Previous TAM/BAS experience in Mongolia

TAM/BAS supports economic transition by achieving enterprise change in potentially viable micro, small and medium-sized enterprises (MSMEs) in the EBRD countries of operation. Since inception in 2001, TAM/BAS in Mongolia has mobilised over € 3.6 million. Funding has mainly been provided by Japan, Luxembourg, the multi-donor EBRD-Mongolia Cooperation Fund and the EBRD Shareholder Special fund.

TAM

TAM supports the introduction of international best practice in SMEs with the potential of becoming future leaders in their market through the introduction of international Advisors from developed countries with 15-20 years professional experience in the relevant sector. TAM projects typically last around 18 months. The Programme also carries out seminar and training activities promoting international best practices by disseminating successful case-studies to entrepreneurs.

Since inception in 2001, TAM has undertaken a total of 41 projects, 19 of which are still in progress, with the scope to start 7 more projects in the near future, currently at the pre-project, screening stage. TAM projects have a wide coverage across industry sectors with Food Manufacturing, Textiles and Pharmaceuticals the most common sectors. TAM has worked with a fairly even distribution of micro, small and medium-sized enterprises. The geographic distribution of projects has been concentrated on the capital, with nine in ten projects concerning enterprises in Ulaanbaatar. Of projects fully completed, 88% have been rated satisfactory or better. What has been identified as a key factor for TAM project success has been the degree of willingness and eagerness of the staff of assisted enterprises to learn from the TAM team.

BAS

BAS acts as a facilitator for the use of local, private-sector consultants by MSMEs to obtain a diverse array of services. BAS works on the demand and the supply side. By assisting individual enterprises to engage with local consultants on narrowly-based, specific projects with a rapid payback, it stimulates demand and the understanding of the potential benefits of using external consultants. It also directly increases the supply and quality of local advisory services, through targeted market development activities. BAS supported projects typically last around four months.

BAS established operations in Mongolia in October 2008. In the next three years, BAS plans to undertake business advisory projects with more than 200 MSMEs, as well as targeted market development activities. Although its operational resources will be based in its office in Ulaabaatar, BAS will focus on underdeveloped and rural areas. Emphasis will also be given to energy efficiency/renewable energy, environmental protection/certifications, gender equality and assisting minorities.

An undeveloped MSME sector dominated by micro enterprises

MSMEs account for more than 90% of company registrations and over 70% of GDP. Virtually all MSMEs are privately owned, with the state’s company holdings concentrated on large, strategically important infrastructure and mining enterprises.

The composition of the MSME sector has changed little over time. The majority of Mongolian MSMEs have no more than five employees and more than 95% of companies have less than 50 employees. Family-owned businesses are very common, especially in the agricultural sector. Most MSMEs are engaged in retailing and other services.

Mongolian MSMEs compare poorly with other Early Transition Countries (ETCs) on several measures of technology absorption, in terms of auditing/accounting standards, bureaucracy (especially licences/permits), registering property, protecting
Government policy and coordination of efforts

International donors have played a key role in establishing a system of MSME support organisations in Mongolia. Chambers of commerce and employers’ associations have a wide national coverage, and are complemented by several industry associations and governmental agencies.

BAS should work with these organisations to reach out to potential clients, especially in rural areas. However, these organisations have limited capacity and experience. Given the high spill over potential it is recommended that they, like MSMEs and local consultants, are also included as possible BAS clients.

The highest governmental authority dealing with MSME policy issues is the SME and Technology Development Department, which sits within the Ministry of Industry and Trade. A law has been passed which supports the establishment of a separate MSME agency to implement policy. One of the agency’s tasks will be to create business incubators in provinces. For overall planning and coordination of MSME policy, a special SME National Council will be established with representatives from ministries, chambers of commerce, MSME federations and the mayor’s office of Ulaanbaatar city.

International donor activities

Although the international donor community in Mongolia is very active in terms of the volume, diversity and geographical spread of projects, there is little risk of counterproductive overlap between TAM/BAS and other donor-funded operations. This is because no other donor programme is able to cover all regions of the country as TAM/BAS sets out to do, and also because of the very large pool of enterprises that have never received international donor assistance (the Mongolian Co-operative Training and Information Centre estimates that only 10% of MSMEs have received donor funding). BAS is also fairly unique in its intention to expand operations in Mongolia at a time when many other donors are scaling down their operations.

Market for local consultancy services

BAS Mongolia has registered over 40 local consultants representing 15 different consulting firms and associations. These cover a wide range of services including accounting and finance, management, information technology, marketing, business planning, investment, human resource management, software development and system analysis.

Enterprises are open to business advice and are willing to undertake advisory projects. Thanks to long-term activities of international donor programmes (GTZ, USAID, UNDP, Merci Corps, and the TAM Programme among them), a high proportion of Mongolian MSMEs sees the value of business advisory services, and is willing to pay at least part of the costs. It should be stressed that Mongolian MSMEs expect high quality consulting and training from both local Mongolian and international experts.

Recommendations for future TAM/BAS interventions

The complementary TAM and BAS Programme instruments can be flexibly designed to addressed the problems faced by Mongolian enterprises and give much-needed momentum to the development of private-sector MSMEs. Sustainability of the impact of TAM/BAS operations in Mongolia will be achieved by providing management advice and mentoring (primary expertise of TAM) and consultancy market development activities geared to building a sustainable infrastructure of business advisory services (key competence of BAS).

In terms of economic sectors, TAM/BAS will attempt to focus on those with the greatest export potential, including food-processing, textiles, and machinery and
Continuation of TAM and BAS

Continuation of TAM

The main impediments faced by Mongolia MSMEs, which could be addressed by the TAM Programme relate to product quality, marketing, and from an organisational management perspective, strategic planning, human resources and more effective delegation of management responsibilities.

The BAS grant should remain a key component of BAS assistance, helping financially constrained enterprises to access consultancy services.

A Grant Guideline Matrix is proposed in order to prioritise intervention, maintain additionality and to avoid duplication of efforts from international donors. Higher grants should be given to:

- Micro and small enterprises, particularly women-owned and women-managed, the group with the least experience with business advisory services and lowest level of business sophistication.
- Enterprises located outside of the capital and other large cities, as these tend to need the most help, and often find it difficult to access appropriate business advisory services and do not have the necessary financial resources to pay for them.
- Projects aiming to improve market performance (i.e. long term viability and contribution to GDP) and to improve energy efficiency and environmental management.

in addition to targeted market development activities

It is recommended to complement TAM/BAS assistance at the enterprise level with the following market development activities in order to maximise the Programme’s transition impact in Mongolia:

- **Visibility and dissemination**: The TAM/BAS Programme should take steps to promote the use of business advisory services (for example by disseminating successful case-studies to entrepreneurs) and TAM should organise more seminars and trainings related to international best practices.
- **MSME and consultancy training**: The TAM/BAS Programme should broaden the supply of advisory services and address the existing gaps by providing trainings and seminars covering core consultancy skills as well as more sophisticated areas of advisory assistance, in need from Mongolian MSMEs.
- **Support to and development of existing relevant local institutions – particularly in relation to the market for local business advisory services**: It is recommended that relevant employers’ and industry associations are included as possible BAS beneficiaries in order to strengthen their capacity.
### Addressing cross cutting issues

TAM/BAS will aim to expand its work in Mongolia in relation to energy efficiency/renewable energy (EE/RE), environmental protection (EP) and environmental certification (EC) programmes. As a normal element of its support to MSME development, TAM/BAS identifies energy-saving opportunities and advises on reducing environmental pollution. EE/RE, EP and EC initiatives are often addressed together, in order to find comprehensive solutions to environmental degradation and inefficient energy usage. In addition, BAS provides higher subsidy rates for energy efficiency and environmental management projects and raises awareness of related issues through market development activities.

TAM/BAS will also promote women entrepreneurship and female participation in business as an avenue to achieving its transition mandate in the country. Gender considerations will be a key component of TAM assistance, whilst BAS will provide higher grants for women-owned and managed enterprises and will organise targeted workshops to encourage business start-ups.

### This Brief as contribution to EBRD's policy dialogue and input for enhanced linkages with banking

This Country Brief strengthens the EBRD’s policy dialogue toolkit by analysing the business environment and identifying key challenges faced by the MSME sector. TAM/BAS can also contribute to strengthened linkages with EBRD banking activities by referring successful Mongolian enterprises it works with to the EBRD, or EBRD-related financial institutions, for investment consideration. TAM/BAS can also provide project assistance to enterprises in the EBRD’s pre- or post-investment phases.

In line with TAM/BAS Strategic Plan 2008-2010, TAM/BAS will continue to assist the Bank to meet its objective of creating a commercially viable project pipeline for the Bank by (1) helping to identifying potential pipeline (pre-investment), (2) providing “consulting and business” services for the preparation and support of Bank private enterprise financing projects and for the enterprises themselves, and (3) providing candidates for non-executive board member positions.

TAM/BAS will link MSMEs in need of finance with available EBRD instruments, including direct investments, as well as credit lines from EBRD-supported local banks.

In addition, TAM/BAS will participate in the integrated development of an industrial cluster in the area surrounding a coal mine in the South Gobi Region of Mongolia, in which the Bank has a sizeable investment. Assistance is expected to foster industrial linkages leading to sustainable development in the region.