

3.3 Strategies to Promote Livestock-based Industry in Mongolia

The following strategies are recommended to promote livestock-based industry, paying special attention to improving herders' livelihood and encouraging regional development.

3.3.1 Meat Products

A. Beef and Horsemeat

Supply networks for cattle and horses are already established; agents from slaughterhouses conduct procurement throughout Mongolia. One of the major constraints in cattle and horse procurement, which are not subject to external conditions such as delayed payment by Russian partners, is slaughterhouses' shortage of working capital. A new micro-credit scheme ("bridge fund")¹⁷ could be established to enable herders to sell cattle or horses to a slaughterhouse on credit.

Since livestock lose weight during the wintertime in Mongolia, slaughtering takes place mostly from summer to winter. Meat prices go up from spring to early summer due to the shortage of meat supply. Some slaughterhouses are interested in introducing semi-intensive animal husbandry, namely providing pens and supplemental feed to livestock, in order to procure meat throughout the year and stabilize prices. However, such plans have not materialized due to the lack of long-term capital. Provided that locations are carefully chosen so that semi-intensive animal husbandry does not cause environmental degradation, the government should explore the possibilities of supporting these initiatives through long-term credit lines.

B. Mutton

Procurement of mutton by traders usually takes place within a half-day's travel from markets; transactions beyond this distance are not very profitable due to high transport costs. It is possible, however, to expand the procurement range to one-day's travel in the following manner:

- (1) attain economies of scale by organizing herders and collectively conducting slaughter and transport, which reduces overall costs; and
- (2) increase value-added by processing mutton at the local level, e.g. deboning, slicing and packaging.

¹⁷ Further explanation on this idea is made in Chapter 8.

The JBIC study team has determined that the shaded areas in the following map currently have a chance to profitably transport mutton to large markets (Ulaanbaatar, Selenge and Erdenet) in this manner.

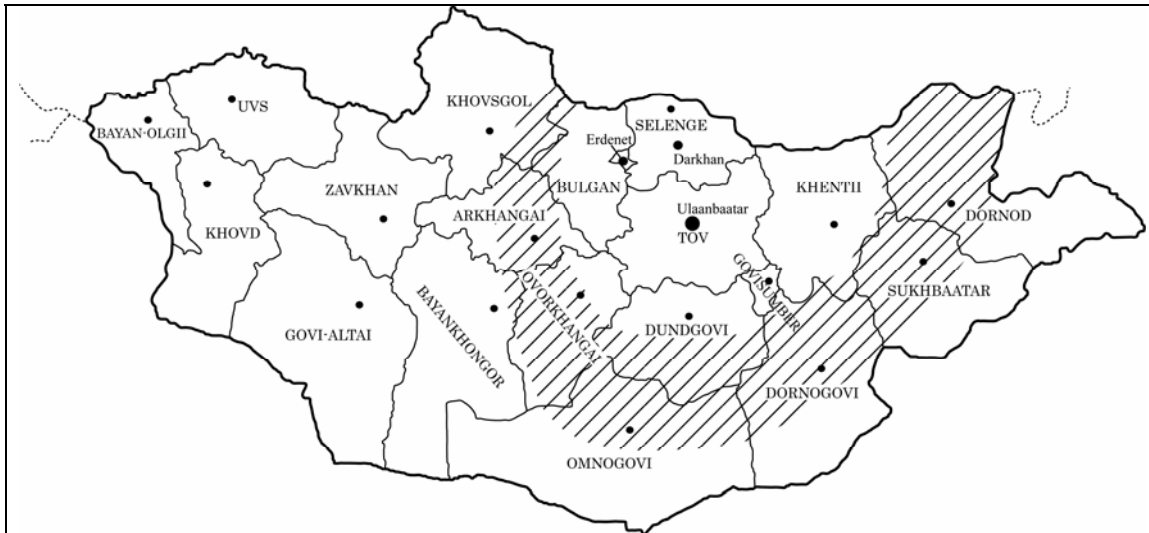


Figure 3.26: Target areas for Collective Mutton Procurement

Mutton’s current domestic prices are too low to enable transport beyond the above areas, even in large volume. This is because Mongolia’s sparse population means only a small domestic mutton market exists. In order to expand mutton procurement to the national level, foreign markets must be explored. Mongolia is currently exporting mutton carcasses only to Kazakhstan and Jordan in small volume. Exporting carcasses to other countries has not been realized mostly due to Mongolia’s poor animal disease prevention system. However, heat-processed meat could be exported if requirements on animal health and processing facilities’ sanitary conditions imposed by importing countries are fulfilled. Since private initiatives to process and export meat to foreign countries are taking shape in Mongolia, the government should start negotiations with potential importing countries on the requirements to be fulfilled.

C. Domestic Sausage Factories

As was discussed in “D. Production of Processed Meat” of “3.2.1 Meat Products,” small-scale sausage plants are being established in regional centers. In order to promote meat-processing industries and create employment at local levels, long-term financing should be introduced to support these newly created sausage plants in their expansion.

3.3.2 Leather Products

The problem of low quality of hides and skins is the most important issue to be addressed in this sub-sector. Raising the quality of hides and skins would contribute to increases in herders' income, processors' sales, and net trade revenues. With increased sales, leather processors would be able to replace their equipment and update their technologies. Although tanneries are willing to pay premium prices for good quality raw material, and anti-parasitic treatment costs herders very little, an incentive system does not work if the linkage between herders and processors is not created. The major reasons for this missing linkage are the following:

- (1) Many slaughterhouses, which are major buyers of cattle and horses, are indifferent to the quality of hides. They simply buy live animals from herders and sell hides to traders, after slaughtering.
- (2) Livestock procurement, including that of slaughterhouses, is taking place mostly on an ad-hoc basis, and thus there are no long-term relationships between herders and buyers. As mentioned in Chapter 3-2, since the effects of anti-parasitic treatment only appear after the leather is processed, herders selling to processors on a one-time basis have very little incentive to apply this treatment.

The solution to resolve both these issues would be to build up medium- to long-term relationships between livestock (or hides/skins) buyers and herders. Contracts could be made between buyers, herders and veterinarians, based on which buyers pay a premium price on treated animals that are certified by the veterinarians. These contracts must cover a certain size of areas so that untreated animals are not mixed in purchasing.

As is mentioned in Section "3.2.2 Leather Products", tanneries do not have enough working capital to purchase, in the limited period of a slaughter season, all the skins and hides that they process for a whole year. This is one of the reasons that a considerable volume of hides and skins are purchased by Chinese traders who have better access to low-interest loans. Since domestic and foreign markets for processed hides and skins are large and stable, a low-interest financing scheme corresponding to low default risks should be introduced in Mongolia to support the domestic leather industry.

3.3.3 Cashmere Products

The largest problem with the cashmere-based industry is the lack of competitiveness of domestic cashmere processing plants. Large companies such

as *Gobi* and *Buyan* do not have international distribution and marketing channels, which are essential not only to expand outlets of products but also to collect information on consumers' preferences and immediately adjust the product lines accordingly. On the other hand, many domestic plants are engaged only in washing and combing, which do not generate the same value-added as spinning. Since the spinning process requires heavy capital investment, Mongolian enterprises, under the support of the government, should try to find foreign partners who have international marketing channels and are able to invest in cashmere processing.

With regard to the quality of raw materials, local governments and most herders are aware of the necessity of proper goat breeding in order to have good quality cashmere. However, as long as Chinese traders purchase raw cashmere at higher prices than those offered by domestic companies, prices do not give proper signals to herders, discouraging them from introducing better quality species. The drain of raw cashmere to China can only be stopped by increasing the competitiveness of Mongolian processing plants.

3.3.4 Sheep and Camel Wool Products

The low value-added of Mongolian sheep wool products is the main reason that half of sheep hair is discarded in the countryside. One of the solutions is to increase sheep wool demand by modernizing carpet makers' technologies so that they can better respond to the needs of foreign customers.

Production of hand-made, made-to-order carpets is a high value-added but labor-intensive process, with minimal capital investment requirements. The training of weavers requires only a year, and they can work in the aimag where labor costs are much lower than in Ulaanbaatar. Although the quality and prices of Mongolian hand-made carpets are sufficiently competitive on the international market, export opportunities have not been fully explored. Since hand-made carpets are all made-to-order and thus carpet makers must directly appeal to potential customers, they should be encouraged to make extensive use of internet-based promotion and advertising.

Felt production is a locally based industry. Most herders make felt ger and other felt products by themselves. Due to dzud disasters, the average size of herds has significantly decreased. However, herders' workloads have not been significantly reduced as a result, since herders' families have various duties to fulfill throughout the year. Instead of carrying out all kinds of work individually, cooperation or

division of labor between herders should be encouraged to achieve efficiency. Saved labor could be used for felt production and/or other production activities.

Although the markets for camel wool products are expanding, herders do not actively collect camel hair to sell to traders. This is largely because traders' purchasing activities are not conducted systematically or procurement information is not reaching herders. The lack of an effective procurement system has discouraged herders from collecting camel hair. Moreover, due to the poor marketability of camel hair in the past, herders have not paid much attention to the well-being of their camels, which are currently not in good health.

Camels are mostly raised in the same areas as goats, and they are more populous in the Govi areas than in the forest or forest step areas. The number of goats is rapidly increasing in the Govi areas where cashmere is almost the only source of cash income. Camel raising should be encouraged in the Govi areas, as shown in the map below, in order to avoid too much concentration of goats in these areas. Since goats and camels have different grazing habits, an increase in camels would not do any harm to the environment.

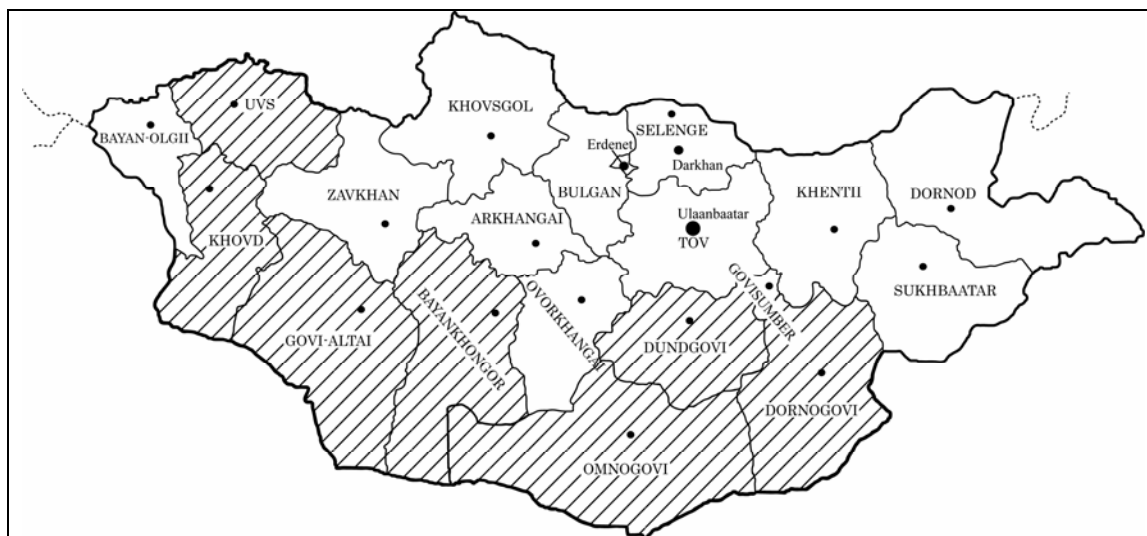


Figure 3.27: Target areas for Increase of Camels

In the above areas, the following measures should be taken to encourage camel raising:

- (1) Disseminate information on the value of camel hair, the proper harvesting methodology of camel hair and the proper care of camels.
- (2) Organize herders' groups to carry out efficient collection and sorting of camel hair

- (3) Organize camel wool trade fairs to attract herders' attention and to make camel hair trade predictable and profitable for both herders and buyers.

3.3.5 Dairy Products

Due to the limited production of raw milk during the winter, there is great demand for long-life milk and powdered milk in Mongolia. Due to the collapse of large-scale dairy farms and the weak production capacity of dairy processors, Mongolia produce only a small volume of long-life milk and dried milk, and thus the country must import these products to fill the gap between demand and supply during winter.

Collecting raw milk from scattered dairy farms is too inefficient to be profitable for dairy processors. Since transport costs increase and the quality of raw milk degrades in accordance with distance, dairy processors can only procure raw milk within a limited proximity. However, those dairy farms located close to urban areas do not have incentives to sell raw milk to processors since they can bring milk directly to end-users at higher prices. On the other hand, those herders who do not have good access to urban areas have difficulty selling their milk. Therefore establishing a system that enables transporting milk in large volume over medium distances would be beneficial for both herders and dairy processors. For this purpose, establishing medium-scale semi-intensive dairy farms or cooperatives with several hundred cows would be necessary. In such a scheme, each herder provides some of their milk cows as capital to these entities, which take care of the members' cows and produce milk constantly. With the economies of scale achieved, the newly created entities could afford veterinary services, warm shelters, hay stock, and even refrigerators or trucks. Fodder production should also be included in their operation to enable stable milk production throughout the year. Some external support would be needed to organize herders and provide start-up working capital to realize this scheme.

Semi-intensive dairy farms could be established only in forest-steppe areas as shown in the map below, where the environment conditions can sustain a relatively dense livestock population and fodder cultivation.

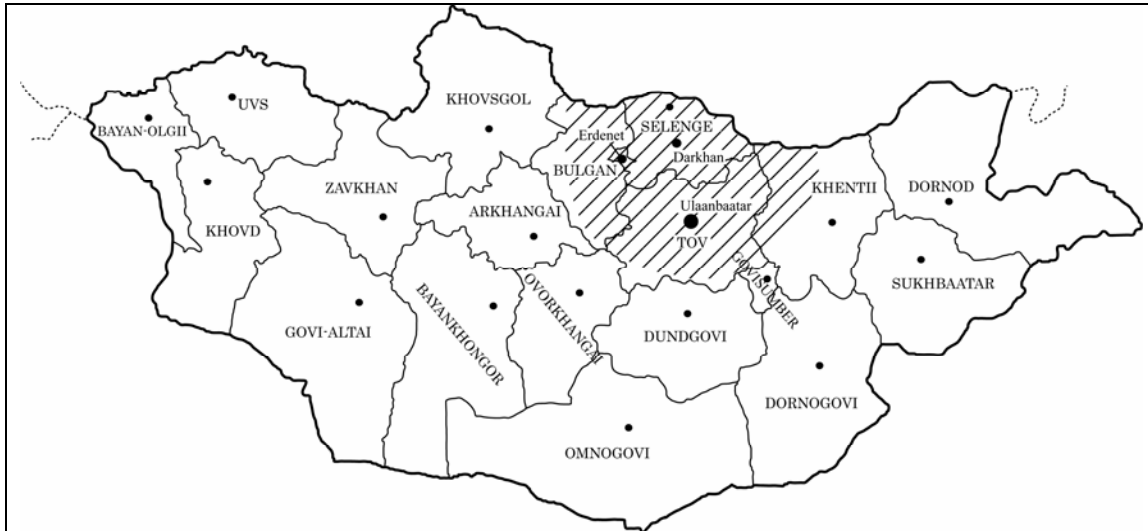


Figure 3.28 Target areas for Semi-intensive Dairy Farms

Transport of raw milk to urban areas is practically impossible for the herders who reside beyond the herders targeted for the above-mentioned scheme. Since commercial production of dairy products such as butter or cheese is not very profitable due to the low value-added compared to the volume of input,¹⁸ herders who are already able to sell raw milk are not very interested in dairy processing. On the other hand, herders who have no chance to sell raw milk may still be able to process butter or cheese and transport it to urban centers to sell. Regional urban centers' demand for dairy products exceeds current supply, and thus these markets could be targeted for the sale. Among others, since the cow population in the Govi areas is small compared to that of the forest-steppe areas, herders in the latter areas have more opportunities to expand sales of dairy products to the Govi's urban centers. Establishment of reliable distribution channels and the reduction of transport costs, which are critical for profitable dairy product sales, could be achieved by forming sellers' groups or cooperatives. Support by the government or international donors would be needed to encourage this action.

The following map shows the areas to be targeted for the organized procurement of dairy products.

¹⁸ 12-15 kg of *aarre* or 3 kg of butter can be produced from 120 liters of milk.

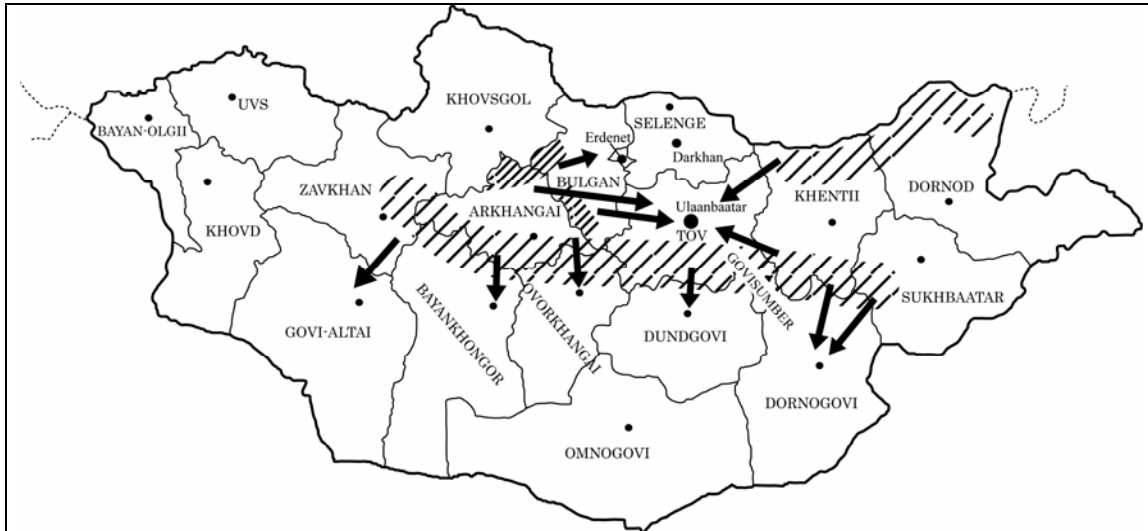


Figure 3.29 Target areas for Organized Procurement of Dairy Products

3.4 Suggested Assistance to Promote Livestock-based Industries

In the promotion of livestock-based industries, support must be given to both livestock processing companies and herders' groups, paying special attention to the linkage between these two parties. Support to private livestock processing companies could be financing and accompanying advisory services on techniques, marketing or procurement. On the other hand, support to herders' groups must be more intensive and direct, since Mongolian herders are not accustomed to cooperating each other and thus it is imperative to first show them advantages of organized activities. For this purpose, facilitators such as NGOs must play a crucial role in assisting herders' core groups such as khorshoos. These facilitators could greatly help in developing stable marketing channels so that the organized groups could gain trust of more wide-ranged herders, expand activities to the point where they might finally become self-supporting.

More specifically, the following support would be needed.

3.4.1 Support to Livestock Processing Companies

Most of the livestock processing companies in Mongolia are facing a shortage of capital. Some companies are saddled with debt carried over from the planned economy era or newly created in the turmoil of privatization. Moreover, the high interest rates of commercial bank loans has eroded the profitability of livestock-based industries. The problems of the Mongolian banking sector, such as its high cost structure, the lack of proper competition and the insufficient appraisal ability, must be addressed within the framework of financial sector reforms to be

implemented by the Mongolian Government, in cooperation with international financial institutions. Two-step loans in combination with advisory services on techniques and management toward livestock processing companies could follow financial sector reforms, focusing on the following businesses:

- Expanding export of beef and horsemeat
- Increasing hide and skin stocks during slaughter seasons
- Increasing procurement and processing of raw milk
- Establishing sausage factories in local areas
- Establishing export-oriented heat-processed meat factories
- Establishing hand-made carpet factories
- Establishing dairy factories and dairy farms in local areas

3.4.2 Support to Herders

As mentioned in “3.3 Strategies to Promote Livestock-based Industry in Mongolia,” herders must take the following actions in order to market their livestock products:

- Process meat at the local level and transport the products to the markets in large volume.
- Receive anti-parasitic veterinary services and sell raw hides and skins to processing companies at high prices.
- Form dairy farms and supply raw milk to processing companies in large volume.
- Process dairy products individually, and jointly transport the products to other Aimags to sell.

Herders must be encouraged to take organized action for the purpose of profitably conducting the above-mentioned businesses. Business activities of the khorshoos that took over ex-negdels’ facilities and management systems could be upgraded through capacity improvement programs offered by GTZ or USAID’s Gobi Initiatives. However, in the places where ex-negdels’ systems were completely dismantled, encouraging herders to conduct group activities in order to achieve economies of scale is quite difficult since herders do not easily trust each other and thus are hesitant to cooperate. Although there are a number of small-sized khorshoos (10 to 30 members) that have been created throughout the country under the Government’s or donors’ support programs, only a few of them have made significant achievements because of their limited resources and bargaining power, and thus have not been able to successfully expand their membership to more herders.

In order to encourage many herders to participate in joint activities, an approach to create successful examples and show the advantages of joint activities to herders is more effective than simply encouraging herders to form organizations. For meat and skin/hide products, the following actions would be effective.

- (a) An NGO facilitates the formation of a core group of herder leaders, such as a khorshoo, which takes responsibility for the marketing and distribution of livestock products.
- (b) By receiving fund and advisory services from the NGO, the khorshoo becomes capable of purchasing a large volume of livestock from herders and processing, transporting and selling the products. By successfully selling livestock products and bringing profits to herders, the khorshoo gradually builds trust between itself and herders. Once trust is established, capital could be mobilized through the increase of khorshoo members, or herders could sell products to the khorshoo on credit. At this point, no more assistance will be needed.
- (c) The NGO also facilitates the signing of contracts between hide/skin processing companies, slaughterhouses, veterinarians and khorshoos. The contracts would ensure that anti-parasitic treatment is applied to all the livestock in a bag or soum and the resulting high quality skins and hides are purchased at premium prices by the hide/skin processing companies. It takes two years until the effects of veterinary services appear on hides and skins. Veterinary services' fees would have to be subsidized for the first two years in order to keep herders as contract parties until the total system starts functioning.

On the other hand, the following support would be needed to establish medium-sized dairy farms in forest-steppe areas, which are capable of supplying a large and stable volume of raw milk to dairy processing plants.

- (a) Areas that have difficulty selling raw milk due to bad transport access but are still located within two to three hours' drive from large cities should be chosen as project sites.
- (b) Discussions are held and decisions are made among the soum government and individual dairy farms regarding the operation of a medium-sized dairy farm: the capital structure including in-kind contribution of milk cows, the management system including the incentives and responsibilities of workers, fodder production including the designation of farm land by the soum government, veterinary services, and profit sharing. In addition,

some capital investment is required for the preparation of facilities and equipment including refrigerators, livestock pens and vehicles, for which external financial assistance such as a two-step loan would be needed.

- (c) A contract is signed between the dairy farm and a dairy processing plant to ensure the stable supply of high quality raw milk.

In some part of the forest-steppe areas where transporting raw milk even in large volume is not profitable due to their remote distance from cities, it is possible to collect dairy products processed at individual families and transport them to the aimag or soum centers in the southern Govi areas. NGOs should also assist herders to form khorshoos, explore appropriate markets, and establish an efficient collection and distribution system so that profits are consistently generated. From this point, it is expected that herders in wide-ranged areas would be interested in participating in the activities.