infrastructure	<ul style="list-style-type: none"> • Aimak administration constantly improves the road networks. • Reliable power supply in 16 of 19 Soums. • Good telecommunication network in the centre of Aimak, will be further improved by laying of fibre optic cable (2007/2008). • Some enterprises have good access to potable water (wells). 	<ul style="list-style-type: none"> • Some Soums suffer from the very bad street and telecommunication network. • High governmental expenses for heating costs (40 % of the budget) restrict investments in business development. • Small-scale enterprises complain about lack of low priced business premises. • Water is relatively expensive, sometimes difficult access to potable water.

Annex 2: Action Plan Sea Buckthorn (Uvs Province)

Cultivation of sea buckthorn, Uvs Aimak					
	Activities	responsible	period	expenses	
				project	own contribution
1.	Project teams meet in order to establish rules and to elaborate working plans	Yo.Basan	27.06.2006		20,000MNT
2.	Prepare the field /1 hectare/ ploughing-50 persons, harrowing – 15 persons, rolling – 15 persons, irrigation -1 person, monthly salary 50.000, 8 months = 400,000MNT	D.Tumur-Ulzii	02-07.08.2006		480,000MNT
3.	Planting of one year old seedlings, training in field preparation /10 persons will be teached 1 day, the second day they work in the field. Costs per person: 20.000 MNT.	Yo.Basan L.Chogsom	05.08.2006	200,000MNT	
4.	Purchase of fertilizer, fertilizing the field /300kg fertilizer/	N.Urtnasan	17.08.2006		150,000MNT
5.	Purchase of one year old seedlings from Gorno-Altai, altai Russland, /7500 seedlings at 880 MNT each/	Yo.Basan L.Munkhnaran T.Tsagaanbandi	17-25.08.2006	6,600.000MNT	
6.	Settlement of customs duty and commercial taxes, obtaining licenses, preparation of documents	D.Tsogt-Ochir Ts.Lumjav	20.08.2006	650,000MNT	
7.	Transport from Gorno-Altai to Ulaangom /2 trucks, outward and return journey 2000 km, costs per km 300 MNT/	L.Munkhnaran	25.08.2006	1,200.000MNT	
8.	Planting of seedlings /the field is 1 hectare, one person will plant 150 pieces per day. Daily wage 3000 MNT, 10 persons will work on 5 days.	T.Lkhagvasuren	25-30.08.2006	150,000MNT	
9.	Planting of rooted seedlings on the field/ implementing training on field preparation for 10 persons at 1 day, printing of brochure, costs per person 20.000 MNT/	Yo.Basan S.Dorjderem	05.10.2006	200,000MNT	
10.	TOTAL			9,000,000MNT	750,000MNT