

## SUMMARY OF PROJECT PERFORMANCE

### A. Background

1. On 29 September 2008 the Asian Development Bank (ADB) approved a grant of \$14.72 million from its Asian Development Fund for the Agriculture and Rural Development Project (project).<sup>1</sup> The grant closing date is 31 December 2015.<sup>2</sup> The project is supported by associated technical assistance, Agricultural Marketing and Brand Development,<sup>3</sup> of \$2 million from the Japan Special Fund. The project aims to achieve a reliable supply of premium-value agricultural products to niche markets to stimulate agricultural and rural economic growth.

2. The Government of Mongolia requested additional financing to the project to scale up activities so that additional enterprises that have substantial potential for value chain development can be supported. The project demonstrated that a holistic approach that links raw material production, processing, and marketing is an effective way to achieve sustainable value chain development through value chain investments (VCI) of the 12 project participating enterprises. The scaling up of the project will give additional PPEs the opportunity to (i) produce high-value products by taking advantage of the distinctive raw materials that are available, (ii) adopt new processing technologies, and (iii) deliver quality products consistently.

### B. Performance of the Project

3. The project has made substantial progress towards the expected outcome, which is that 15 Mongolian enterprises have improved quality, premium-value Mongolian agriculture products available in selected niche markets, and replicable processes are developed for brand development and management. Although only 12 PPEs were supported by the project because larger loans were required per PPE than originally planned, each has achieved success in developing high-quality processed products, initiating branding recognition, and securing national and international markets to sell their products. These PPEs are offering a stable supply of consistently high-quality products that meet the quality and design standards required of these premium niche markets. As leading small and medium-sized enterprises in their respective agro-processing subsectors (e.g., cashmere and wool, leather, milk, and meat), they are good examples to follow with regard to scaling-up quality agro-processing, branding Mongolian agro-products, and accessing markets. The project is considered to be performing well, meeting all five standards stipulated in the Operations Manual.<sup>4</sup>

4. **(i) Delivery of expected outputs.** The project has achieved substantial progress toward delivering the expected outputs, which are (i) value chains able to deliver unique premium-value products to niche markets, and (ii) fully defined process and institutional arrangements for collaborative brand development and management developed and demonstrated.

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<sup>1</sup> ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant and Technical Assistance Grant to Mongolia for the Agriculture and Rural Development Project*. Manila.

<sup>2</sup> The grant closing date was extended based on progress in implementation of the Agriculture and Rural Development Project and processing of its additional financing.

<sup>3</sup> ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant and Technical Assistance Grant to Mongolia for the Agriculture and Rural Development Project*. Manila.

<sup>4</sup> ADB. 2008. Additional Financing. *Operations Manual*. OM H5/OP. Manila (para. 3). The five standards are (i) delivery of expected outputs, (ii) satisfactory implementation progress, (iii) satisfactory compliance with safeguard policy requirements, (iv) successful management of risks, and (v) on-track rating.

5. Under output 1, 12 PPEs developed their respective value chains to deliver high-value products domestically and/or internationally. The outcome of this has been the noticeable improvement in product quality and productivity and significant job creation, both directly at enterprise level and indirectly at raw material producers' level. The basis to achieving this was to ensure a stable supply of quality raw products. Extension and animal health services were upgraded with new equipment and supplies for livestock testing centers and veterinary service centers in six selected provinces. Agricultural cooperatives and existing and potential raw material supplier herders and farmers received machinery, equipment, agricultural inputs, and materials; improved livestock breeds; and training to improve quality and productivity. By investing in the production base to deliver quality raw products, the project was able to achieve results in a number of agro-processing subsectors (paras. 6–10).

6. A leading wool carpet enterprise created 586 new permanent jobs; increased profit by 12.7 times and export sales by four times between 2009 and 2014; and achieved sales contracts with new premium buyers from Germany, Japan, and Portugal. The introduction of new weaving technology and product development enabled the company to develop high-quality products that meet the differing tastes and styles of customers. The enterprise is currently in negotiations with one of the largest home furniture companies in the world. The project also helped a second loan recipient from the wool industry to move from primary processing (scouring and carding) to yarn production. This village-based business doubled its revenue and expanded its operation, creating 97 new permanent jobs. The company championed the government's program for nationally produced school uniforms that provided small and medium-sized enterprises in the wool subsector with business opportunities with local knitting companies for fabric and garment manufacturing.

7. A medium-sized cashmere enterprise that received technical training from late 2011 and a subloan in June 2012 developed a partnership with herders in selected *soums* (districts) to exclusively produce high-quality raw cashmere. This enabled the company to produce premium products for export and build upon its successful showcasing of the Mongolian Noble Fibre (MNF) certification mark at the World Cashmere Fair. The experience of the company working with herders to improve the sorting, grading, and identifying of local goat herds is replicable to other companies. The second loan recipient from this subsector secured a sales contract for processed baby camel hair wool from an Italian buyer.

8. A medium-sized leather enterprise established in the 1970s renovated its facility, applying updated technology that would increase its production of semi processed leather products. As a result, the enterprise's export sales increased by 2.8 times in 2014 compared to 2009. The company also expanded its business with the opening of a shoemaking line and increasing its finished leather production; total production was increased by 28% during 2009–2014. Quality improvement in leather processing has resulted in an increased supply of finished leather to local leather manufacturing enterprises, providing a high-quality alternative to previously imported products. The company also adopted cleaner technology as part of its environmental protection plan, which was prepared under the project. Another two leather enterprises increased their sales in 2014 on average by 34% compared to 2011; one has become a major wet-blue leather<sup>5</sup> exporter and the other successfully positioned itself as a local winter boots brand, working together with a shoemaking company. In total, 352 new permanent jobs have been created by these three companies since investment started. As of 2014, two loan recipients exported products to Italy and Spain, with export sales of MNT1.2 billion in 2009

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<sup>5</sup> Wet-blue is the process of converting raw hides and skins to tanned leather using chromium salts.

to MNT11.3 billion in 2014.<sup>6</sup> Purchase of products from these three companies by premium buyers from Japan, the Republic of Korea, and Turkey has increased from 2012 to 2014. Technical advisory support provided through the project revealed that huge quality improvement was needed in the leather industry to fully capitalize on export potential.

9. Small, medium-sized, and large milk producing enterprises developed their milk supply chains covering fresh milk collection, processing, and marketing to meet the increasing fresh milk demand in Ulaanbaatar. Despite the abundance of fresh milk available in the country, commercial milk production has used imported powdered milk since the 1990s after the end of the socialist era. Technical assistance and investment in the supply chain by these companies has resulted in an increase in processed fresh milk in Ulaanbaatar, reducing imported milk powder by 74% in 2014 compared to 2012.<sup>7</sup> One of the enterprises now has a long-term business plan of implementing a fresh milk collection network in every *aimag* (province).

10. A small meat processing enterprise improved its facility with updated technology, resulting in higher productivity and quality of product. This enabled it to realize contracts with the largest mining company in Mongolia and an international five-star hotel. Another meat processing company in the western province achieved national certification for meat export, meeting the required hygiene and food safety standards. This company has introduced a new form of working with herders in the region by offering company shares to herders against 3-year reliable supply of meat. Although promotion of this initiative is taking some time, herders' trust has improved with increased awareness of the benefit.

11. For output 2 (collaborative brand development and management), under the project an MNF certification mark for Mongolian animal fiber was designed in cooperation with the Ministry of Industry and Agriculture.<sup>8</sup> This certification mark has been registered at the Intellectual Property Office of Mongolia and, through the World Intellectual Property Organization, with intellectual property offices of 33 selected countries which are buyers or potential buyers of Mongolian animal fiber products. The MNF certification mark is expected to differentiate quality Mongolian animal fiber and its products from other Mongolian and competing products of lower quality. It is also anticipated that it will provide an incentive for the country's agro-processing enterprises to improve their product quality once consumers start recognizing the certification mark as a guarantee of premium quality.

12. Investments made in the Textile Institute of Mongolia and Apparel Science and Design Centre were for the installation of modern testing and scanning equipment. This increased institutional capacity for quality testing and standardization resulted in the achievement of international testing accreditation of the Textile Institute of Mongolia by the International Wool Textile Organization. Additional funding will further enhance the capacity of these research institutes to lead in quality improvement and standard development.

13. A market research study on opportunities for Mongolian premium-quality exotic fibers in 11 European countries noted two key challenges for Mongolian animal fiber manufacturers: The manufacturers are either not known to customers of these markets, or are still in need of capacity development to meet the requirements of interested customers and partners. To build

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<sup>6</sup> PPEs' 2014 annual performance reports to the Agriculture and Rural Development Project.

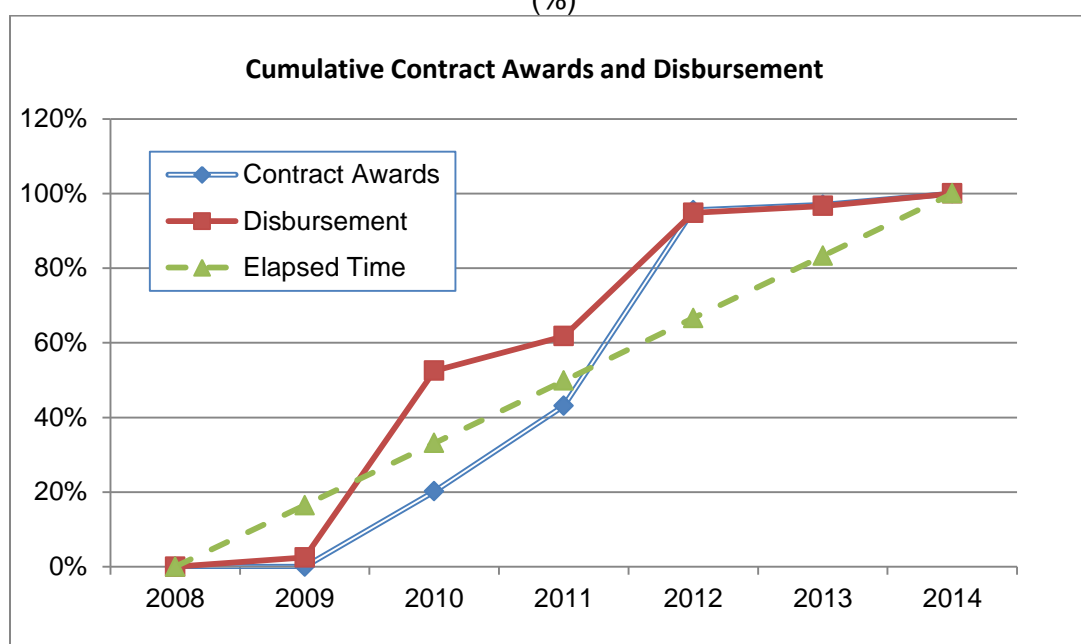
<sup>7</sup> Statistics issued by Customs Office, 2013, website: <http://customs.gov.mn>

<sup>8</sup> The government's new structure split the Ministry of Industry and Agriculture into two ministries: the Ministry of Food and Agriculture, and the Ministry of Industry.

upon brand development, the selected enterprises that had the highest potential for partnership with international brands were assisted to improve their products in line with buyer demands.

14. **(ii) Satisfactory implementation progress.** Implementation progress is satisfactory with the accomplishment of 98.9% disbursement and 98.9% contract awards against 93.6% elapsed time as of 15 July 2015.

**Figure 1: Cumulative Contract Awards and Disbursement (%)**



Note: Contract awards and disbursement are actual. The limited increase in disbursement from 2010 to 2011 was due to the cancellation of one of the loans that was counted as negative disbursement.

Source: Asian Development Bank estimates.

15. **(iii) Satisfactory compliance with safeguard policy requirements.** Safeguard requirements have been satisfactorily met. The project management unit (PMU) has a full-time social and gender specialist and a full-time environment specialist. A set of safeguard due diligence documents comprising an initial environmental examination report, ethnic minority impact screening checklist, involuntary resettlement impact screening checklist, and social issues report were prepared for each of the 12 approved VCI proposals. For the 12 subloans financed under the current project, the PPEs had action plans to manage and mitigate risks and had regular monitoring during implementation, including capacity development to enhance social, gender, and environment practices of all PPEs. The project promoted recycling, energy efficiency, and cleaner technology which led to (i) reduced use of harmful chemicals, chromium (5–6 times), and other chemicals (10%–30%); (ii) reduced noise levels (50%); (iii) reduced water consumption (10%–30%); (iv) improved energy efficiency (10%–30%); and (v) reduced pollution by waste discharged from tanneries and wool and cashmere processing (20%–30% on average).<sup>9</sup>

<sup>9</sup> PPEs' annual environment performance and the PMU specialist's monitoring reports for 2013.

16. **(iv) Successful management of risks.** The report and recommendation of the President for the project identified the following risks: (i) inadequate capacity of the enterprises to implement their investment plans, (ii) delays in procurement processes, (iii) delivery delays by contractors, and (iv) misuse of funds by enterprises. Project implementation support provided by the PMU successfully managed those risks through (i) assistance to PPEs in ensuring VCI proposals were feasible; (ii) close monitoring of PPEs' implementation of respective VCI proposals for timely procurement of machinery, equipment, and raw materials; and (iii) proper loan utilization according to the proposals. The PMU's positive efforts in knowledge sharing, teamwork, trainings, and capacity development jointly with ADB and relevant trade associations, staff review meetings, communication, and cooperation with the agencies were key to risk management.

17. **(v) On-track rating.** The project performance is rated *on-track*.

18. **Additional benefits.** As a result of this project, some of the PPEs were able to access additional financing from other international financial institutions to support further business development. The due diligence reports prepared under the project enabled these PPEs to be eligible for funding from other sources.

## C. Conclusion

19. The project is considered to be performing well as it meets all five standards for well-performing projects (footnote 3). ADB's due diligence also confirmed that the project will continue to meet all the additional financing eligibility criteria.<sup>10</sup> The project is considered to have a high degree of readiness as the project design, implementation arrangements, and safeguards compliance procedures will generally remain the same for the additional financing.

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<sup>10</sup> The additional financing eligibility criteria are projects that (i) remain technically feasible, economically viable, and financially sound; (ii) are accorded high priority by the government; (iii) are consistent with the project's development objectives; and (iv) are consistent with the current country partnership strategy. ADB. 2008. Additional Financing. *Operations Manual*. OM H5/BP. Manila (para. 4).