



Business for Development

A case study of the Noozon Zangilaa Cooperative Union in Mongolia

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This Master's Thesis is carried out as a part of the education at the University of Agder and is therefore approved as a part of this education. However, this does not imply that the University answers for the methods that are used or the conclusions that are drawn.

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Abstract

According to Norad (2009:51) there is an increased focus on value creation and facilitation of private businesses within development, thanks to wider acceptance of the notion of profit as a driver for development. The UN Global Compact (2010:5) argues that business, as the world's main source of economic growth, is at the heart of virtually any widespread improvements in living standards, and that profits and development priorities have the potential to mutually benefit one another. The former by creating job and income opportunities and the latter by improving peoples quality of life. Fact is that business development has moved centre stage in the fight against poverty and, as the UNDP (2004:ii) phrases it, "the objective of poverty alleviation leads us to focus on developing businesses that create domestic employment and wealth", to unleash the potential of the private sector and entrepreneurship, in order to make business work for development of the poor.

This thesis explores how business has facilitated development in the case of the Nooson Zangilaa Cooperative Union (CU) in Mongolia. The CU is the result of the Wool Processing and Marketing Project (WPMP) that was implemented by the Norwegian Lutheran Mission (NLM) in Mongolia from 2005 – 2008. The study identifies contextual factors that have facilitated, as well as challenged, business development in the case of the CU, and makes a link between the concepts of business and development aid. Fieldwork for this thesis was carried out in the Ulaanbaatar and Darhan districts in Mongolia in June 2010, where a qualitative research methodology, based on semi-structured interviews, a focus group discussion and data analysis was deployed.

Foreword

My interest in the chosen topic is dual and origins, partly from my 3 years of working with the Wool Processing and Marketing Project (WPMP) in Mongolia, and partly from my experience with business management, working as a district manager for the Norwegian company, Popin. Being able to merge the two traditions of business development and development aid was of great interest to me, and seeing how business facilitated development inspired me to go back to Mongolia and further explore the impacts the CU businesses have had on development. Knowing the history of the WPMP I knew that the project had impacted the wool producers in the CU and I was eager to learn more about the role that aid financed support had played in the establishment of the primary and secondary cooperatives.

The WPMP was phased out in June 2008 and I had not been back in Mongolia since I left the country in May 2008. As I set off for my fieldwork in June 2010 I have to admit that I expected to find that many of the risks identified in the Final Evaluation report (Fischer *et al* 2008) had negatively impacted the project's long-term sustainability. However, I found a Cooperative Union that had learnt from mistakes and grown from experience, whose income had continued to increase also post project phase out.

I am well aware that my former position as a project manager with the WPMP will have influenced my research and that a totally neutral position can hardly be obtained. I will, however, argue that my in-depth knowledge is a requirement for doing this research, as specific knowledge has enabled me to ask relevant questions and target critical subjects. I request that my background and involvement in the WPMP is kept in mind when considering the research results and analysis of this study as this is important to create distance and validity for the reader (Nielsen and Repstad in Simonsen 2009:224).

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Alice L. Høye

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Abbreviations and Acronyms

ADB	Asian Development Bank
ADRA	Adventist Development Relief Agency
Aimag	Mongolian province
BDP	Bayanzurkh Development Program
BDS	Business Development Services
BN	Norwegian Mission in Development
CHF	Cooperative Housing Fundation
CU	Cooperative Union (Mongolian name: Nooson Zangilaa)
DFID	Department for International Development, UK Government
FDI	Foreign Direct Investment
Ger	Mongolian dwelling
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft fur Technische Zusammenarbeit
Hasha	Block of Land (Mongolian)
HDI	Human Development Index
ILO	International Labor Organisation
ICT	Internet Communication Technologies
ITC	International Trade Centre
NCRE	National Committees for Research Ethics
NGO	Non-Governmental Organization
NSO	National Statistic Office (Mongolia)
NLM-N	Norwegian Lutheran Mission
NLM-M	Norwegian Lutheran Mission in Mongolia
NORAD	Norwegian Agency for Development Cooperation
MCTIC	Mongolian Cooperative Training and Information Centre
MERO	Mongolian Employment Regulation Office
MTI	Mongolian Textile Institute
MOU	Memorandum of Understanding
MPRP	Mongolian People's Revolutionary Party
SDP	Selenge Development Project
SME	Small to Medium Enterprises
TA	Tsaagan Alt (wool shop)
Tug	Tugruk (Mongolian currency)
UB	Ulaan Baatar (capital of Mongolia)
UNDP	United Nations Development Program
USAID	U.S. Agency for International Development
UNESCAP	United Nation Economic and Social Commission for Asia and the Pacific
UNU	Untied Nation University
WCCC	Wool Craft Training Centre
WPMP	Wool Process and Marketing Project
XC	Xin Consulting
WTO	World Trade Organisation

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Chapter 1: Introduction

1.1 Background

According to Norad (2009:51) there is an increased focus on value creation and facilitation of private businesses within development thanks to wider acceptance of the notion of profit as a driver for development. This has, in recent years, led to a radical change in the attitude, of both NGOs and development agencies, towards the role of business development and the private sector within development assistance. The UN Global Compact (2010:5) argues that business, as the world's main source of economic growth, is at the heart of virtually any widespread improvements in living standards. Business development is therefore increasingly being included in main-stream development theory and practice.

Theory on enterprise development, entrepreneurship and private sector development in the context of the developing world shows that there are a number of challenges, both in the internal and the external environment, when it comes to kicking off new business ventures. Business development is, however, known to facilitate development through job creation and income possibilities, which in turn fosters economic development and growth (Norad 2009:16). Efforts to create 'enabling' environments for business development are therefore vast; both by international and domestic actors. The increased channelling of aid through NGOs has moved private development actors centre stage within international, national and local efforts to eradicate poverty (Lewis 2001:1) and many NGOs are merging their social development objectives with business principles to do so.

This thesis examines how business has facilitated development in the case of the Nooson Zangilaa Cooperative Union (CU) in post-communist Mongolia, where the Norwegian Lutheran Mission (NLM) has been teaching wool processing and felt techniques since 1996. The facilitation of business development, through the implementation of the Wool Processing and Marketing Project (WPMP) has generated job and income opportunities for a large number of people through the establishment of primary and secondary levels of sales cooperatives. The thesis further identifies contextual factors that have facilitated, as well as challenged, business development and makes a link between the concepts of business and development aid.

1.2 Brief Contextual Overview

The country of Mongolia, which squeezes in between the two giants nations of China and Russia, is vast in territory but has one of the lowest population densities in the world (CIA 2010). On the Human Development Index (HDI) for 2009, Mongolia ranks 115th out of 182 countries, but the country's recent progress in growth has not been sufficient to improve the living conditions of many who fell into poverty in the early transition years, following the Russians' withdrawal from the country. Today more than one third of the population live below the poverty line (ADB 2009:179), making the country dependent on continued development assistance and external support. The transition from "guaranteed employment in a command economy to an uncertain infant market economy" (Robinson and Solongo 2000:6) has been challenging for both men and women's working lives. This was reflected in low levels of private initiatives due to acquisition of income for private use being illegal under the communist regime. Although 75 percent of the country's economy is now in private hands (Ganbold 2008) challenges in regards to the business environment of Mongolia is still significant. According to USAID (2003:7) "Mongolia's vast territory, small population and distance from world markets represent perhaps its greatest development challenge", and has left the country with major challenges in terms of kicking off its global export and trade.

1.3 Research Objectives

The main objective of this study is to explore how business has facilitated development in the case of the Nooson Zangilaa Cooperative Union (CU) in Mongolia. The study aims to identify contextual factors that have facilitated, as well as challenged, business development in the case of the CU and further to draw the link between the concepts of business and development aid.

The empirical investigation in this thesis is based on a case study of the Nooson Zangilaa Cooperative Union and its primary cooperative members, which are the results of a development project implemented by the Norwegian Lutheran Mission (NLM) in Mongolia from 2005 to 2008.

The paper seeks to examine the following key areas:

- How business works for development
- How development aid has contributed to sector development in Mongolia
- Which particular challenges the NZ Cooperative Union and its members are facing with regard to their business operation and their continued business development
- What role aid financed technical and financial (NGO) support has played in the establishment, and further development, of the Nooson Zangilaa Cooperative Union in Mongolia

1.4 Methodology in Brief

The primary research for this master thesis was carried out in Ulaanbaatar and Darhan districts in Mongolia during June 2010. The research design is a case study where a qualitative methodology is employed for the collection of data. Qualitative interviews and a focus group discussion have been the main methods, along with document analysis. In addition, observations made during my previous stay (3 years) in Mongolia have been used as a reference when seeking new and additional information.

1.5 Clarification of Terminology

Felting (in Norwegian ‘tove’) is the technique used to make felt: wool is laid out evenly in large tubs, sprinkled with water and then rubbed gently with soap until the wool is felted.

Wool Producer or *wool crafters* in the context of this paper commonly refers to former beneficiaries of the WPMP, i.e. people that have attended wool processing and felt trainings and that makes an income through the production of wool products.

Economic growth is defined as the percentage increase in a country’s GDP.

Economic Development is a broader term than economic growth and “refers to improvements in a population’s standard of living that are linked to economic growth over a long period of time” (Norad 2009:16).

Development Aid is in this paper defined according to the OECD (2003), where Official Development Aid (ODA) is the “flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective”.

SMEs are defined according to the Mongolia government which defines SMEs as legally registered business entities with employees of 199 or less, and with an annual turnover of up to 1.5 billion tugruk. It is also worth noting that a Mongolian SME can be in the form of a company, a cooperative or a partnership (Ganbold 2008).

Entrepreneurs are defined as owner-managers of small businesses that are also involved in running their own business and which have hired employees (Aidis *et al* 2005, Djankov *et al* 2008:3).

Private Sector Development refers to the greater emphasis on value creation and facilitation of private businesses that came with the ‘second generation reforms that replaced the Structural Adjustment Programs (SAPs) in the mid 1990s (Norad 2009:51, Kragh *et al* 2000:312).

Tug is used as a short term for Mongolian *Tugruk*. 1 USD is approximately 1200 tug

1.6 Thesis Outline

Chapter 1 provides an introduction to the thesis, outlines and objectives as well as a clarification of concepts.

Chapter 2 gives a contextual overview of the area of study including the history, socio-cultural and economic context of Mongolia. The chapter further provides a brief presentation of implementers and beneficiaries in the case of the NZ Cooperative Union.

Chapter 3 provides an overview of the literature which outlines the foundation for this research. It explores prior research within the field and links the concepts of business development and development aid together. The chapter further explores different theories and concepts relevant to the context of ‘business for development’ and discusses the role of aid financed support in private sector development.

Chapter 4 explains the methodology employed in this research and outlines the research process. It further discusses and defends the choice of research strategy and the methodology used to collect and analyse data in this research project. The chapter finally reflects on the ethics, limitations and challenges faced during the research period, including my former role with the WPMP.

Chapter 5 presents the empirical overview and background of this study. The chapter looks at the wool and felt sector prior to the WPMP implementation and explores the reasons for project intervention. The chapter further examines the establishment of primary and secondary level sales cooperatives and the selection of beneficiaries. Finally the most important roles of the NZ Cooperative Union is presented, exploring the incentives for membership in the CU

Chapter 6 presents the findings and analysis of my field work. The chapter examines the business performance, capacity level and the business network of the CU, along with domestic and international trade relations. The chapter further explores particular challenges in regards to the business operation and further development of the CU. Finally the role of aid financed support and the NLM’s intervention is explored.

Chapter 7 offers recommendations and is the conclusion of this thesis.

Chapter 2: Contextual Overview

2.1 Mongolia



Figure 1: Map of Mongolia

Source: CIA (2010)

Country facts (CIA, 2010):

Location: Northern Asia

Total size: 1,553,556 sq km

Boarder: China and Russia

Coastline: Landlocked

Climate: desert; continental (large daily and seasonal temperature ranges)

Population: 3,041,142

Urban Population: 57% of total population

Population growth: 1.493%

GDP – per capita (PPP): \$3,400

Natural resources: oil, coal, copper, molybdenum, tungsten, phosphates, tin, nickel, zinc, fluorspar, gold, silver, iron

Land use: arable land: 0.76% permanent crops: 0% other: 99.24%

Ethnic Groups: Mongol (mostly Khalkha) 94.9%, Turkic (mostly Kazakh) 5%, other (including Chinese and Russian) 0.1%

Religion: Buddhist Lamaist 50%, Shamanist and Christian 6%, Muslim 4%, none 40%

2.1.1 History and Politics

The Mongolian Empire was founded by Genghis Khan in 1206 and in the 13th century the Mongols wrote history when they established a huge Eurasian empire through conquest. After the death of the Genghis Khan the empire was divided into several powerful Mongolian states, but these broke apart in the 14th century. The Mongolians eventually retired to their original steppe homelands, where they in the late 17th century came under Chinese rule (CIA 2010). In 1921 Mongolia won its independence with backing from the Soviet Union, leading to the instalment of a communist regime in 1924. This made Mongolia the first communist country next to the Soviet Union. Mongolia remained closely tied to the Soviet Union until the end of the 1980s, receiving technical, economic, and military assistance and generally following Soviet guidance in political and cultural matters. After the Soviet Union collapsed in 1991 Mongolia moved away from a monopoly of political power; towards multiparty elections, a multi-party system, and a new constitution. This led to greater cultural freedom with more emphasis on national Mongolian traditions, and a more neutral position in international relations, including transition to a free-market economy and extensive privatisation of the formerly state-run economy (CIA 2010).

Presently, the political situation of Mongolia is stable, but the ex-Communist Mongolian People's Revolutionary Party (MPRP) still has a strong position in the country. In May 2009 Tsakhiagiin Elbegdorj, who was one of the leaders of the peaceful revolution that ended the communist dictatorship in 1990, won the presidency in a narrow election. The prime minister and the parliament of Mongolia exercise real political power; the president, however, heads the armed forces and has the power of veto in parliament. Fritz (2007:194) points out that over time, all political parties in Mongolia "have come to be regarded as self-serving and involved in various forms of 'miss-governance' which has led to political parties being the least trusted public institutions in Mongolia. This is reflected in people's perception of public administration and taxation, and is partly responsible for the large informal sector in the country.

2.1.2 Socio-Cultural Context

Mongolia is located deep within the interior of eastern Asia where it squeezes in between the two giants of China and Russia. Covering an area of 1.565.000 square kilometres Mongolia is more than three times the size of France, but with a very small population; three million inhabitants rates Mongolia with one of the lowest population densities in the world (CIA 2009). According to the USAID (2003:7) “Mongolia’s vast territory, small population and distance from world markets represent perhaps its greatest development challenge”. This is further underlined by the fact that Mongolia has less than 1000 miles of paved road and a single railway line running only north-south. The fact that most international trade must be routed through ports in China or Russia adds to the cost of goods, and makes it difficult for Mongolia to involve in, and compete on the global market.

Mongolia is a homogenous country with as much as 95% of the population being Mongols. Strong nomadic traditions and a meagre country with an extreme climate, combined with 70 years of communism, have left Mongolia with major challenges in terms of kicking off its global export and trade. “Mongolia inherited large bureaucratic machinery from the previous command system of public administration, as well as entrenched obstructive, bureaucratic attitudes and behaviour within the civil service” (UNU 2002:4). There is also lack of competent people willing to take on responsibility due to lack of initiative and “the inertia left behind by a command-administrative system that discouraged ordinary people at the grassroots level from taking personal and community responsibility” (Ulziikhutag 2006:100). This is further complicated by the traditions of patronage and bribery that are “wide spread phenomena in getting business licences for commerce, industry and other services in the country” (UNU 2002:5). Ulziikhutag (2006:101) also points out that the strong influence by nomadic culture in Mongolia has created a “flexible mindset” causing challenges in the crossing between local culture and modern market principles.

Most of Mongolia’s inhabitants live in the north-central area of the country centred in, and around, the three largest cities; Ulaanbaatar, Erdenet and Darhan. The nomadic life style is still a reality for most people in the countryside where the majority live in traditional Mongolian dwellings called “ger”. It is a cone shaped and mobile hut, which offers warmth in the winter and coolness in summer. This can be set up in less than two hours and is easily taken apart and moved, fitting it well to the nomadic lifestyle where people move settlement at least twice a year. Although almost forty percent of the country's workforce is herding

livestock, the centuries-old nomadic lifestyle is now coming under pressure from climate change and urbanisation. Currently 57 percent of the Mongolian population is living in urban areas, mainly in capital Ulaanbaatar, and the number is rapidly increasing (CIA 2010). The infrastructure of Mongolia continues to be a main challenge in the development of the country with very few paved roads and the railroad only going north - south. Communication has improved significantly in recent years, with phones and Internet becoming available even in remote areas. However, the connection is poor and unstable and in many rural areas non-existing.

Gender issues in Mongolia stand in contrast to most other developing countries, with significant female involvement being practise on most levels in society (USAID 2003:50). According to UNDP's Human Development Report for Mongolia (2007:84) women made up 51.4 percent of the economically active population and 51.3 percent of the employed work force in 2006. Women also seem to cope better with urbanisation as their identity are not so strongly rooted to the nomadic lifestyle and herding as is the case with Mongolian men. Combined with equal legal rights, this has led many female entrepreneurs to start their own businesses with the aim of supporting their families.

2.1.3 Economic Context

Economic activities in Mongolia have traditionally been based on herding and agriculture, but the country has extensive mineral deposits such as copper, coal and gold. Soviet assistance, being as much as 1/3 of GDP at its height, disappeared almost over night when the USSR dismantled (CIA 2010). The adoption of the Russian style 'shock-therapy' strategy, reinforced by western advice, saw dramatic declines in output and living standards, as Mongolia was forced to adjust suddenly to the world of hard currency trading and market economy (Marshall *et al* 2007:440). Like in other former socialist countries, the introduction of market economy had severe social impacts, widening the gap between the rich and the poor segments of the population. The move from "guaranteed employment in a command economy to an uncertain infant market economy with formal and informal labour in state and private sectors" (Robinson and Solongo 2000:6) has presented major challenges for both men and women's working lives. In terms of gender issues the privatisation process of state-ownership that took place in Mongolia post communism, seems to have benefited women less than men. Because

assets distributed were registered in the names of heads of households which predominately were men (Robinson and Solongo 1999:10), women need the consent of head of the household (usually husbands) to offer assets as collateral. This present a major challenge for divorced women, and in cases where both the male and female part are seeking loans, the (male) head of household is usually given priority (Robinson and Solongo 2000:11).

Mongolia's economic performance has been positive over the last years but recent progress in growth has not been sufficient to improve the living conditions for many of those who fell into poverty in the early transition years. More than one third of the population still lives below the poverty line (ADB 2009:179). Mongolia ranks 115th out of 182 countries on the Human Development Index (HDI) for 2009, making the country dependent on continued development assistance and external support.

According to the World Bank's (2008) ease of doing business report Mongolia ranks 60th out of 183 countries. Mongolia's overall score is just above the world average and the main challenges for doing business and investment in the country are business licensing and permits, corruption and crime and theft and disorder (World Bank 2009). The private sector of Mongolia has experienced rapid growth post communist time with as much as 75 percent of the country's economy now being in private hands. The ADB (2010), however, points out that Mongolia's private sector development and diversification of the economy are "impeded by a harsh climate, small domestic market, human resource constraints, infrastructure bottlenecks, corruption, legal inadequacies, weak contract enforcement, and poor capital markets".

2.1.4 Ulaanbaatar



Figure 2: Overview of Capital Ulaanbaatar
Source: BluePeak Travel Photography (2009)

The capital city of Ulaanbaatar (UB), which in English means “red hero”, is the largest and most important urban centre in Mongolia. It is located in the central north of the country, at the elevation of 1300 meters, and ranks as the coldest capital in the world. The city has grown from about a quarter, to nearly half of the country’s population in recent years. Harsh winters and dry summers combined with a constant search for a better life have resulted in massive migration from the countryside to the capital, putting an enormous pressure on the city’s infrastructure and social services.

For the purpose of this study it is worth noting that UB is the area in which the majority of the wool producers in the NZ Cooperative Union (CU) work and live. The Cooperative Union’s head office and the Tsaagan Alt Wool Shop is also located here; the latter in the main shopping area while the former rents basement facilities in the 13th district, about 10 minutes east of the main centre.

2.1.5 Darhan and Selenge

Darhan is the third largest city in Mongolia and the capital of Darhan-Uul aimag (province). The city is located 230 kilometres north of the capital, not far from the Russian border, and has a population of 86.000 inhabitants (USAID 2003). Darhan is an industrial centre with several large factories and well developed infrastructure. The city is connected to UB with a railway and a paved road.

Selenge has only small villages and a rather sparsely populated countryside. Agriculture is the main sector of this province, having the most favourable climate and soil in Mongolia. Both Selenge and Darhan-Uul aimag has experienced some migration from the western provinces which have been seriously stricken by consecutive, harsh winters, but the population density remains fairly low (USAID 2003).

The Wool Processing and Marketing Project (WPMP) were (in addition to UB) implemented in both Darhan and Selenge. The cooperative in Selenge did, however, choose to re-register as a small enterprise and resign from the CU. This enterprise is currently producing for the Tova Company (see 2.2.6) which production is located in the city of Darhan. Five of the CU's primary cooperatives are also located in and around the city of Darhan. Geographically Darhan and Selenge are closer to the raw material supply (sheep wool and herders) than UB, and Darhan-Uul aimag has traditionally been one of the main areas for the wool collection that is undertaken every year (see 5.6.2).

2.2 Implementers and Beneficiaries

2.2.1 Norwegian Lutheran Mission (NLM)

The Norwegian Lutheran Mission (NLM) works in 13 different countries, and runs different kind of development projects depending on specific location needs in addition to evangelic work in areas where the organisation is registered for such. The registration in Mongolia is for development work, and the NLM has been present in the country since 1994 when they established an office in capital Ulaanbaatar. All development projects that are implemented by the NLM in Mongolia are funded 90% by the Norwegian Agency for Development Cooperation (NORAD) and 10% by NLM church groups in Norway. The NLM is currently (2010) running 2 projects in Mongolia of which none are related to business development.

From 2005 – 2008 the NLM in Mongolia implemented the Wool Processing and Marketing Project (WPMP) in UB, Darhan and Selenge. The project was based on previous work with felt and wool processing in Mongolia, in which NLM had been involved since 1996. Since then, more than 2000 people have received basic wool processing and felt trainings through different NLM projects (Fisher *et al* 2008). Of those, about 200 – 300 people became involved in the WPMP which targeted already trained (existing) wool producers and their production lines.

2.2.2 Wool Processing and Marketing Project (WPMP)

The WPMP first emerged in 2001 after various wool processing activities in two different NLM projects, the Bayanzurkh Development Program (BDP) and the Selenge Development Project (SDP) were merged (Fisher *et al* 2008:6). According to Fisher *et al* (2008:6) the WPMP continued to build on “the successes achieved through the wool training programs of BDP” and reflected the need to empower existing (trained) wool crafters from this project. In 2003-2004 the WPMP was piloted, aiming to gather the wool production components into one project; “to develop a better organisational base for the producers and to provide a coordinated approach for standardising production and reaching the market” (Fisher *et al* 2008:7).

In 2005 the Wool Process and Marketing Project formally established, initiating a 3-year plan with the aim of developing structures of local self-run wool-production cooperatives with a central administration and sourcing arm (*Cooperative Union*), a retail and marketing outlet (*Tsaagan Alt*) and a training unit (*Wool Craft Competence Centre*). “The project targeted the need for sustainable business development through the support of business activities and continuous capacity building within families doing wool craft, to increase their earning ability through income generating activities” (Altanzul 2008). This included training of families to produce wool craft products as well as progressing to the next step by training them how to sell products and establish businesses. Gradually the individual wool producers gathered in smaller production units and registered their business enterprises as cooperatives.

According to the project plan (Hishgee 2006):

The project aimed:

- To empower vulnerable families to improve their living conditions in a sustainable way through the production and sale of wool craft products.
- To empower the existing wool crafters and the relevant institutions in the Mongolian community to establish cooperative structures for a sustainable development of the wool craft business.

The main project activities were:

- Establishing sales cooperatives/cooperative union
- Improving the wool craft production line
- Extending the wool craft training in new areas
- Information and documentation, campaigning/advocacy

In addition to the support from Norad/BN and the NLM, the International Trade Centre (ITC) in Geneva supported activities undertaken through the WPMP project with \$71,000 for the period October 2006 – June 2008 (Høye and Favero 2008). The WPMP, which originally was planned to phase out by December 2007, was extended through June 2008 as the evaluation report (Fisher *et al* 2006) showed that there was a lack in the capacity level of the CU. In addition, the ITC recommended strengthening market shares and quality management procedures before the project ended. The WPMP phased out by the end of June 2008 and all project's assets were transferred to the first and secondary level cooperative structures.

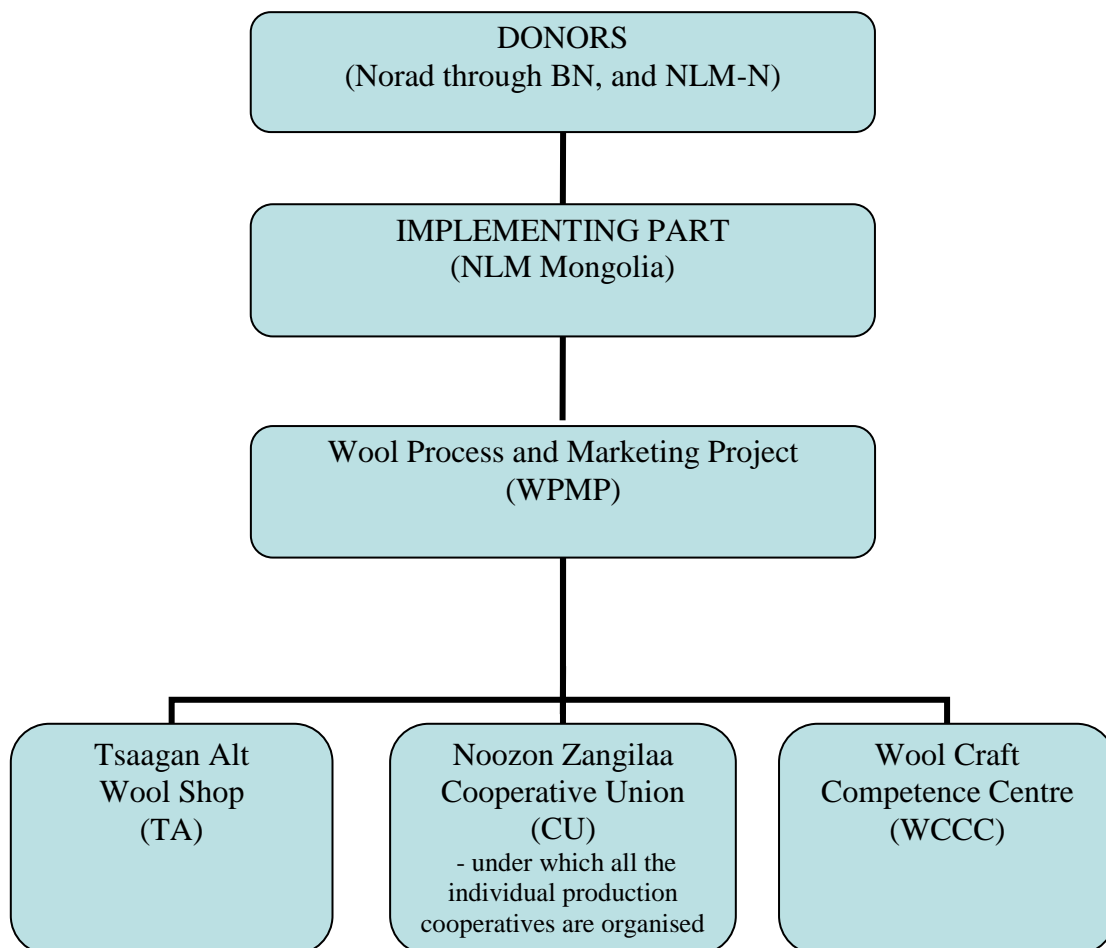


Figure 3: Hierarchic structure including donors, implementer and beneficiaries

Source: Author

2.2.3 Nooson Zangilaa Cooperative Union (CU)



Figure 4: Official Opening of the CU office in Ulaanbaatar, December 2007

Source: Author

In 2006 a secondary level cooperative structure was established; the Nooson Zangilaa Cooperative Union (CU). The CU was to take over the main activities of the WPMP (e.g. distribution of orders, procurement of raw material, operation of the TA wool shop etc.) and strengthen the sales and marketing channels of the wool producers in the primary cooperatives. The CU's main objective is to support the producing cooperatives in terms of raw material supply, financing, product development, transportation and storage, as well as marketing and sales. "The CU provides a centralised point for sourcing, processing, colouring, transporting, storing and distributing wool back to cooperatives, as well as sourcing customers, centralising and distributing orders and providing overall networking, administrative and technical support to the cooperatives" Fisher *et al* (2008:22).

The CU currently has ten member cooperatives in addition to the WCCC (see 2.3.4). The daily operation is carried out by the Executive Director, the Marketing Manager and the General Accountant of the CU. These positions are overseen by an Auditing Board (5 members) and a Marketing Board (7 members) which both reports to the cooperatives' All Members Meeting. According to the Mongolian cooperative law (1995) all members have the right to participate in the decision-making of the cooperative and to personally contribute in the management of such. This means an autonomous responsibility among the members for

taking on administrative tasks when needed, and for using their vote when decisions are to be made. All the primary cooperatives in the CU are legally registered, and income tax and social insurance for the members are paid through the cooperative structures.

The CU has experienced a steady growth of income since the establishment, with annual sale at 315.000 USD in 2009 (table 1). This is more than three times their annual sales volume in 2006. At the same time the number of active producers increased from 200 in 2006, to more than 300 in 2010 (Myagmar-Ochir 2010). It is worth knowing that the number of active producers is not equivalent with the numbers of producers registered in the primary cooperatives. According to the CU the total number of registered producers is 148. In addition the CU has around 100 ‘unofficial’ members. The reason for this seems unclear, but among the reasons is that only one person form each household is registered, and the seasonal perspective, where the work forces are doubled during the summer months. Hence, in all the cooperatives visited during my field work there was a divergence between the numbers of registered producers and the number of active producers; the latter almost always being higher than the former.

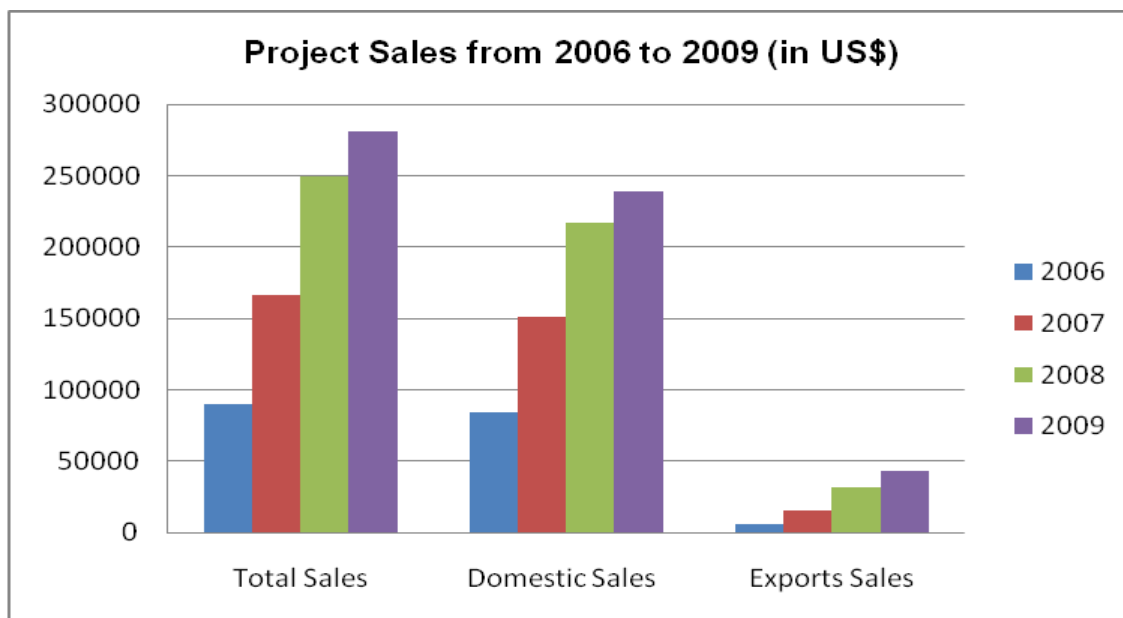


Table 1: Sales Data, Mongolian Wool Craft Cooperative Union 2010
 Source: Cooperative Union (in ITC 2010a:14)

2.2.4 Tsagaan Alt Wool shop (TA)

Established in 2001, Tsagaan Alt (TA) is the retail and marketing arm of the CU. The wool shop was initially established by the WPMP as a way of reaching the domestic market. TA is a key institution for the wool producers as it is their main domestic sales channel, and by early 2007 the operational management of the TA was transferred from the WPMP to the secondary cooperative level (CU). The operation of the shop is overseen by the TA Advisory Board but the day to day operation is undertaken by a shop manager hired by the CU. Although owned and controlled by the CU, the TA uses an independent accountant and has its own budgets, bank accounts and auditing system. According to Fisher *et al* (2008:6) TA has “developed a reputation as the leading market retailer and marketer of quality wool craft products”. The shop is recommended by Lonely Planet (2008) and is frequently visited by the ex-pat community in UB. According to the ITC, Tsagaan Alt has established itself as the premium retailer of wool and felt craft products in Mongolia (Strohmeyer 2010:13) and Fisher *et al* (2008:11) finds that the shop “have comprehensive business systems in place, with emphasis on marketing and business competencies”. Tsagaan Alt is also responsible for feeding back market trends and customer requirements to the producers (Strohmeyer 2010:13). Several of the producers interviewed during the research for this thesis emphasised the recognition that comes with being ‘one of TA’s producers’ as an important market advantage, making them more attractive to other buyers as the TA is associated with high quality and design.

[It is worth noting that in spite of the operational management of the TA being transferred to the CU in 2007 the ownership of the building in which TA is located remains unclear. The NLM is currently the legal owner of this property but the wool producers claim that it was promised to them by the former WPMP project management. As the market price for the property would well exceed 200.000 USD a decision on this matter is likely to largely influence the business of the CU, especially in regards to accessing finances. Final decision has not been made on the matter by the NLM, and according to the producers this is a continuous source to frustration and disagreement (see further discussion in the analysis, 6.3.1)].

2.2.5 Wool Craft Competence Centre (WCCC)

The Wool Craft Competence Centre (WCCC) was established in 2005 and offers felt making to the public as well as updating the CUs' producers on techniques and new production methods. It is regarded as the national training authority in making wool craft products and is also a member of the CU (Fisher *et al* 2008). Although part of the WPMP structure, the WCCC operates independent from the CU and the production cooperatives, and is therefore not regarded relevant for this study. The WCCC will thus not be part of the analysis but is included in this chapter for contextual reasons, as it will occasionally be referred to in this paper.

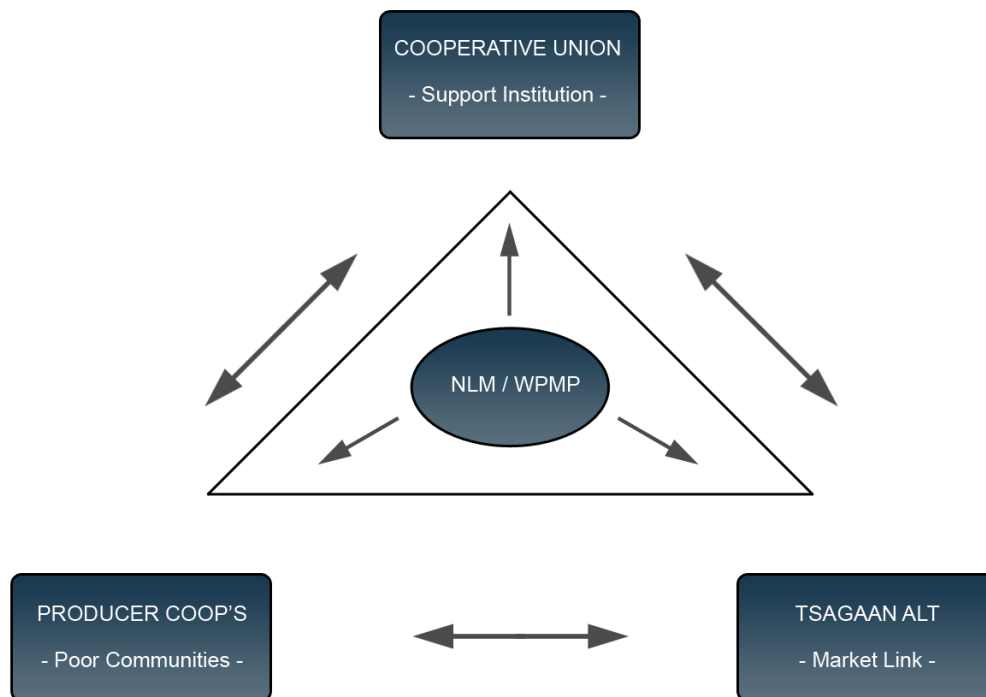


Figure 5: Implementers and Beneficiaries, Stakeholder triangle

Source: Author; adapted from Strohmeyer (2010:13)

2.2.6 Tova Company

The Tova company is owned and operated by the two Norwegians, Ingar and Margunn Eide, who worked in Mongolia from 2002 – 2004. At that time they were both hired by the NLM, and Ingar was involved in researching new markets for the products that were being made by the wool producers in the WPMP project. A desire to continue their involvement in Mongolia, and to further support local wool crafters, led them to establish the Tova Company upon return to Norway. After a slow start, Tova was in 2006 contracted by the NRK (Norwegian broadcasting company) to produce the Solan slipper. This gave the company access to new markets and resulted in increased orders for the Mongolian wool producers. Per 2010 Tova employs 80 full time producers in Darhan and Selenge and distributes their products through 400 stores in Norway, Sweden and Denmark. 2009 was the first year with positive profit for the company and Eide believes they will continue to expand in the coming years

Although built on desire to contribute to development in Mongolia, Tova is a pure business enterprise and is operated as such. Eide pinpoints that Tova has been a pioneer project where outcomes have been risky and unpredictable, holding that a business oriented mindset has been vital for their success. He questions some of the structures designed by the WPMP in terms of creating sustainable businesses, partly because he found the CU incompetent as a business partner when he first started to import Mongolian wool craft products to Norway. As a result, Tova decided to find its own producers and negotiated individual contracts with those, rather than cooperating with the existing structures established by the WPMP. This led to a conflicting environment between the CU and Tova as it according to the CU was obvious that orders should go through their structures. The environment is, however, gradually easing as more producers are employed by the company, creating income opportunities for many former participants of the early WPMP felt trainings.

Tova has chosen to target a niche market where slippers are the major stake. This, according to Ingar Eide gives a lower risk and allows for a more specific market approach. The company further emphasizes proximity to the producers, for quality assurance purposes, and has built a factory in Darhan where most of their workforce is located. There is one trusted key person in Darhan responsible for overseeing and administrating the small factory. All other tasks than production, i.e. product design, sales and marketing, are located in Norway to be closer to the end customers and their changing needs and desires.

Tova and the business approach chosen by Eide will in this paper serve as a point of reference when analysing the business approach of the CU. Because the products and preconditions are similar for the two, the fact that they have chosen different organisational structures and market approaches allows for interesting comparative reflections.

2.2.7 Individual Wool Producers

For the benefit of broadening the understanding of the wool crafters' situation, three individual producers have been interviewed during the research for this master thesis.

There are many individuals producing wool crafts in Mongolia, and a large number of those are former participants of the NLMs early felt trainings. Some have managed to build a strong reputation, allowing for good income opportunities. For the majority, however, the competition is hard and the opportunities scant; the former group is small and commonly represented by innovative crafters, using felted wool to communicate their artistic expression, the latter is much larger and consists of those producing more ordinary products, such as slippers and souvenirs, on which the competition is hard. There are no numbers or statistics on individual wool producers and their businesses, but organisations working with business development and SMEs (GTZ, ADRA, USAID) all report that there are large number of people trained in wool processing and felt techniques by the NLM, interested to make a living of it. This is further supported by the ITC's finding of business driven copycat entrepreneurs and spin-off companies made up of former project staff and beneficiaries, trying to replicate the project approach (Stohmeyer 2010:6). The income is, however, unpredictable as the domestic market is very much depending on the seasons and the number of tourists, hence stabile income is no guarantee.

The TA wool shop, which is regarded as the leading market retailer in felt products in Mongolia (Strohmeier 2010, Fisher *et al* 2008), is a desirable location in which to place and sell products. The CU has however decided that only members of the CU are allowed to sell through the TA, and many individual producers are therefore eager to join the CU. This means that they need membership in one of the production cooperatives as the CU does not allow for individual memberships. As the production capacity among the CU's member cooperatives is currently not utilised there is, however, little interest to extend the workforce.

Chapter 3: Business for Development

The theoretical framework for this thesis is mainly based on theory on SMEs and entrepreneurship. The rationale for this is multiple, with the contextual conditions of the NZ Cooperative Union being the most important: According to the International Co-operative Alliance (2007) a cooperative is “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise”. Further, the Mongolian law defines a SME as a legally registered business-entity with employees of 199 or less, and with an annual turnover of up to 1.5 billion tugruk. The law also states that a SME can be in form of a company, cooperative or a partnership (Ganbold 2008). Accordingly, all the cooperatives in the NZ Cooperative Union can be defined as SMEs. In terms of business constraints and business development, my findings in the CU links well with similar cases in SME literature, and Ganbol’s (2008) ‘Improving access to finances for SME: international good experiences and lessons for Mongolia’ has been particularly interesting. Further, the rationale for including theory on entrepreneurship in the theoretical framework is the size and the nature of the wool producers businesses. By the virtue of being cooperatives all the wool producers are ‘self-employed’; in addition many have individual businesses on the side and are owner-managers (Djankov *et al* 2008:3). This links with the UNESCAP’s (2010:11) argument of most literature pertaining to entrepreneurship also being highly relevant to SMEs because “most start-up ventures tend to be small”. Because my research questions are concerned with the role of aid (and NGOs as the providers of such), both in private sector development and in the establishment of the Nooson Zangilaa Cooperative Union, theory on NGOs as development practitioners are included in my theoretical framework, as is theory on private sector development. The latter is particularly relevant to the case of Mongolia because SME development in a transitional context, according to the UNESCAP (2010:2), is broadly synonymous with private sector development.

This chapter explores the theoretical framework on which this master thesis is based.

3.1 Linking Aid and Business Development

Economic growth is usually measured in terms of the percentage increase in a country's gross domestic product (GDP). The broader concept of *economic development* refers to improvements in a population's standard of living that are linked to economic growth over a long period of time (Norad 2009:16). Deardorff (2010) merges the two when defining economic growth as "the increase over time in the capacity of an economy to produce goods and services and (ideally) to improve the well-being of its citizens". According to Norad (2009:17) there are four main factors that contributes to economic growth and development; physical capital, human capital, technology and well functioning institutions. Norad (2009:16) further argues that development assistance can stimulate growth from the bottom up through these four factors, which the work of NLM and the establishment of the CU in Mongolia are good examples of. In the case of the CU, the NLM has built human capital and facilitated institutional development through trainings and skills transfer. According to Strohmeier (2010:18) the WPMP "is a remarkable example of bottom-up sector development, from household units to producer cooperatives to an apex cooperative union".

Official Development Aid (ODA) is by the OECD (2003) defined as "flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective". The majority of the grant used to build human capital and facilitate institutional development in the case of the CU in Mongolia came through the Norwegian Agency for Development Cooperation (Norad) and can hence be defined as ODA.

Linking the concepts of aid and business development is challenging, and aid practitioners have traditionally been sceptical about the profit mentality on which private companies are based (Norad 2009:51). According to Norad (2009:51) there is, however, growing acceptance for the notion of profit as a driver for development, much due to the "successful economic changes in China and India that have provided employment and incomes for hundreds of millions of poor people". In the case of the CU and the wool producers in Mongolia, the impact of the Norwegian Lutheran Mission's Wool Processing and Marketing Project (WPMP) is employment and income opportunities for nearly 300 people and their families. The result is that the once 'poor' project beneficiaries no longer want to be associated neither with being 'poor' nor 'vulnerable' (Fisher *et al* 2008:28).

3.1.1. How Business Work for Development

Business facilitates development. The former by creating employment opportunities which in terms leads to growth in income level, and the latter through improving the quality of life by providing services and consumer products which increases choices and reduces prices (UNDP 2004:8). The UN Global Compact (2010:5) argues that business, as the world's main source of economic growth, is at the heart of virtually any widespread improvements in living standards and that profits and development priorities mutually benefit one another.

The UN Global Compact (2010:10) suggest that business work for development within three main categories: 1) *Core business operations and value chains* through the development or adoption of products for rural/low income populations, provision of financial services, localising the business value chain by using local suppliers and service providers and integrating practices that protect and preserve the environment. In the case of the CU in Mongolia the wool producers provide the local population with high quality socks, mittens and slippers for the extreme winter months. The CU further contributes to localising the business value change through cooperation with local herder groups to procure wool and leather, as well as purchasing trainings and consultant services locally. The CU also contributes to preserve old Mongolian hand-craft traditions. *Social investment and philanthropy* through investing within the value chain through strategic financial and in-kind investments within the company's supply chain and/or broader operating context and by applying technology to enhance reach and access for current and new programs with social goals. The social investment element is present in the CU as social development objectives was introduced by the WPMP. These objectives have further been adopted by the primary cooperatives where members help each other out, and where social problems, such as school drop-outs and family violence are targeted through vocational trainings and mother's groups. The CU also invests within the value change through support of the local herder groups. 3) *Advocacy and public policy engagement* through addressing business and development agendas to ensure commercial viability with social impact goals and pushing for mandatory standards and formal regulations rather than only creating voluntary industry standards. This is indeed the case for the CU, which represents the voice of nearly 300 wool producers, having strong influence on the policy debate in the wool and felt sector of Mongolia. The CU is consulted when export regulations are discussed and advocates for the government to strengthen the legal framework for cooperatives in Mongolia (Høye and Favero 2008:4). The CU further push for mandatory standards in terms of quality and work conditions.

3.2. The Role of the Private Sector

The private sector includes participants from small-scale farmers and traders right through to large international companies and multi-national corporations (DFID 2008:10). As the core context for business activities, the private sector is often viewed as the ‘engine of growth’ (UN Global Impact 2010) and the focus to spur on development herein is high on the global agenda; for governments and development practitioners alike. In transition Mongolia the development of the private sector has been particularly important as it represents a dramatic change to the plan economy of the communist regime.

3.2.1 Mongolia’s Private Sector

Being a transition economy the private sector represents a new chapter in Mongolia’s history. The move from “guaranteed employment in a command economy to an uncertain infant market economy with formal and informal labour in state and private sectors” (Robinson and Solongo 2000:6) has presented major challenges for both men and women’s working lives. By the end of the communist period, international development agencies became important actors in the promotion of private sector development in Mongolia, and although some of those have worked with enterprises, the majority has contributed through the support of government agencies. The NLM has primarily worked with the former [enterprises] yet in close cooperation with Mongolian government agencies. In January 2008 Mongolia, which until then had lacked specific policies regarding private sector development, adopted the Private Sector Development Strategy. This, according to the ADB (2009:vi) will lead to “a better coordinated and comprehensive support for the private sector in Mongolia”. Seeing that approximately 75 percent of the Mongolian economy is now in private hands (USAID 2010) such support is most needed to facilitate continued growth and to secure the legal and regulatory framework.

One of the major challenges for Mongolia’s private sector is the dependency on production and export of a few commodities, especially copper and gold. This in turn makes the economy vulnerable due to fluctuations in commodity prices and natural disasters. To avoid negative affects of such factors, a long term diversification of the country’s economic activities is necessary. To achieve this, an improved business environment and investment climate are needed for the private sector; along with the establishment of a human capital base (ADB

2009:1). Both fluctuations in commodity prices and natural disasters influence the wool producers in Mongolia, as prices on raw material and labour cost raise. The NLM and the CU have, however, strongly contributed to increase the country's human capital base as well as advocating and working to improve the local business environment. The CU also contributes to diversification of the economy by producing and exporting wool products and handy-crafts.

3.2.2 Foreign Aid and Private Sector Development

According to the Overseas Development Institute (ODI 2010) it is the private sector that primarily drives the economic growth needed in developing countries. The institute emphasise that jobs and wealth is created within this sector, arguing that the private sector “is responsible for the investment, innovation and technological progress that underpin both growth and development”. This is echoed by the UN Global Impact (2010:7) which states that “unsurprisingly, the private sector has made a tremendous impact on all the MDGs in the past decade”.

When the Structural Adjustment Programs (SAP) failed to create the expected development and growth in the private sector in the 1980s, new measures were taken to create a competitive market economy and support the private sector in creating growth (Kragh *et al* 2000:312). These measures, which have been termed ‘second generation reforms’, focus on strengthening the environment for private sector investment as the key to growth (Wood 1997). According to Kragh *et al* (2000:312) this prominent role of the private sector has led to a more extensive support of businesses by foreign aid. “Once isolated from public and non-profit sectors, the private sector is now being welcomed into the development field as an essential engine for progress toward the Millennium Development Goals” (UN Global Impact 2010:3). Aid for private sector development is, however, support for individual investment and individual companies, which according to NORAD (2009:7) illustrates a paradox. “There are many successful individual projects, but in total they seldom lead to evidence of socio-economic growth” writes the agency, which finds that private sector investment often create jobs and increase production and export, yet fails to improve growth rates for the national economy as a whole. The agency does, however, acknowledge the importance of supporting the private sector as ‘value is created’ herein (NORAD 2007:89). UNDP (2004:1) argues in line with Norad, and recognises that the private sector can play an important role to spur on

economic development. “The private sector can alleviate poverty by contributing to economic growth, job creation and poor people’s incomes” (UNDP 2004:1). In the early post-communist days, when the NLM first started work in Mongolia, people had no business experience, or knowledge of such, as procurement of profit for private use was banned by the communist-regime.

In the case of the CU, the development of a private sector has been a precondition for the growth of the wool craft businesses. By offering a competitive market place in which the wool crafters could both develop their design and quality, and where they could sell their products, the private sector has contributed to the facilitation of job and income opportunities. The introduction of private financial institutions that came with the growth in the private sector, have further broaden the wool crafters investment opportunities by providing better (not yet sufficient) access to finances.

3.3 Small and Medium Enterprises (SMEs)

Small and medium enterprises (SMEs) play an important role in the development of the private sector and are in themselves widely recognised as engines for economic growth and development. According to the UNESCAP (2010:2) SME development holds the added allure of being a key component of wider economic development and poverty alleviation, particularly in developing and transitional economies such as Mongolia. SMEs are further known to foster entrepreneurship and development through the creation of jobs. Their modest size is among the advantages claimed for SMEs, allowing for dynamism and flexibility as they can adapt quickly to changing markets demand and supply situations (Ganbold 2008:2). The low level of administration and bureaucracy, and the contribution to diversify economic activities, are other advantages associated with the SME sector, along with the significant contribution it makes to export and trade. In addition, the development of SMEs is generally seen as accelerating the achievement of wider socio-economic objectives, including poverty alleviation (Ganbold 2008:1).

The definitions of SMEs vary according to different sources and among countries, but the most common way to define the term is by number of employees, total net assets, sales and investment level. In the World Bank's assessment of SMEs' contribution to GDP and employment, Ayyagar (2003:2) found that the most common definition of a SME has a cut-off range of 0-250 employees. This definition is similar to the Mongolian one where SMEs are defined as enterprises with less than 199 full-time contracted employees, and less than 1.5 billion tugrug in sales (Ganbold 2008:48). In this paper the Mongolian definition of SMEs will be used and SMEs will, hence, be defined as enterprises with less than 199 employees.

According to the UNDP (2004:1) "small and medium enterprises can be engines of job creation—seedbeds for innovation and entrepreneurship". The SME sector is however vulnerable as a large part of the enterprises commonly operate outside the formal legal system, experiencing low access to finances and long term capital which is the foundation on which companies are built. Informality in the SME sector, and lack of access to finances as the two major obstacles for SME development, are briefly explored below.

3.3.1 Obstacles for SME Development

Informality in the SME sector: According to the UNDP (2004:12) a large number of SMEs operate outside the formal legal system, contributing to widespread informality in the sector. “Widespread informality and the lack of skills also affect the ability of entrepreneurs to scale up a business” (UNDP 2004:14), leaving them behind in terms of market competition and the opportunity of creating business links. Because formal companies find it difficult to procure products and services from informal organisations without binding contracts, much needed business links are rarely formed in the informal sector (UNDP 2008:33). The lack of registrations also affects the financial situation as banks and financial services find it difficult to work with poor people who can not document their identity. As the cooperative structures of the wool producers in Mongolia are all legally registered, these challenges do not apply directly to the case of the CU. As many of the wool producers have small businesses on the side that does operate in the informal sector, these challenges should however be mentioned to broaden the perspectives of the wool producers situation as a whole. For further elaboration please see ‘informality’ under point 3.3.2.

Access to finances: Access to finances and long term capital is perhaps *the* most important challenge facing SMEs, regardless of registration and level of formality. The problem is often referred to as the “missing middle” where enterprises with the potential to grow and create jobs lack access to the finances they need to fulfil their potential. “Credit enables small and medium-sized enterprises to enter the marketplace, scale up production, upgrade technology and change, or improve their products and services” (Dalberg 2009:ii). In addition it creates stability and reduces vulnerability. In developing countries however, the use of assets as collateral is difficult due to informal and weak property rights, and although microfinance institutions and development programs offers some finance opportunities for SMEs, such programs tend to rely mostly on social networks for repayments. According to the UNDP (2004:19) this does not work well for the larger amounts that many small and medium enterprises require. This links with the challenge that the CU are faced with in terms of obtaining finances for the large investment needed to procure raw material. Informal property rights, combined with Mongolian banks being strict in their acceptance of collateral, have prevented the CU from upgrading technology and fulfilling their potential. To finance the investment needed for raw material and pre-processing the solution have been for the primary cooperatives to get individual loans through development programs and then passing it on to the CU. This is not an ideal solution, but has so far been the only option to obtain loans of this

size. The UNDP (2004:14) further finds that the lack of reliable credit information hampers lending opportunities for SMEs, as there commonly exists no credit information agencies in developing countries, - and although some enterprises are credit-worthy, banks are unable of obtaining trustworthy information about them. For the CU 'lack of reliable credit information' has indeed been a challenge as there are no agencies to value the large and stable income that the CU in fact has. It has also been hard for the CU to get the turnover in the wool shop (TA) recognised as income due to the TA having its own bank accounts and registration.

3.3.2 SMEs in Mongolia

Unlike many countries that have experienced a natural development of small and medium enterprises, the SME sector in Mongolia emerged mainly as a result of the privatisation and break up of large state-owned enterprises (Ganbold 2008:42). In addition, a large number of new firms have materialised over the last decades as a consequence of the market liberalisation that has taken place in Mongolia post communist time. According to the National Statistical Office of Mongolia (NSO) there were more than 32.000 active businesses in the country per 2007, of which 80 percent were small enterprises with less than 10 employees (NSO 2008). This means that SMEs accounted for nearly 99 percent of the country's total enterprises, employing more than 300.000 people (Ganbold 2008:43). According to the ADB (2009:4) the majority of Mongolian enterprises remains small, both in terms of employment and in terms of revenue. The Bank states that the Mongolian private sector is dominated by SMEs with the very small ones constituting the largest part. Also UNDP (2007:61) finds a rapid growth in number of SMEs in Mongolia over the last years, with 95.1 percent of the increase being in firms with fewer than 20 employees. For the wool producers in Mongolia all but one of the cooperatives is in this category, however, several of the cooperatives extend the work force with temporary workers during peak season.

Access to Finances: The special needs presented by the SME sector in terms of strong requirement for a favourable enabling environment, including a positive economic, physical, legal and institutional framework, have according to Ganbold (2008:43), been ignored in the development debate of Mongolia. The Mongolian government has tried to target this, by instance through the provision of favourable funding (below market rates). As the country's banking system is fragile there is, however, little reality behind this, and as Ganbold

(2008:52) points out most of the programs targeting the SME sector relies on donor funding. This is in line with my findings where several of the wool producers that have been accepted for loans by the government are refused by the banks, i.e. the acceptance letters they have received by government agencies is worthless. Only a couple of the CU cooperatives have actually managed to get loans through banks or government programs; the majority that lent money had done so through foreign development programs. On a general level, access to financial services appears to be low for Mongolian SMEs, hampering development and growth in the sector. According to a survey of the business enabling environment in Mongolia (OD Consult 2004), obtaining external finances is among the key obstacles to business development in Mongolia. This links well with findings of this study, where access to finances was rated among the top three constraints for business development by all the respondents interviewed.

Informality: The informal sector in Mongolia is, as in many developing countries, large. For the NZ Cooperative Union in Mongolia the creation of cooperative structures has however contributed to get the wool producers businesses registered, and taxation and social insurances are paid through the cooperatives for all their members. Formal structures were heavily emphasised by the WPMP project as business structures that are part of the formal sector are recognised to have a stronger voice than those in the informal sector. Getting the wool crafters to register their businesses was however challenging as a common perception is that registered businesses are over-taxed and often bullied by government officials. As per 2010 all the ten cooperatives, as well as the CU and the TA wool shop are, legally registered. In terms of informality is it, however, worth noting that a large number of the wool producers operate in the informal sector as they have small individual businesses on the side. These businesses are not part of the analysis, and hence not important in this setting. The information is, however, interesting in a contextual perspective.

3.4 Entrepreneurship

As already stated small and medium enterprises can be “seedbeds for innovation and entrepreneurship” (UNDP 2004:1), and according to the UN Global Impact (2010:3) “the entrepreneurial process has long been a central force behind economic and social development”. Aidis *et al* (2005) define entrepreneurs as small business owners that are also involved in running their own businesses, which is a definition well suited for many of the wool producers in Mongolia. The definition is however vague and Djankov *et al* (2008:3) are concerned that the term entrepreneurs should be used about those that are simply just ‘self-employed’. They argue that entrepreneurs should be owner-managers of businesses with six or more employees. In my research I found that the majority of wool producers defined themselves as ‘self-employed’ regardless of being owner-mangers, having employees or being self-employed. This finding is supported by the quantitative research undertaken by the ITC (Myagmar-Ochir *et al* 2010). Independent of definition, literature commonly links the terms of ‘entrepreneurs’ and ‘entrepreneurships’ to private sector development and SMEs. This, as Wennekers and Thurik (in Aidis *et al* 2005:10) puts it, because “small firms are the vehicles in which entrepreneurs thrives”.

Entrepreneurs in this paper refers to those producers that either have private businesses on the side, hence small business owners that are also involved in running their own business (Aidis *et al* 2005), or/and those that use their profit for re-investment and hiring employees.

3.4.1 Female Entrepreneurs

There is growing acceptance by development economists that gender needs to be an essential part of any analysis of economic development and policy formulation (Robinson and Solongo 2000:1). One reason for this is that female entrepreneurs are playing an increasingly important role as a large percentage of micro enterprises in developing countries are undertaken by women. In the CU more than eighty percent of the producers are female (Fisher et al 2006). Although some case studies with female entrepreneurs (Aidis *et al* 2005) show that a vast majority of the women find it more difficult to be female, this does not seem to be a major problem among the wool producers in Mongolia. In the Cooperative Union (CU) most of the wool producers interviewed can be defined as entrepreneurs as they are business owners involved in running their own businesses or owner-managers with employees. Of the twenty one producers interviewed in this study, not one mentioned gender as being a constraint to their business development. It is, however, worth noting that there are contextual conditions in Mongolia likely to favour men's business development over women's – these are further discussed below.

3.4.2 Female Entrepreneurship in Mongolia

According to the UNDP (2007:84), women play a central role in the Mongolian economy, making up more than fifty percent of the economically active population. The promotion of female participation in decision-making and public life during the socialistic period (Robinson and Solongo 2000:5) has contributed to independent and strong women taking on responsibilities and being innovative to support their families. According to Robinson and Solongo (2000:9) as much as one third of Mongolia's entrepreneurs are female and although they actively participate in the business sector, their activities are linked to access to loans and credits "which for females tend to be less than for men". This because assets, in the privatisation process of state-ownership that took place post communism, were registered in the names of heads of households which predominately were men (Robinson and Solongo 1999:10). In the case of the CU in Mongolia, many of the producers are single headed mothers (as this was among the selection criteria for project beneficiaries), which could potentially have created challenges in their access to finances. A large number of them are also entrepreneurs; however, there is nothing in my research that indicates that this is a problem of significance for any of them.

3.5 The Role of NGOs in Development

The post-cold war era has seen foreign aid increasingly channelled through international and domestic NGOs rather than through bilateral channels (Dicklitch and Rice 2004:660), and the developing world has experienced a flood of NGOs eager to perform on the development stage. Although there are many successful individual projects implemented by NGOs, their impacts are difficult to evaluate (Norad 2009). The impact of NGOs in the developing world is however rapidly increasing as “international and local NGOs have moved centre stage within international, national and local efforts to eradicate poverty” (Lewis 2001:1).

3.5.1 Business Priorities versus Social Development Objectives

Linking aid and business development is challenging. This is however an interesting field for many NGOs and programs on enterprise development and micro finance is widespread. Merging social development objectives with for-profit business development was also what the NLM did when implementing the Wool Processing and Marketing Project (WPMP) in Mongolia. This did, in many ways, challenge the development of the business principles within the primary and secondary cooperatives. This problem was addressed by the Mission in Development (BN) who found that “neither the project leaders, nor the advisors or the NLM have been able to manage the differences between social and more business-like activities” (Lindeland and Lundstrøm 2006:5). The BN was questioning the social activities versus the business activities in reference to project implementation and sustainability, emphasising the need for differentiations among the two types of activities. In their report, Lindeland and Lundstrøm (2006:10) conclude that “the biggest challenge for the WPMP is to run the different activities according to market and business management principles”. This links with Lewis’s (1998:147) argument that “an ambiguous zone exists between the for-profit and the NGO sectors around business and developmental objectives”. Lewis further points out that the mix of profit making objectives, and objectives of social or environmental development, creates distinctive problems for both the for-profit and the NGO sector. Findings in my study indicate that the mix of profit making and social development objectives were also challenging for the NLM and the WPMP. The long implementation period of the NLM does, however, seem to have prevented negative affects in an overall perspective. Because of this (i.e. few long term affects) challenges in regards to the mix of business and

social priorities are not further emphasised in this thesis, as the main objective of my research is to explore how business has facilitated development in the case of the NZ Cooperative Union. Nevertheless, there are several findings in this study that can be linked to this ‘ambiguous zone’, which is the reason for including this paragraph in the theoretical framework.

Chapter 4: Methodology

This chapter describes the methodology of this study. The first part of the chapter provides an overview of the research approach and the design chosen, explaining the rationale for those. It further gives an overview of the contextual situation of my fieldwork in Mongolia, including sampling procedures and ways of collecting data. The second part of the chapter discusses the interpretation of data, ethics in the research process and my role as researcher. Finally the chapter examines the major bottlenecks and difficulties encountered during the time of fieldwork.

Conducting research in a familiar context (3 years with the WPMP) presented special challenges in terms of obtaining objectivity. Balancing previous experiences with new information required me to take a "distant" view on the CU and my former role with the project. I do, however, acknowledge that complete objectivity is not possible, and I request that my background and involvement in the WPMP is kept in mind when considering the research results and analysis of this study as this is important to create distance and validity for the reader (Nielsen and Repstad in Simonsen 2009:224).

4.1 Research Strategy

For this master thesis a qualitative approach has been chosen as this research methodology is well suited to undertake an in depth analysis of the NZ Cooperative Union (CU) and the wool producers in Mongolia. As my research seeks to understand how business has benefited development in the particular case of the CU and its primary member cooperatives, it is important to understand the context in which barriers and opportunities for such exist. The qualitative approach chosen is also well suited to answer the questions of "how" and "why" wool producers in Mongolia have been successful.

A research strategy is, according to Ryen (2002) influenced by how reality is being perceived. While some researchers see reality as subjective and socially constructed by its actors, (*constructivism*), others perceive reality as more objective and external (*objectivism*). The ontological position of qualitative research is *constructionism*, which implies that social properties are outcomes of interaction between individuals rather than phenomena 'out there' (Bryman 2008:366). *Objectivism*, on the other hand, implies that social phenomena confront

us as external facts that are beyond our reach or influence (Bryman 2008:18). Ryen (2000) further points out that epistemological consideration, i.e., the perception of how knowledge is generated, influence the research strategy. Human behaviour can be explained against an external reality (*positivism*) or from a point of view where the researcher is required to grasp the subjective meaning of social action (*interpretivism*). The former means that the centre of attention is at the understanding of the social world through the examination of the interpretation of that world by its participants (Bryman 2008:366). *Interpretivism* implies that the social world can not be studied separately from the understanding that its participants has of it. Finally Bryman (2008:13) points out that it is useful to think of the relationship between theory and research in terms if *deductive* and *inductive* strategies. In the former approach, knowledge about a specific topic is used to formulate a hypothesis, while in the latter, theory is generated from data/research (Bryman 2008:694). Bryman (2008:13) does, however, points out that there is no clear cut between them and that “deductive and inductive strategies are possible better thought of as tendencies rather than as hard-and-fast distinctions”.

4.2 Research Design – Case Study

A research design is a way of structuring a research project with the aim of answering the identified topic of research and the research questions, hence guiding the choice of framework for the collection and analysis of data (Bryman 2008). The design chosen for this research is a case study, which means that research is concerned with the complexity and nature of the particular case in question (Bryman 2008:52). The term ‘case’ is commonly associated with a specific location such as a community or an organisation, which is also the case here. This research seeks to conduct an in-depth investigation of the Nooson Zangilaa Cooperative Union, to examine how the establishment of small businesses has contributed to development in this specific case. This research further aims to identify which particular challenges the NZ Cooperative Union and its members are facing in regards to their business operation and further business development. Finally the NLM’s (as a NGO) role in private sector development will be assessed to get a broader perspective on which contextual factors have contributed to the business development of the CU. The benefit of conducting a case study for this thesis is that it enables an investigation of the impact of development aid on a specific social setting where it has been deployed.

4.2.1 Contextual Overview of my Field Work

My former knowledge and experiences with the wool producers proved helpful when entering the wool craft communities of the CU. Not only was it practical to have been there before as I was searching my way around a city with more than one million people, it was also good to know the cultural codes and the expectations I met as a foreigner. In terms of logistics, my physical knowledge of the area allowed me to schedule ahead, and having the NLM's office as my base made everything more comfortable. I was also lucky to have a Norwegian social worker, which worked with the NLM, helping me do some of the interviews. The fact that she had little prior knowledge of the WPMP made her valuable in terms of broadening my perspectives. This, as I could discuss findings and perceptions and get her feedback on this. My contacts within the CU management further enabled me to send interview-guides and receive feedback on them prior to my travel, which proved valuable to the final design of the interview-guides. Further, the CU's facilitation and preparation of my stay was time-saving as the majority of visits and interviews were arranged prior to my arrival.

My travel to Darhan was facilitated by the NLM which solved my safety issues in terms of obtaining adequate transportation for the long trip. It was also a great advantage to use one of the NLM's drivers as we managed to find all the production sites, except from one. This, in Mongolia where there are no street numbers and where all the cooperatives are located in underground basement facilities, is indeed an achievement.

Staying with an old friend and taking advantage of some of my old networks quickly allowed me back into the expat community, which led to several interesting meetings. Getting back on track on what was going on in the city gave me information about the TA wool shop and taught me that several other development projects have picked up where the WPMP left. This means that many of the producers still receive some support from various external sources. This is not further elaborated in this paper; the information was, however, relevant in term of increasing my contextual understanding of the wool producers and their business operations.

4.3 Sampling

The form of sampling used in this study is purposive, with the selection of units having direct reference to the research questions of the thesis (Bryman 2008:375). In the case of the CU the men and women interviewees were strategically selected with help of my interpreter and the CU representatives which facilitated my meetings in the cooperatives. Out of 10 exciting cooperatives, 8 were visited (4 in UB and 4 in Darhan). In all cooperatives one person from the management was interviewed (most often the leaders when he or she was available). In addition, one or two of the producers on the work floor were selected to verify that there was a correlation between perception of management and work floor. The criteria for selecting the work floor producer was that (1) the person was a member of the cooperative, (2) worked minimum 50 percent of his/her time in the cooperative and (3) had been a member for a minimum period of 2 years. In total, 21 producers were interviewed, of which eight represented the management and 10 represented the work floor and three were individual producers. In addition the CU's executive director and marketing manager were interviewed and the CU management team was gathered for a focus group interview. To ensure "a modicum of comparability" (Bryman 2008:439), both between the different cooperatives and the management/work floor level, interview guides were developed and employed. These ensured that all the cooperatives were asked the same questions and that important subjects were sufficient covered (Bryman 2008).

Sampling of respondents from the group of individual producers was done using the snowball technique. People in the cooperatives would refer me to others that they knew worked individually in the wool craft business. In total three individual producers were interviewed. The two foreign NGOs interviewed were selected using the same technique.

In addition, the TA wool shop staff was interviewed and several visits were paid to the shop where I talked to both Mongolian and international costumers. From the NLM management, four people were interviewed; the country director and the project coordinator that worked in Mongolia during the operation of the WPMP, the first project manager of the WPMP and one representative form the development office at NLM in Norway. In addition, the former Mongolian project manager was interviewed. Finally, two of the CU's trade partners have been interviewed along with representative for the Norwegian Company Tova.

4.4 Data Collection

Data collection for this master thesis was primarily done during a 2 week period in June 2010. Producers and representatives form the Nooson Zangilaa Cooperative Union. All data collection on the Mongolian producers and their businesses has been carried out in the producer's own production localities (natural setting). Although offered to meet the producers at the CU office to avoid travelling between different locations, I decided to visit all the primary cooperatives and interview the members in their natural environment. This, to create a relaxing and 'safe' atmosphere.

4.5 Qualitative Methods for Data Collection

Qualitative method tends to be a more open-ended research strategy than quantitative research and the main methods for data collection within qualitative research are according to Bryman (2008:369) participant observation, qualitative interviewing, focus groups, discourse and conversation analysis and analysis of text and documents. Bryman (2008:369) further points to the fact that qualitative interviews and participant observation is highly relevant methods for case studies as it allows for an in-depth understanding. In addition to these two methods (qualitative interviews and participant observation), focus group interview and document analysis has been employed in this research.

4.5.1. Unstructured and Semi-Structured Interviews

According to Bryman (2008:436) the unstructured and the semi-structured interview can be encapsulated in the term "qualitative interview". Applying the two types of interviews for different purposes I have, however, chosen to distinguish between them.

Semi-structured one-to-one interviews were conducted with cooperative manager and work floor producers in both Darhan and UB. Semi-structured interviews were also used when interviewing former project staff and NGOs, along with the executive director and the marketing manger of the CU. To ensure a two-way communication process where the interviewees could use their own words and elaborate on their comments, open-ended

questions were emphasised. This, according to Silverman (2006:22) is believed to be the best route towards authenticity, and hence in obtaining an understanding of the interviewees' perception of the real world. It also proved useful as it allowed for the interviewees to raise additional and complementary issues, which several of them did. This semi-structured design, which Bryman (2008:438) pinpoints leaves the interviewee "a great leeway in how to reply" worked well as I was able to pick up on unexpected information and further explore interesting traces emerging in the interviews. The possibility to follow up on these traces provided information that potentially would have been disregarded had it not been for the fairly loose structure chosen. In order to gain in-depth information from the interviewees and ensure that specific issues were adequately addressed, interview guides were developed for the different groups being interviewed (appendix 1 and 2). These allowed for "a modicum of comparability" (Bryman 2008:439) and ensured a fairly identical structure when undertaking the interviews. The structure was also helpful to ensure 'cross-case comparability', especially between urban and rural based producers. The interview guides were fairly similar for the two groups, except the one targeting the management level was more extensive.

For the purpose of contextualising people's answers and gain trust, each interview was started by taking the respondent's details. I also asked about the family and their animals, as this is the standard procedure for becoming acquainted in Mongolia. To maintain reciprocity, I shared about my family and what I liked the most most with Mongolia. This usually gave us a good laugh and set the tone for the interview.

Unstructured interviews were used when interviewing former WPMP staff, the country director of the NLM Mongolia and the two NGOs, as this type of interviews leave the respondent to guide the flow of the questions (Bond 2006:35) and therefore provided a great deal of flexibility. With reference to Bryman (2008:438) the unstructured interview may consist of one single question where the "interviewing tends to be very similar in character to a conversation" which suited the purpose of some of these interviews well. With a few wide subjects as the point of departure, interesting conversations around the project, its beneficiaries and the impact of development aid emerged.

Self-completion questionnaires were used for the NLM management, former project staff living in Norway and Australia and for the Norwegian part of the Tova Company. The design of the questionnaires was based on the research questions in this thesis, and findings in the field. For

several of the respondents, questionnaires were followed up by phone calls, both prior to the field work and after my return to Norway.

4.5.2 Participant Observation

Bryman (2008:465) describes participant observation as a way of seeing through other's eyes, equipping the researcher to "see as other sees". This method commonly requires the researcher to be present in, and interact with a group and their specific social settings for a lengthy period of time. Obviously my two intense weeks of field work were not well suited to gain this type of understanding; however, observations made during my previous stay (3 years) in Mongolia will be used as a reference when seeking new and additional information. *Please note that participant observation, in this paper, is merely used as a complementary method.*

The nature of participant observation, according to Bryman (2008:466), allows flexibility to encounter unexpected issues. This, I experienced, was also the case with the CU where interaction with the wool producers on a number of occasions led to unexpected conversations. Taking part when the quality manager received products from the primary cooperatives and participating in the CU manager's meeting provided further insight of the relationship between the management and work floor levels, as power relations were clearly spelled out in front of me. Hence, comparing these observations with former experience and knowledge allowed for interesting reflections.

4.5.3 Focus Group

In order to explore how the CU perceived the background for their business development, as well as how they view their operation and sustainability, a focus group interview was conducted with the CU management team. The rationale for choosing the focus group was my interest in how the members of the group interacted with each other, and how consensus was reached among them. My prior knowledge proved useful as the group had a lot of taken for granted assumption (Morgan, cited in Bryman 2008:483) and made many references, which I luckily could follow most of the time.

The fact that the group already knew each other well was a benefit as there were no reticent speakers. The focus group interview was conducted after I had met with most of the cooperative's members, which proved to be a good solution. This, because it allowed me to bring in many of the concerns mentioned by the wool producers during my interviews. The major challenge, being the moderator, was a tendency of two or more people speaking at the same time. However, their experience of working with me before combined with knowledge of the challenges that comes with using an interpreter, were helpful. A couple of times we practiced timeout for the interpreter to catch up, and reminded everyone of the 'rules' for speaking. There was also the benefit of having it all recorded which meant that we could go back and make sure we got all the comments correct.

Although focus groups are an effective and interesting way of gathering information, the method is time consuming as the amount of information gathered is usually massive, hence, transcribing it is challenging. Audio recording was used throughout the focus group interview, in addition main points were noted down and digital tags were placed on the recorder. The challenge of having to know "not only what is being said but also who is saying it" is a well known problem with focus group discussions (Bryman 2008:476). Knowing the majority of the management team-members, however, made this a lot easier when transcribing the session. My ability to pick up a little bit on the language was also helpful, as I could pick up on things that were 'lost' in translation.

As predicted by Bryman (2008:475), individuals will often argue and challenges each others' views in the context of a focus group. This, in the case of the CU management team allowed me a more realistic account of what people were thinking. It also provided an understanding of why they felt as they did. This resulted in valuable information on participation patterns and power relations within the group. Comparing this with information obtained from the one-to-one interviews gave some very interesting perspectives on the inner life and structures, as well as of the bureaucracy of the CU.

4.5.4 Document Analysis

Collection and analysis of documents has been an important part of my research, and although I already had extensive knowledge on the project before I started out, this research has hopefully contributed to broaden my understanding of the topic chosen, especially in regards to contextual factors relevant for the business development of the CU. It has also been of great interest studying the material produced by the CU, such as marketing plan, budgets and annual reports as it gives good indications of the group's capacity and skill level.

Most of the data used for this analysis is documents derived from private sources. As pointed out by Bryman (2008:522), such information can be very important for researchers conducting case studies of organisations and using methods such as participant observation or qualitative interviews. Analysed documents include project plans, reports and evaluations, along with NORAD and BN policies and written advices provided to the project during the time of operation. A critical approach towards the written literature has been emphasised as the sources in most cases were produced for different purposes than research. Further the information have been interrogated and examined in the context of other documents (Bryman (2008:522) and has added to the 'knowledge base' that has been guiding this research. The documental information has added to the data gathered through interviews and has, when possible been used to support or cross-check information given by interviewees.

4.6 Interpretation of Data

As pointed out by Bryman (2008:538) one of the main difficulties with qualitative research is the large database that is commonly generated. Another challenge is the fact that qualitative data analysis is not governed by codified rules in the same way that quantitative data analysis is (Bryman 2008:562). The analytic approach of this study is mainly inductive in that data has been collected to theorise about the relationship between business and development. As grounded theory has been defined as “theory that was derived from data, systematically gathered and analyzed through the research process” (Bryman 2008:541), this approach draws on the framework of such. My analytic approach also includes a deductive element, in that established theories have been used to develop and guide the theoretical framework for this thesis.

4.7 Research Ethics

Ethical principles are important to bear in mind when conducting research. It is essential that the participants understand the purpose for why information is collected and what it will be used for. During my research I always introduced myself, and I was open about the topic and my purpose for choosing the CU as my case-study. Although identities of individuals are kept confidential in this paper, it will in some cases be possible to identify whose opinion is being expressed. To prepare for this, all people involved in the research have been informed about the topic, research questions and objectives of this study. In addition, the CU management board was given a very brief overview of my findings at the time I left Mongolia. Although not by far complete, it hopefully gave them some impression of what to expect from the final paper.

There has been no use of written consent forms in my research as this was done orally. All interviewees have, however, been presented with relevant information and promised confidentiality. Additionally, a written version of such information was sent to the CU prior to my arrival and distributed to all the local cooperatives. It is however worth noting that my ability to monitor in detail the information given was not possible due to it being communicated by interpreters.

Invasion of privacy is another ethical principle that I had to reflect over. Knowing the cultural codes of Mongolia was indeed helpful, however, some of the questions I asked could possibly be perceived as invading the producers' privacy. Examples of this were questions regarding religion, income and education level. According to Bryman (2008:128), the best precaution to avoid invasion of people's privacy is openness, as well as making sure that everyone is aware of the researcher's status and the nature of the research. This was repeatedly communicated to the wool producers during the interviews.

My former relationship with many of the wool crafters in the CU does raise ethical questions and has forced me to reflect on why I chose to come back to Mongolia. My role as researcher is further explored below.

4.7.1 My Role as Researcher

From 2005 – 2008 I lived in Mongolia, working with the NLM to implement the WPMP. Most of the time I acted as the project manager, and as a result I know many of the wool producers as they were the main beneficiaries of the project. For those I don't know – they will probably know of me, and hence, I have no chance of doing this research as a neutral person.

Indeed the conduction of fieldwork in a familiar area, where I have had a different role in the past, presented special challenges regarding my behaviour and acts as a researcher. The risk that some of the respondents would confuse me, either with an old friend or with a representative from the NLM, was indeed present, and measures were taken to avoid such. Re-entering the community of the CU, I brought with me a subjective perception of their operation and who they were as individuals, and although seeking to minimise my impact as a researcher I acknowledge that complete objectivity is impossible. This has inevitably affected research design, findings and the interpretation of such. I will, however, argue that my in-depth knowledge is a requirement for doing this research, as specific knowledge has enabled me to ask relevant questions and target critical subjects. I further request that my background and involvement in the WPMP is kept in mind when considering the research results and analysis of this study as this is important to create distance and validity for the reader (Nielsen and Repstad in Simonsen 2009:224).

According to Lind (2009:216) “today more than ever researchers are found choosing fields according to their personal interest”. Lind argues that this poses challenges to the distant and objective position researchers are expected to embody. Due to this personal interest in fields and projects it is possible that “the researchers own personal view might, and most likely will, influence the research itself” (Lind 2009:217). This, however, according to the National Committees for Research Ethics (2007), has the potential to enhance the quality of the material and analysis. Repstad (in Torvik and Jørgensen 2010:5) further argues that there are obvious advantages associated with being familiar with the context one is entering as a researcher. Firstly, the local knowledge makes the researcher able to place emphasis on the analysis, as he or she does not have to learn the language or the cultural codes. Knowing what expectations the Mongolians had to me as a foreigner was hence, helpful. Secondly, familiarity with the context is an advantage in that the interviewees ‘know that the researcher knows’, and therefore acts more naturally. This allows the researcher to be more sincere about her research and permits access to areas others would not have been given, according to Repstad (in Torvik and Jørgensen 2010:6). In the case of the CU I believe that my familiarity with their context allowed my in on subject that would have been hard to access for most outsiders.

My subjective perception of the situation in the CU and the primary cooperatives could, potentially, have influence my findings. One example was a tendency with some respondents to pause in a sentence and say ‘you know that’, then leaving it up to me to do the conclusion. As I did, in fact know, it was tempting to go with my own conclusions, both to save time and to not ‘bother’ the respondents to repeat something we both knew. Emphasis was, however, made to always ask the respondents to conclude and finish what they were saying. Simonsen (2009:212) argues that another known challenge for researcher working in a familiar context, is intimate knowledge of a subject or context; making the researcher blind for obvious conditions important to the research. Knowing the CU so well, I acknowledge running the risk of not valuing some facts as important, although they might be for the readers. To prevent this, the contents and findings of this paper have been discussed with people outside the NLM and the CU. Simonsen (2010:213) also points to the analysis of data as challenging for ‘inside’ researchers, as the ability to value objectively is hard. “Data gathered should be understood as it is, and not be judged or valued” argues Simonsen (2010:213), who worries that ‘value-verdicts’ should be made by the researcher. Once again I believe that awareness has been the best measure to avoid such, along with discussing findings and perceptions with fellow students and former WPMP staff.

There is no doubt that prior knowledge has affected this research, and I am well aware that I can not claim true objectivity. On the other hand, few researchers are truly objective, and I am not sure that having it as a model is ideal. In the specific case of the NZ Cooperative Union I will argue that the advantages being an 'insider' were vast. I further believe that a researcher unfamiliar with the wool producers and their communities would have failed to get in-depth answers as there would have been no common ground to kick off from. Moreover, I believe that my in-depth knowledge has strongly contributed to an extensive, rich and relevant research project, and I will argue that prior knowledge has been vital to obtain the information gathered.

4.8 Limitations and Challenges

4.8.1 Use of Interpreter

I was fortunate to have acquaintances in Mongolia which could help me find a well educated interpret with good English skills and experience from field research, as this is not easy in Mongolia. The interpreter chosen was interviewed and contracted by the NLM before I arrived, allowing me to send interview guides and information about my research ahead of travelling. I used one interpreter for most of the interviews; however, an additional person was hired for the time in Darhan. In addition, the CU marketing manager helped out when needed.

All interviews with cooperatives members and the CU were conducted in Mongolian, using an interpreter to translate into English (Mongolian-English). Interviews with former WPMP staff, the Tova representative and other NGOs were conducted in English (English-only), most of them without the present of an interpreter. In both cases language problems and communication challenges occurred. In the English-only interviews, the main challenge was accent and understanding of specific words. In the Mongolian-English interviews the main challenge was that I never had complete control over what was communicated and hence, could not monitor what was being said. Although probes were used, I did not always new what they were and hence how they affected the answers given.

In some of the English-only interviews the Mongolian interpreter was present and could step in to explain and elaborate, either in English for me or in Mongolian for the interviewee. For a

couple of interviews however, I did not bring an interpreter as I expected this to be time saving and encourage confidentiality. My experience was, however, that it was better to have an interpreter within reach at all times, as frustrations built up when I could not get across with my questions.

The main challenge using an interpreter was all the assumptions and references made by the interviewees, which the interpreter did not understand. The fact that a great deal of contextual knowledge was required in order to obtain a coherent understanding was really frustrated for the interpreter. To solve this, emphasis was made for the interpreter to not stop the respondent, but rather leave it up to me to make sense of it all. This worked well, as the respondents seemed to have good knowledge about what I knew and what needed further elaboration.

On a general level I believe that prior experience working with interpreters was helpful. This as I could predict many of the challenges before they occurred, and thereby avoid problems. It also meant that I had a clear perception of how long a respondent could talk before the interpreter would have to translate, and where I had to pause when speaking myself. Overall I believe that earlier experience made my expectations more realistic and prevented much frustration.

4.8.2 Mongolian Time

Mongolia, having a more relaxed attitude to time than the Western world, made me expect time management and appointments to be a major challenge in my fieldwork. Planning the trip I therefore emphasised on conducting most of the interviews with the wool crafters in their work places as, anticipating them to be there, independent of my appointments. I also decided to do the focus group interview in UB on a day that the Darhan producers were already there for other purposes. This proved to work very well as almost all of my interviewees were present at the times scheduled. Interviews with former staff of the WPMP were conducted ad hock whenever they could fit me into their schedules. This too worked very well as this is a common way of doing it in Mongolia.

Chapter 5: The Case of the NZ Cooperative Union

This chapter presents the empirical context and provides an overview of the NLM's intervention in Mongolia. The chapter further examines the establishment of primary and secondary cooperative structures. Moreover the selection of beneficiaries and how this has influenced the operation of the secondary level cooperative union (CU) is explored. Finally, the chapter presents an overview of the CU and its main tasks and objectives, as some of those are imperative for the operation and income-generation of the primary cooperatives.

5.1 Wool Craft Production Prior to Project Implementation

When the Norwegian Lutheran Mission established in Mongolia in 1994 the organisation became involved in sheep breeding, herding activities and wool processing. Working with local herder groups the NLM staff learnt that much of the raw material (wool) was not utilised, and that Mongolians commonly lacked knowledge about refining the wool. More than seventy year of communism, with everything likely to foster Mongolian traditions and pride being banned, felting traditions and skills had almost disappeared.

5.1.1 An Ancient Tradition

Mongolia is well known for its ancient felt traditions and the oldest known piece of felt found in the country origins from the 13th century. For centuries Mongolians have used felt as covers for their gers (Mongolian dwelling) as the material is well suited for the country's extreme climate. Household items, such as sitting mats and thick wool socks have also been produced in the countryside since ancient time, and today wool crafters and felt artist from all over the world come to Mongolia to experience and learn from the old tradition.

The Mongolian felt technique differs dramatically from that used in the West where wool is commonly knitted or woven into an object or sheet before being carded on the outside. In Mongolian tradition, wool is laid out on a large sheet and then beaten with wooden sticks for a long time before it is tightly rolled up and tied behind a horse to be rolled around the fields. The felt techniques currently used for production among the wool producers in the NZ

Cooperative Union are similar to the one described above, yet the scale is smaller and the production has been moved indoor. The ‘modern’ wool producers lay the wool in even layers, using table-like tubs (figure 8), then gently rubbing it with natural soap and sprinkles it with water until the wool is felted. The products made by the CU’s producers are hundred percent hand-made, meaning that every step, from carding, spinning and felting to sewing and stitching is done by hand.



Figure 6: The wool felting process at one of the cooperatives

Source: Author

5.2 Brief History of the NLM and the WPMP Interventions

5.2.1 Background for Implementing the WPMP

The NLM established in Mongolia, aiming to spur on the development of local churches, while additionally searching for opportunities to help the Mongolian people utilise their own natural and human resources. According to former WPMP manager, Hjalmar Hugdal, it early became clear that there was a potential for development and income generation within the field of wool processing, as there was a pressing need for better and more efficient utilisation of raw wool. Further, the Mongolian population lacked business skill as acquisition of income for private use had been illegal under the communist regime. Based on this information the decision was made for the NLM to involve in the wool and felt sector of Mongolia.

The first project implemented by the NLM (in 1995) was the Selenge Development Project (SDP) which targeted herder groups through sheep breeding and wool processing. The Bayanzurkh Development Program (started in 1997) was an extension of the SDP, which through the provision of basic felt trainings and skill transfer of wool pre-processing techniques aimed to utilise the wool produced by the herders in the SDP. With assistance from professional Norwegian wool crafters, a large pool of skilled Mongolian wool teachers were trained, and in cooperation with the Mongolian Cooperative Training Information Centre (MCTIC) and the Mongolian Employment Regulation Office (ERO) basic felt trainings were offered in most parts of Mongolia. Since 1996 more than to thousand people have received basic felt trainings through the NLM projects (Fisher *et al* 2008, Strohmeyer 2010).

As the skill levels increased and the number of trained wool producers grew, the need for new and bigger markets in which to sell the products emerged. So did the need for formal and better organised structures. In answer to this the main focus of the NLM changed, from wool and felt trainings, towards business and marketing skills and in 2003 the Wool Processing and Marketing Project (WPMP) was established. During the pilot period (2003-2005) the WPMP continued to offer wool and felt trainings along with targeting the large gaps in management and business skills that were now becoming increasingly visible (Hugdal 2004).

In 2005 the WPMP officially commenced a two year plan with the aim of 1) empowering vulnerable families to improve their living conditions in a sustainable way through the production and sale of wool craft products and 2) to empower the existing wool crafters and the relevant institutions in the Mongolian community to establish cooperative structures for a sustainable development of the wool craft business (Hugdall 2004).

5.2.2 Selection of Beneficiaries

From the very start the main objective of the WPMP project was poverty reduction (Hugdall 2004), meaning that beneficiaries were selected accordingly. In addition, mothers from single headed-household were specifically targeted. Potential beneficiaries were selected through various sources; from the local churches, through the Employment Regulation Office (ERO) and through the local project staff.

For the purpose of this research project it is worth noting that although the original beneficiaries were single house-hold mothers and poor people, people from all social levels joined the trainings, and there were no restrictions made on this by the WPMP. In short this means that some of the wool producers are well educated and have business skills. It is however evident that the majority of the wool crafters that originally joined the project has stayed on, hence, a large part of the producers have a past as ‘poor’ or ‘vulnerable’.

5.2.3 Poverty Reduction to Business Development

From mid 2006 there was, according to Fisher *et al* (2008:9) a shift in culture and expectations of the WPMP project “from up-skilling vulnerable families through the training and selling of wool-craft products, to all project units and producers operating independent, sustainable and competitively in a market economy”. This shift was, however, not adequately reflected in the skill levels of the WPMP staff (Fisher *et al* 2008). The reasons for this are multiple, and all respondents interviewed have different perception and explanation as to why this problem was not sufficiently targeted. The main perception, however, seems to be that the project escalated much faster than expected, and without anyone taking on the responsibility for the lack of business and marketing skills present within the WPMP project team. Due to

the poverty reduction element of the project, the WPMP staff was qualified to do development work, not establish businesses. Neither NLM in Norway, nor NLM Mongolia nor the donor level (BN and Norad) seemed aware of the pressing need for such expertise, and by the time they did, it took time to recruit and get in place. By the time expertise was actually in place, the time to build business and marketing capacity were limited as the project had already entered the phase out stage (Fisher *et al* 2008).

In the context of this paper the project's development from poverty reduction towards income generation and business management, and the challenges encountered due to this changes, are important as it sheds light on the current situation in the CU and hence give a broader understanding of the analysis.

5.2.4 Poor Access to Export Channels

In the beginning, wool products were mainly made for private households and practical use. As skills and design improved the products were introduced on the souvenir markets in Mongolia. Products going out of the country were sold through church channels in Norway, and many missionaries brought home products to sell (Fisher *et al* 2006). Additionally, Norwegian 'jule-messer' (Christmas fairs) placed orders with the NLM, adding to the production and income for the wool producers. Entering the international market at a larger scale, however, was hard, and despite NLM's repeated search for export opportunities no ideal solutions were found.

In 2003 the Xin Consulting (XC) was introduced as a marked link and distribution channel for the Mongolian wool producers in the WPMP. The company was based in Norway and aimed to be a regular for-profit business. The XC was, however, also part of the NLM structure and the company aimed to send 'tent-makers' as missionaries (Mersland 2003:8). In his evaluation of the project, the external consultant Mersland (2003) concludes that "this noble idea regarding combined objectives is very difficult to fulfill in practical life". Despite critic the XC quickly increased its turnover, which in terms greatly influenced the income level of the Mongolian wool producer. This lasted until 2006, when the XC had to give up its work in Mongolia. The failure of the XC lead to dramatic decline in production orders, and between fifty and hundred producers left the primary cooperatives as there was not enough work

(Strohmeyer 2010, Fisher *et al* 2006). For the wool producers this was a shock as the XC was perceived a stable and reliable company due to the NLM giving it high levels of credibility. Mersland (2003) warned about this in his review; “in business nothing is reliable.... neither XC nor NLM should present XC as something reliable”. Interviewing the wool producers I found that many are still upset by what happened to the XC, blaming the NLM for not foreseeing the failure. Others, however, claim that it was a good lesson as diversification was emphasised when the CU started to re-establish its export channels.

Although much have been about the export opportunities, or lack of such, both in the WPMP’s own documents (annual plans, reports, etc), and in external evaluations, fact is that domestic sale have increased steadily over the years. This was identified by Mersland as early as in 2003, when it was evident that “more and more home producers found local markets for their products by themselves”. Also the ITC (2010) emphasises a continued focus on the domestic markets, stressing further utilisation and expansion of such.

5.3 In Need of Formal Structures

5.3.1 Individual Producers to Production Groups

The wool producers trained by the WPMP produced individually, searched their own market opportunities and sold their products wherever they could. As the number of trained wool crafters increased, however, there was a need for more formal production and marketing units. The request for such came from the wool producers themselves, and was further emphasised by external evaluations (Mersland 2003, Fisher *et al* 2006). Further, it was seen as an advantage to have producer groups, rather than hundreds of individual producers, when facilitating trainings and building capacity. In addition, the WPMP needed a legally registered partner to which transfer of assets could be done when the project phased out.

In 2004, about two hundred producers organised themselves in small cooperatives, the smallest cooperative with nine members and the largest with almost forty. The cooperatives were located in UB, Darhan and Selenge, and the wool producers joined the groups closest to their homes.

5.3.2 Establishing Cooperative Structures

The rationale for establishing cooperative structures were multiple, but first and foremost this was the business structure emphasised by the Mongolian government, and an organisational form familiar to many Mongolians. Cooperatives have existed in Mongolia since the 1920s and it is likely to assume that the favourable perception of cooperatives within the country is linked to the communist tradition where government managed entities were often referred to as 'cooperatives'. At that time, however, cooperatives did not include the same equality of participation that are now advocated and practised. Secondly, it was important to promote democratic structures that emphasised a 'fair share of profit' and which avoided exploitation of the weaker groups. Further, the idea was that training in cooperative actions would be good for the democratic development, both at local and national level. Finally, the advantages of shared risk and ownership, along with great investment potential and scale to maximise market opportunities, were pinpointed.

Brief political situation for cooperatives in Mongolia: In 1998 a new cooperative law was introduced in Mongolia, providing a more concrete structure on how to organise and manage cooperatives. Together with the Cooperative Development Program (Government Resolution NO 145) the intention was to facilitate the development of cooperatives and increase their capacity to economic improvement through a more solid legal framework. Santa. Maria (2007:2) finds in her cooperative assessment report of the CU that there is no shortage of training facilities and institutions for cooperatives in Mongolia, and hence that the capacity-building environment is present. This is according to Santa. Maira (2007) due to the Mongolian Cooperative Training and Information Centre (MCTIC) and the large number of international development organisations catering to the development of the cooperative structures. Santa. Maria does, however, find that the major challenge is lack of funding, arguing that "the lack of financing facilities for small businesses limits the funding ability for these cooperatives [the CU's primary cooperatives] to achieve their full economic potential (see point 6.3.1 for further exploration of the CU's access to finances).

5.3.3 Family Relations

Family relations are extremely important in the Mongolian context and as Tuvshinbayar and Raysolyn Natividad (2007:4) point out “trust and family ties are intrinsic in forming cooperative groups or associations where Mongolians usually do not approve of other people joining their groups that those related to them with blood”. Strong family relations are also the case within the CU. Among the ten cooperatives only one is a pure ‘family cooperative’, nevertheless; a large number of the cooperatives have more than one member from the same house-hold. During my research I learnt that it is common for the wool producers to train family members and pass on production to those during peak season and busy times. I also found that the majority of the producers have strong family links, seeking advice and approval from their families in most business decisions. Hence, family relations are likely to influence the operation and outcome of the wool producers businesses (see 6.1.4 in the analysis).

5.4 Secondary Level Cooperative Structure

The need for a ‘wool craft cooperative union’ was identified by Hugdal in the long term project plan (2004:13) as “the local cooperatives as separate units will not be able to take on the task of raw material supply, product marketing and sales in a powerful way”. This was considered important in terms of the large investments needed for raw material and wool processing (see 5.6.2). Hugdal expected a secondary level organisation to be a “natural response to the needs gradually rising from the daily challenges in the local coops, and to the fact that the WPMP will draw out of all operational activities.” Hugdal’s expectations proved right, and in August 2006 the primary cooperatives gathered to establish an umbrella organisation for their activities. The secondary level organisation was named the Nooson Zangilaa Cooperative Union (CU).

5.4.1 The Establishment of the NZ Cooperative Union

The Nooson Zangilaa Cooperative Union (CU) was established to take over the main tasks of the WPMP. The core activities in need of being continued and sustained were the wool collection and pre-processing (point 5.6.2), the management of the TA wool shop (point

5.6.3) and the handling of export orders (point 5.6.4). In addition, the WPMP aimed for the wool trainings to be continued through the WCCC (point 2.2.5). When established, the CU became the main partner of the WPMP and emphasis was made to transfer skills and capacity to the CU to prepare the organisation for its independence. Ten cooperatives, with nearly 300 individuals are currently organised under the CU, producing for, and receiving services from the organisation. In addition to being a facilitator of services, the CU gives voice to its member cooperatives in political matters, and due to its large size the CU have strong influence with networks all the way to the minister level (close cooperation with the Ministry of Food and Agriculture and the Mongolian National Chamber of Commerce and Industry). According to Strohmeyer (2010:8) the CU is “expected to develop into a full fledged business association for the whole wool and felt sector in Mongolia, providing advocacy, networking and support services to its member cooperatives”.

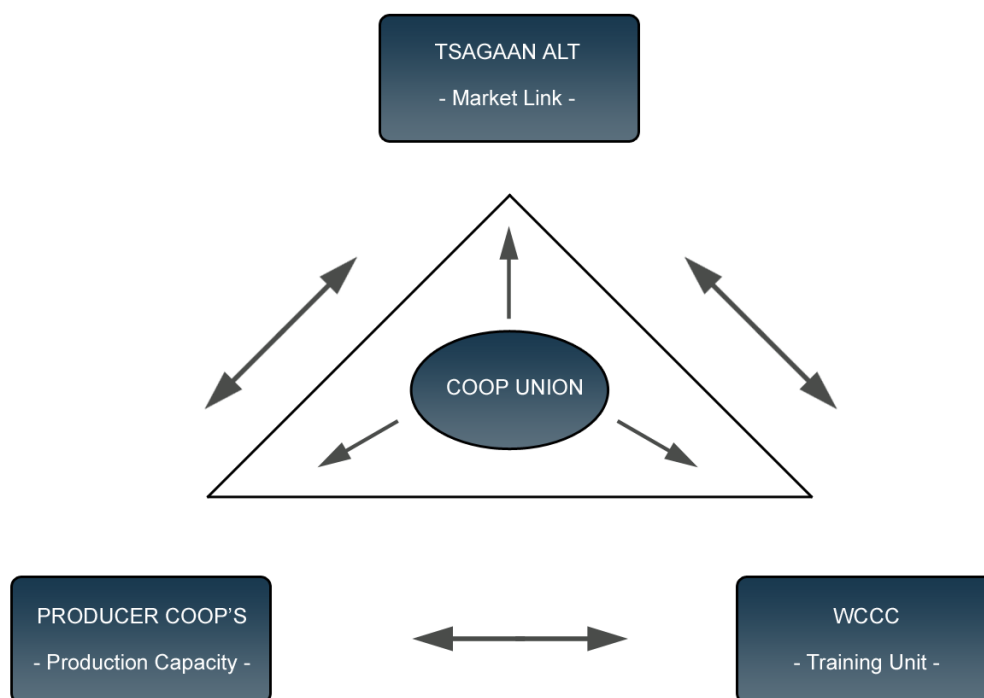


Figure 7: Relations of former Beneficiaries past the WPMP Phase Out
Source: Author (adapted from Strohmeyer 2010)

5.4.2 Poverty Reduction and the Selection of Beneficiaries

The selection of beneficiaries and the poverty reduction element of the WPMP project has already been discussed in point 5.2.2 and 5.2.3. The reason why it is re-mentioned in this paragraph is because it has relevance to the development of the secondary level organisation (CU). Due to the poverty reduction focus and the target group of the project (poor single headed-household mothers), recruiting highly skilled people for the operation of the CU has been challenging. Not many had higher education and, although poor people had successfully been trained to produce wool craft and even sell it through smaller cooperatives or enterprises, running an organisation with three hundred individual members were a whole different story. The fact that business and marketing skills had been introduced by the WPMP at a late stage also influenced the capacity and level of skills present within the group of wool producers. Several of the respondents interviewed on the implementing level (NLM) clearly expressed that the challenge of transforming disadvantaged women to successful operators of a large cooperative union was indeed vast, and in some ways almost impossible, as people can be taught 'only so much' in a limited amount of time. Teaching the wool producers what would normally take years of higher education through trainings and transfer of skills, was defined as one of the major risks (Fisher *et al* 2006, Fisher *et al* 2008) in terms of sustainability of the CU. So far this has, however, proved to work well, and despite challenges in terms of language, computer and business management skills the CU has managed to run profitable since their establishment in 2006.

5.5 Most Important Roles of the NZ Cooperative Union

The main objectives of the CU is to support the producer cooperatives in terms of raw material supply, financing, product development, transportation and storage as well as marketing and sales (Strohmeyer 2010:8). The five major tasks of the CU are presented below and it is worth noting that some of these tasks are imperative for the operation and income generation of the primary cooperatives and their businesses.

5.5.1 Increase Income for Members

The most important role of the CU, according to the wool producers interviewed is to sustain, and further increase, the income for the primary cooperatives. Also the CU acknowledge that this is an essential part of their responsibility, pointing to further development of the TA, improved quality standards and reduced costs of raw material processing as ways of doing this (CU 2010:3). Since all sales, both export and domestic, go through the CU their ability to handle it, monitor it and further increase it is vital for the success and income of all the primary cooperatives, including the CU itself. As already mentioned the CU has more than tripled its income since the establishment in 2006, and in 2009 the income for the first time exceeded 300.000 USD (CU 2010). Due to increase in expenses however, this level of income needs to be sustained for the operation of the CU to continue (CU 2010).

5.5.2 Wool Collection and Pre-Processing

Wool collection in Mongolia is done once a year and is a very time consuming process that requires a lot of work. When the herders are ready to shear the wool, buying teams are sent to the country side to negotiate price and collect the raw material. The two major challenges are timing and price. Because communication with the nomadic herders is hard, due to lack of communication equipment, it is challenging to know exactly when the shearing process starts. Late arrival means that others could already have purchased the wool. In terms of price the major challenge is foreign buyers, or investors, that are willing to buy above market price. Purchasing up to ten or fifteen tons of wool, even minor increases in price have severe impact on the final profit of the wool producers. Measures have been taken to avoid this, and the CU is cooperating with 'their' herder groups throughout the year to maintain good relationships.

The CU also pre-negotiates purchasing contracts for the wool in early spring each year. Similar measures are also taken by the Tova Company, which cooperate with the ‘their’ herders; supporting them with coal, wood and food during the difficult winter months. Building loyalty with the herder groups has been on the agenda since the WPMP’s time, and seems to be practise in all groups and companies in need of raw wool.

When the wool is collected it is transported from the country side to capital UB for washing and dyeing. The pre-process of the raw wool is performed by one of the large cashmere factories, and is a very costly procedure. Further, the logistics needed to physically collect and transport ten tons of wool, from a large number of nomadic camp-sites, is vast and expensive. From being bought at 3-4000 tug (2-3 USD) per kg, the wool price past pre-processing can easily be up to 12-14000 tug (10-11 USD). This is the main reason why the CU is so important. Without the CU facilitating and financing the buying and pre-processing of wool, the majority of cooperatives would not be able to afford the raw material needed for production, and would hence be incapable of sustaining their income. During my research I found that among the services provided by the CU, the provision of processed and dyed wool was the most appreciated by the wool producers. It was also one of the main motivations for remaining members of the CU, and it was mentioned by all the individual producers an important incentive for joining the CU.

In this context it is important to note that only the CU’s members are allowed to purchase wool from the CU. Moreover wool can only be bought for orders placed by the TA or for production of international orders going through the CU. For other production (e.g. local souvenir shops) the primary cooperatives and the individual wool producer are themselves responsible for the raw material supply.

5.5.3 Managing the TA

As already mentioned the TA wool shop, as the CU's retail outlet, has its own registration, accountant and budgets. In 2009 the CU, however, decided to incorporate the TA in the operation of the CU, and further to take over the handling of export orders which until then had been the TA's responsibility. As owners of the TA, the CU is responsible to hire and train the wool shop's staff, and to oversee the operation and sales of such. The CU further negotiates prices with the producers, along with being responsible for all communication between the TA and the cooperatives. This means that the TA informs the CU which products are needed, and in which sizes, colours and numbers they should be delivered. The CU then distributes the orders among the cooperatives according to skills and capacity. The producers receiving the orders are then allowed to purchase raw material (wool and leather) according to the orders received. When the products are ready they are delivered at the CU main office in UB for quality control and then handed over to the TA.

5.5.4 Handling Export Orders

The TA staff received extensive training from the WPMP and the ITC to handle and follow up on the export orders. When the shop manager decided to leave her position in 2009, the CU took over this task, and all communication with international buyers now goes through the CU management team. It is also this group that is responsible for checking, handling and shipping the orders, which in terms have led to increased administration costs of the CU. Another important part of handling the export orders is to follow up, and stay in touch with, existent costumers, as well as expanding the costumers-portfolio. This was mainly done through fair-trade participation in Frankfurt when the TA was in charge; how this is to be done in the future is not yet settled (see 6.2.2).

5.5.5 Continued Capacity Building among Members

The CU aims to continue building the capacity level of the primary cooperatives and their wool producers. This is done through trainings and advocacy. Trainings are purchased through the MCTIC, or other relevant institutions in Mongolia, and paid by the CU. The CU also represents the cooperative members in the public debate and advocates to improve the legal and institutional framework of the wool producers and their businesses. Stohmeyer (2010:8) finds that the CU in the longer term is expected to develop into a full fledged business association for the whole wool and felt sector in Mongolia, “providing advocacy, networking and support services to its member cooperatives”. Although the CU has not yet reached this level, it is currently providing a large number of support services prerequisite for the existence of many of the cooperatives. In addition, the large business-network and the good reputation held by the CU in Mongolia are important for the capacity of all the primary cooperatives. The overall success of the CU, the primary cooperatives and their wool producers will depend on the CU’s ability to continue the capacity building and to increase the overall level of such in the future.

Chapter 6: Findings and Analysis

As stated under research objectives (chapter 1.3) the primary aims of this study is to investigate how business work for development and more precisely how business has facilitated development in the case of the Nooson Zangilaa Cooperative Union (CU) in Mongolia. This chapter presents the findings of my fieldwork; identifying contextual factors that has facilitated, as well as challenged, business development in the case of the CU. As external support has been vital for the results achieved by the CU, the chapter draws the link between business and development aid.

6.1 Business Development

6.1.1 Accessing the Business Performance of the CU

According to the UNDP (2008:29) functioning, well-developed markets have adequate infrastructure, steady flow of information and a regulatory environment that is friendly to businesses. In addition, market participants have skills, knowledge and access to financial products and services. These key factors are often lacking in developing countries, making business development and business performance a major challenge for those involved. The context described by the UNDP links well with that of Mongolia, in which the Noozon Zangilaa Cooperative Union (CU) operates. Lack of access to financial products and services, shortage of information and access to ICT and an unpredictable regulatory environment is part of the wool producers' reality. Despite these difficulties, the CU has managed to establish profitable businesses, and hence contributes to income generation and job opportunities within the wool and felt sector in Mongolia.

Assessing the business performance of the CU and the primary cooperatives involved asking questions about the relationship between income and expenditures for their enterprises in 2009, and the first semester of 2010. In addition, respondents were asked to classify their income level in accordance to living expenses. To gain a better perspective on these matters, respondents were further asked how they would use profit (appendix 1). The answers were compared to the financial statistics provided by the CU (2010), findings in the WPMP evaluation report (Fisher *et al* 2008) and the impact analysis conducted by the ITC (Mayagmar-Ochir 2010).

Based on this information, my research shows that the overall business performance of the CU and the primary cooperatives are good, i.e. operating with financial profit. This means that the larger part of the cooperative members have a salary that enables them to cover, at a minimum, living expenses and basic needs. Some of the respondents interviewed had in fact a good salary, allowing for re-investment and employment. Only three of the twenty one wool producers interviewed said that they struggled to break even. Among these, only one expressed a feeling of being poor. These findings link well with Strohmeier's (2010:6) discovery of the wool producers not wanting to be associated with being "poor" or "vulnerable" any longer, i.e. the wool producers, of which many were selected by the criteria 'poor', do no longer feel that they belong in this category.

In terms of income, most of the wool producers interviewed stated an income per month between 100.000 – 130.000 tug (90-100 USD). Further, all of the producers said that their income had increased since they first joined the CU. This income level is similar to what Strohmeier's (2010:5) findings, where an average income per individual producer was 91 USD in 2009. It further links well with findings in the ITC's impact assessment (Mayagmar-Ochir 2010) where more than sixty percent of the wool producers make more than 50 USD per month, compared to only fifteen percent in 2006 (see table 2). In this context it is, however, worth noting that an average monthly income in Mongolia is 274.000 tug (227 USD), which means that although the majority of wool producers are satisfied with their income, it is not sufficient to provide for a household. However, many of the wool producers have small businesses on the side, and it is common practice to pass on production to family members. This generates additional income for many.

For the secondary level cooperative (CU) the overall business performance appears to be good, with an annual turnover in 2009 of 315.000 USD. That is more than three times the annual turnover in 2006, when the CU first was established. The operational costs of the CU have, however, increased rapidly over the last years, implying that the current level of income needs to be sustained for the CU to maintain its operation.

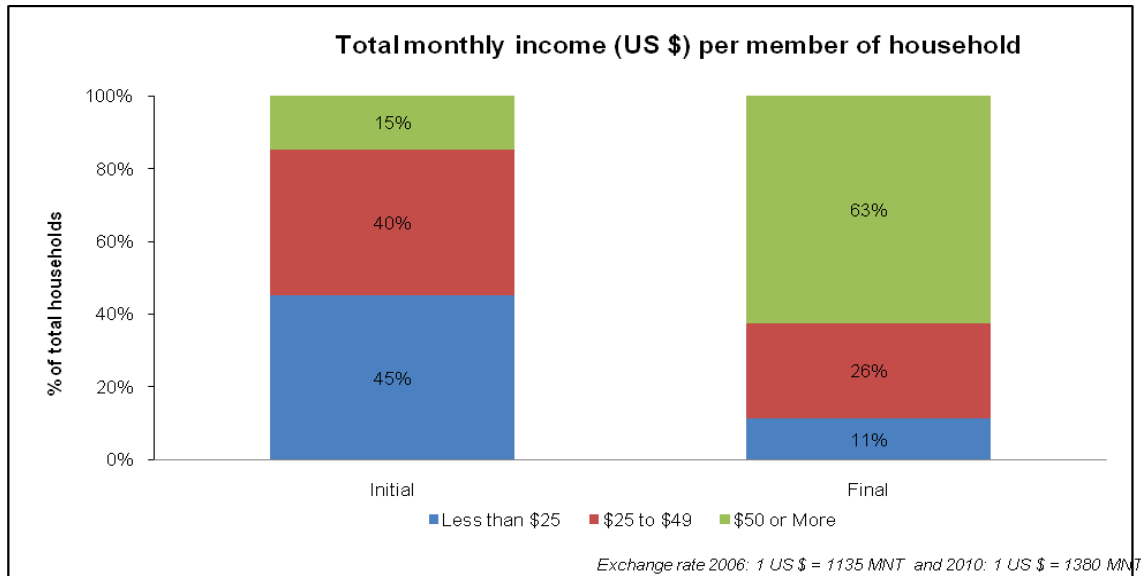


Table 2: Total Monthly Income per Household in 2006 (initial) and 2010 (final)
 Source: Strohmeyer (2010)

6.1.2 Capacity Level of the CU

According to Norad (2009:17) there are four main factors that contributes to economic growth and development; physical capital, human capital, technology and well functioning institutions. In terms of *physical capital* the CU faces both internal (lack of collateral and large machineries for felt production) and external (Mongolia is a land-locked country with poor infrastructure, few paved roads, etc) deficiencies. The CU does, however, have good access to computers and basic felting tools (carding and spinning machines) as this was provided by the WPMP. Moreover, office equipment, mobile phones and other means of communication were provided to the CU through transfer of assets by the phase out of the WPMP.

The *human capital* within the CU is very high in terms of practical and technical knowledge. The wool products made by the CU are considered ‘the best on the marked’ (Fisher *et al* 2008), and extensive trainings in felt techniques and quality management since the mid 1990s, have equipped the wool producers with significant levels of skills. Business management and marketing skills, along with language and computer skills are, on the other side, among the

biggest challenge for the operation of the CU. Lack of human skills is further identified by the UNDP (2008:27) as a major business constraint.

Lack of *technology* does not affect the CU much as the production strongly depend on hand craft and the old traditional way of doing this. Both the CU and the primary cooperatives are, however, interested to find more cost-effective production methods. The use of fabric-made felt could be an alternative, as could the use of coarser wool for the production of slippers. During the focus group session the CU management team discussed lack of finances to procure more modern technology, implying that they do consider lack of technology problematic. On a rather long list of challenges, however, this is not among the most critical.

According to Norad (2009:17), *well functioning institutions* provides the framework in which the former factors are enabled to work together “in a productive way”. For the majority of the wool producers the CU is *the* most important institution, providing all the services they need. For the CU, however, the operating legal and regulatory framework of Mongolia presents challenges as there is commonly lack of productive government institutions. Moreover, the lack of well functioning financial institutions are a problem for the CU (see point 6.3), as poor access to finances hinders effective operation and fulfilment of their business potential. The CU tries to addresses this lack of a legal and regulatory framework, advocating for improvements on behalf of their members (Fisher *et al* 2008, Strohmeyer 2010).

On an overall level the capacity of the CU is not sufficient, especially not in regards to the human capital in the CU management team. The main challenges are lack of English skills and low level of business, marketing and management skills. Fisher *et al* (2008:24) find that the CU may “lack the necessary experience, expertise and capability to run multiple business-units in the best interests of all”. This is further complicated by an unclear share of power in the CU (see 6.3.5).

6.1.3 Business Approach

The business approach chosen by the Norwegian Company, Tova (2.2.6) places emphasis on five key areas; 1) a ‘business oriented mindset’, 2) targeting a niche market and offering a small selection of high quality products, 3) centralised production, 4) production to be overseen by one key person and 5) all tasks but production to be located close to the end consumer.

Business oriented mindset: Comparing the CU with the Tova Company, the ‘business oriented mindset’ is interesting. In 2006 Lindeland and Lundstrøm (2006:10) found that the biggest challenge for the WPMP was to run the different activities according to market and business management principles. Fisher *et al* (2008:4) did a similar finding in the evaluation of the WPMP; “a key challenge has been to facilitate the transition from the project’s original social values to business principles, including the challenge of changing the producer’s attitude and willingness to run independently”. As the CU was set up to take over the activities of the WPMP, it is likely that the ‘social values’ of the project have influenced the ‘business orientation’ in the CU. This is reflected in the CU’s emphasis on equality, fair trade principles and the health environment of the wool producer. Nevertheless, both the CU and the TA are currently operating successfully. Further, all the customers interviewed are satisfied with the CU, referring to them as ‘professional’ and ‘efficient’. Although it is hard to make a conclusion on this subject, it is likely to assume that despite what seems to have been a lack of ‘business mentality’ in the CU, a more business oriented approach are now being implemented. Hence, the CU has adapted well to business principles past project phase out.

Niche market/number of designs: While the Tova Company has made felt slippers their trade mark the CU is currently offering a large number of designs, which all are available in a wide range of colours. This is challenging when targeting markets and identifying consumers. The CU has, after advice from the ITC, decided to offer their products within the felted fashion accessories market. Their production range, however, also include garments and slippers which would benefit from promotion in different market categories. Further, the large number of designs, in which many are very similar, is confusing for the costumers. The large number of similar designs was the main reason why one of the international customers did not place orders for the autumn of 2010. According to this customer ‘there were just too many choices’. She struggled to get sufficient answers of what distinguished the different products, which all

looked the same but had different order-numbers. Finally, the wide selection designs affect the cost-benefit ratios of the CU, as it requires a larger stock of dyed wool.

Centralised production: A structure where most of the producers work from home, which is the case for the wool producers in the CU, is challenging in terms of consistency and quality measures. Because the CU's work force is spread over ten cooperatives in two different districts (UB and Darhan), overseeing and controlling the production is difficult. This results in deficiencies in pattern and quality. Centralised production was recommended by the ITC as an appropriate way of targeting the problem (Byrde 2007), however, centralising the production has not been desirable, nor for the CU or the primary cooperatives. The Tova Company, on the other hand, found centralising to be an efficient tool in increasing the company's quality management, and has established a small 'factory' in Darhan. This, according to Tova, secures the quality of each product and allows the key manager to oversee the production at all time, reducing the loss of raw-material as mistakes are discovered early.

One key person: In comparison to the Tova Company, which has one key person to oversee and administrate the production, the CU has several. Many of those are also producers themselves. This leads to inconsistency in quality standards and increased administration costs (see 6.3.5 – CU's operational management).

Closeness to the end consumer: Among the major challenges for the CU is the large distance between producers and end consumers. This means that rapid change in demands and desires are hard to follow. Participating in international trade fairs once, or twice, a year is not enough to keep updated on the changing trends, and choosing the wrong colours for the collection can be fatale. Further, expectations in terms of delivering the right quality at set times are challenging for a culture where time are less important. This problem is highlighted by the UNDP (2008:31) which finds that "suppliers, distributors and retailers may lack the knowledge and skills to deliver quality products and services consistently, on time and at a set cost" making them lag behind on the competitive international markets. The problem seems to be for the wool producers to realise that these things do matter to foreign costumers (it does not to most Mongolians) which could be linked to a 'flexible mindset' and challenges in the crossing between local culture and modern market principles in regards to this (Ulziikhutag 2006:101). Tova's location of their head office in Norway, along with detailed knowledge of trends and demands, are among the company's major advantages when compared to the CU.

6.1.4 Business Networks

The CU itself constitutes a very important network in which members can discuss and develop new business ideas. For the majority of the wool producers the CU is regarded the main source of information and knowledge, closely followed by family, trainings and magazines. About half of the respondents in my study said they would consult with the CU if they had business ideas, whereas the other half would discuss it with family-members first. Very few of the wool producers saw consumers or markets as part of their business-network, and only two mentioned Internet as a possible way of networking. The cooperative leaders expect the CU to research market opportunities and maintain their business networks. Further, the primary cooperatives seem to practice a system where business ideas at an early stage are discussed internally. When decisions are to be made, the CU gets involved. While the primary cooperatives have few business associates other than the CU, the CU itself has a fairly well developed business network. The CU cooperates with a large number of organisations and institutions in Mongolia, to build capacity and advocate the wool producers' voice in political matters. Such advocacy and public policy engagement does, according to the UN Global Impact (2009:10), contribute to development in the longer run. In addition, the CU has a broad international network, including buyers and other cooperatives as well small businesses enterprises in other development regions of Asia (Santa Maria 2007).

Family relations are extremely important in Mongolia and as Tuvshinbayar and Raysolyn Natividad (2007:4) point out "trust and family ties are intrinsic in forming cooperative groups or associations". This links well with my findings within the primary cooperatives' and the CU's business networks, where 60 percent of the respondents said they would consult with family members before involving the primary cooperative or the CU if they had 'business ideas'. Further, I found that it is common for the wool producers to train family member and pass on production to these during peak season. Hence, family members are favoured when possible.

6.1.5 Entrepreneurs as Catalysts

Defining entrepreneurs as small business owners that are also involved in running their own businesses (Aidis *et al* 2005) indicates that a large number of the wool producers in the CU are in fact entrepreneurs. What is interesting is that although the individual cooperative members have strong relations to the CU, many have small businesses ‘on the side’ using their knowledge to develop new products by applying alternative and cheaper techniques. Further, many said that they would use profit for re-investment or employees. In my research I found that several of the wool producers made jewellery from beads and felt, some printed t-shirts and one lady had purchased a die-cutter for felt. Asking about finances versus investment needs and desires revealed that a large number of the respondents had business ideas that they sought to develop outside the cooperative structures. Some of the primary cooperatives had also developed small businesses, independent of the CU, where all the members of the cooperative were involved. This ‘entrepreneurial spirit’ appears to be vital for the development and further innovation of the CU. Partly because the best ideas and designs are put to production by the CU, and partly because alternative material and production methods are researched without the CU having to facilitate or pay of it. Some of the wool producers interviewed disapprove of doing business outside the CU. In my opinion, however, this entrepreneurial spirit provides a vital drive for the continued development of the CU. Additionally it benefits a large number of families as further income is generated.

6.2 Sector Development and Trade

The Noozon Zangilaa Cooperative Union is now the largest sector associate in the felted craft sector of Mongolia, and asserts leadership of the whole Mongolian wool and felt sector, according to Strohmeier (2010:6). The wool and felt sector has also been among the fastest growing sectors over the last ten years, impacting job and income generation greatly (Myagmar-Ochir *et al* 2010). The establishment of the CU, as a major market player in the wool and felt sector is, according to Strohmeier (2010:18) a “remarkable example of bottom-up sector development, from household units to producer cooperatives to an apex cooperative union”. This has been achieved without support from any government bodies, and although facilitated by the WPMP, the drive and desire for development came from the wool producers themselves.

Based on the contextual situation of Mongolia, Strohmeier (2010:8) emphasises trade as an instrument to foster economic growth and improve the lives of the Mongolian people. He further argues that there is a distinct need for “diversification into new and non-traditional export markets” to sooth Mongolia’s extreme dependency on a few commodities. Trade has been a vital part, both of the WPMP and the CU, and the contribution made to ‘non-traditional’ export markets has contributed to employment opportunities, income generation and reducing economic vulnerability (Strohmeier 2010:8).

6.2.1 The TA and the Domestic Market

The Tsaagan Alt wool shop is the retail outlet of the CU and the main domestic sale channel for products from the cooperatives. According to Fisher *et al* (2008:25) the quality, design and volume of stock available has been “key to cementing the TA’s reputation as the premium retailer of wool craft products in Mongolia”. All the respondents interviewed in my study expressed strong feelings for the shop in terms of being ‘proud’ or viewing it as a ‘highly reliable costumer’. In addition to generating income opportunities, the TA contributes to forming the identity of the wool producers by providing credibility. Some of the wool producers said that even the banks were ‘nicer’ towards producers of the TA. Despite the primary cooperatives being much found of the TA, the majority of them are unhappy with the consignment base on which products are sold. The fact that the producers are not paid until products are actually traded is frustrating for the producers. To ‘control’ that products are actually offered to the customers and not merely stocked, member of the primary cooperatives visit the shop regularly. This, according to the CU should not be necessary as all products have codes, identifying which cooperative and producer have made it. The TA accountant makes weekly payment based on this information.

The TA is obviously very valuable to all parts involved. Suspicious and discontented producers are therefore a challenge, serving neither the shop, nor the wool producers or the CU. The majority of the wool producers say that they want the consignment system replaced. This, according to the CU is not possible due to negative influence on the profitability of the TA if all the products are to be pre-paid. The consignment system was introduced by the WPMP to better control the TA’s stock, and was among the main reasons for the large profit in 2006.

Both the primary and the secondary level of cooperatives are concerned for the property of the TA. This is further elaborated in point 6.3.1.

6.2.2 The ITC and International Markets

The International Trade Centre (ITC) partnered with the NLM in 2006 to strengthen the production lines in terms of quality management and export promotion. After the collapse of the Xin Consulting (XC), export orders were down to a minimum and many producers had experienced severe drops in income. The ITC provided expert advice on quality management and design, and the breakthrough came in mid 2007 when the TA and members of the CU participated in the Tendence Fair in Frankfurt (Fisher *et al* 2008, Strohmeyer 2010). This led to a number of new customers, providing a large number of new orders. From 5.600 USD in 2006, the export orders were up to 42.700 USD in 2009 (Strohmeyer 2010:14), making a huge difference in the income level of the CU's producers. The ITC facilitated participation for the CU in three international trade-fairs, resulting in several faithful buyers. Both the CU and the primary cooperatives perceive international trade as the most promising income opportunity and all the wool producers interviewed value international orders as the most important source of income.

The ITC has obviously played a significant role in developing the export channels of the CU, however, the challenge is the level of sustainability (Fisher *et al* 2008:29). Fair trade participation in Europe “will not be commercially feasible, nor were they intended to be maintained independently by the CU, post December 2007” (Fisher *et al* 2008:22). The capacity level in terms of English skills and business and marketing management should also be considered a risk in this regard. So should also the lack of fluent English speakers in the CU management team.

6.3 Business Environment

Constraints identified in the business environment of the CU and its wool producers are, to a large extent, similar to those identified in other studies of enterprise development in Mongolia (Ganbold 2008, Murphy *et al* 2008, Strohmeyer 2010, Myagmar-Ochir *et al* 2010, OD Consult 2004).

In my research, the wool producers in the primary cooperatives were asked to identify main barriers for doing business. The TA and the CU management team were asked the same question. The obstacles identified varied greatly among the different cooperatives, but access to finances, lack of sales and marketing skills, consistent flow of orders and poor infrastructure were emphasised by all the respondents. This links well with the findings of Myagmar-Ochir (2010) who identified sale and marketing as the most critical obstacle for the wool producers' business development. Availability of raw wool (see table 3) has been identified as an obstacle for the wool craft businesses by both Myagmar-Ochir (2010) and Fisher *et al* (2008). Although mentioned by a few of the wool producers in my study, availability of raw material did not seem to be a major problem. However, as the raw material cost is high, it was for some a question of access to finances.

The main business constraints identified in my research were *access to finances* (6.3.1) and *conditions in the business environment and the legal framework of Mongolia* (point 6.3.2), where infrastructure and related costs were particularly emphasised. Further many worried about the *future situation of the TA*; here the producers complain about products being sold on a consignment base (6.3.2) and the legal transfer of the property (6.3.1). In addition *access of raw material* was mentioned. Moreover, the *operational management of the CU*, including *bureaucracy* and *hierarchic structures* and *lack of equal opportunities for urban and rural based producers* is identified as potential business constraints for the CU.

Main problems identified by processors	No	%
Sale, marketing	49	61%
Constant order	28	35%
Availability of wool	39	49%
Equipment/Investment	24	30%
Others	15	21%
Availability of skin and hide	2	3%
Technology knowledge	4	5%

Table 3: Main Business Constraints Identified by Wool Processors

Source: Myagmar-Ochir *et al* (2010)

6.3.1 Lack of Access to Finances

Access to finances and long term capital is commonly referred to as the missing middle, where enterprises with the potential to grow and create jobs lack access to the finances needed for fulfilling their potential. In a survey of the business enabling environment in Mongolia, OD Consult (2004) found that obtaining external finances were among the key obstacles to business development. This supports my own findings in the case of the CU. Here, all the respondents interviewed said that access to finances were among the top three obstacles in terms of business performance and further development. This was the case for both the primary and the secondary cooperatives. The majority of respondents further said that their investment needs and desires did not compare to their access of capital/finances. The major problem seemed to be lack of collateral (which for Mongolian banks tends to mean property or large machinery), however, in the case of the CU there is also the problem of ‘lack of reliable credit information’ (UNDP 2004:14). This as there are shortage of agencies that can, and are willing to, value the large and stable income that the CU in fact has (annual turnover of 315.000 USD). It has also been challenging for the CU to get the turnover in the wool shop (TA) recognised as ‘theirs’ due to the TA having its own bank accounts and registration.

For many of the cooperatives, approval has been given by government agencies for SME loans. This, however, has been disappointing for most as the banks, in which they are to claim their loans, does not find them credit-worthy and therefore refuses them. Complaints back to the government officers are not answered and several of the wool producers showed me ‘approval-letters’ that, as they phrased it, was ‘worthless’. I did not interview any of the banks

involved, nor the government agencies, but the histories of the wool producers in the CU links well with Ganbold's (2009:52) findings. He argues that there is little reality behind the Mongolian government's attempts to target the lack of access to funding, as the country's banking system is so fragile. This is likely to be the reason for refusal in the case of the wool producers. Ganbold (2009:52) further points out that most of the programs targeting the SME sector in Mongolia relies on donor funding, which my research also found was the case for loan within the CU. Several of the primary cooperatives had received micro finance support from foreign development organisations (GTZ, CHF, JAICA) as had the CU. The loans provided by such institutions do, however, not compare to the large investment needed to procure raw material and processing of such. The solution has been for each of the primary cooperatives to get individual loans through development programs and then passing it on to the CU. Increased liquidity in 2010 enabled the CU to procure raw material using savings and a small loan (that they were accepted for). Whether this is because the amount of raw material needed were smaller than usual, or due to the bank being more positive towards the operation of the CU, is not sure. The achievement of handling this without external support is, however, important, and is a step towards sustainability.

The issue regarding the ownership of the building in which the TA wool shop operates could potentially increase access to finances for the CU, as the property would serve as collateral. Although transfer of ownership from the NLM to the CU would increase loan opportunities, the risk is for the CU to put the property at stake. This (along with legal issues) is among the reason why the NLM has been reluctant to let the transfer go through. Loosing the property of the TA would be fatale for the operation of the CU, as its location is key to the high turnover. Seeing that the TA represents *the* most important sales channel for the CU, sustaining the shop in its current location are therefore of outmost importance.

6.3.2 Business Environment and Legal Framework

The business environment is, as mentioned, challenging for both the primary and the secondary level of cooperatives, especially in regards to finances. In addition, the physical environment in Mongolia, with poor infrastructure and extreme climate conditions contributes to a harsh business environment. According to Ganbold (2008:45) the high cost of “water provision, transport, heating and communication give Mongolian firms a disadvantage compared to their peers in other countries”. This is also the case for the CU, where especially the transportation cost is challenging profitability. Due to time limits, the majority of the CU’s export orders are sent by air freight, which is very expensive (2.6 USD per pair of slippers or up to 100-130 USD per box). Shipping it by rail, which is the cheaper solution, is challenging - a container can take up to two months from Mongolia to Norway. Ganbold (2008) also finds that rail transport unit costs are relatively much higher than in comparative countries with the same preconditions as Mongolia. For the individual cooperatives, the heating costs are commonly solved by renting basement facilities where the water pipes run through the rooms, contributing to keep the temperatures at a decent level.

Finally, the uncertainty in terms of the legal system (Ganbold 2008:47) challenges registrations and taxation issues for the CU as well as influencing the transfer of the TA property. In terms of export, administration is also burdensome as the number of forms and registrations needed for export is vast. Mongolia ranks 60th out of 183 countries according to the World Bank’s (2008) ‘doing business’ report, and the Bank points to licensing and permits being among the main challenges. For the wool producers in the CU, however, not many are concerned over these challenges, nor does it seem to influence their daily operation much. The reason for this is probably simple; they are accustomed to it and have adapted their operation to the existing framework.

6.3.3 Access to Raw Material

There are conflicting views on whether or not there is sufficient supply of fine and semi-fine wool to sustain the current production in the CU. This is highlighted in most of the WPMP documents and the subject has been addressed in evaluations (Fisher et al 2006/2008) and assessments (Strohmeyer 2010). Myagmar-Ochir (2010) found that half of the wool producers considered access to raw material a business constraint (table 3). However, the majority of producers interviewed for this study said that it was not a question of availability of raw material but rather of price. This was confirmed by the Tova Company's representative in Mongolia. According to her there are enough fine and semi-fine wool on the market. She further said that processed wool can be purchased through middle-men all year around, but that it is often a question of quality and price. Hence, challenges in regards to raw material can be solved to increased access to finances.

6.3.4 Operational Management of the CU

While cooperatives commonly emphasise a flat management structure, the CU applies more of a top-down model (see figure 8). Despite this, the number of wool producers involved on the different levels of management is fairly high, and all the primary cooperatives have representatives in at least one of the committees or boards presented in figure 8. Some of the wool producers are, however, critical towards the leadership of the CU and claim that they have gained too much power. This could partly be due to the CU's executive director holding dual roles, creating an unclear execution of power and lack of transparency. Fisher *et al* (2008:23) further point out that there is "lack of clarity as to how profit is distributed back to the cooperatives" arguing that the CU "may lack the necessary experience, expertise and capability to run multiple business-units in the best interests of all" (Fisher *et al* 2008:24). The lack of clarity in regards to profit was mentioned by a number of the interviewed wool producers. Much of it was, however, merely vague accusations. Further, a large and expensive bureaucracy was a repeatedly expressed concern by the producers interviewed, and many felt that they were not included in decision making processes nor did they received adequate information on relevant subjects.

Examining the operation of the CU, along with interviewing producers and the CU management, I am tempted to agree that the CU, to a large extent is bureaucratic, and hence could benefit from a slimmer structure. Among the reasons for this bureaucracy is the Mongolian Cooperative Law (1995) which states that all cooperative members should participate in decision-making processes. This is a time consuming and expensive practise when there are a large number of members involved. Further, democratic principles emphasised by the WPMP has been adopted by the CU, hence a committee or working-group for almost everything. Moreover, the role as service provider for its member cooperatives presents the CU with a large number of tasks, in which all the primary cooperatives should be involved. The CU would benefit from a slimmer structure for three reasons; firstly, the wool producers could focus their energy at what they do best; produce. Secondly, if a smaller number of people were involved to deliver the management services, the communication lines would be easier and time would be saved as the number of groups/boards/committees in need of reports would be less. Finally, a slimmer structure would be more cost effective.

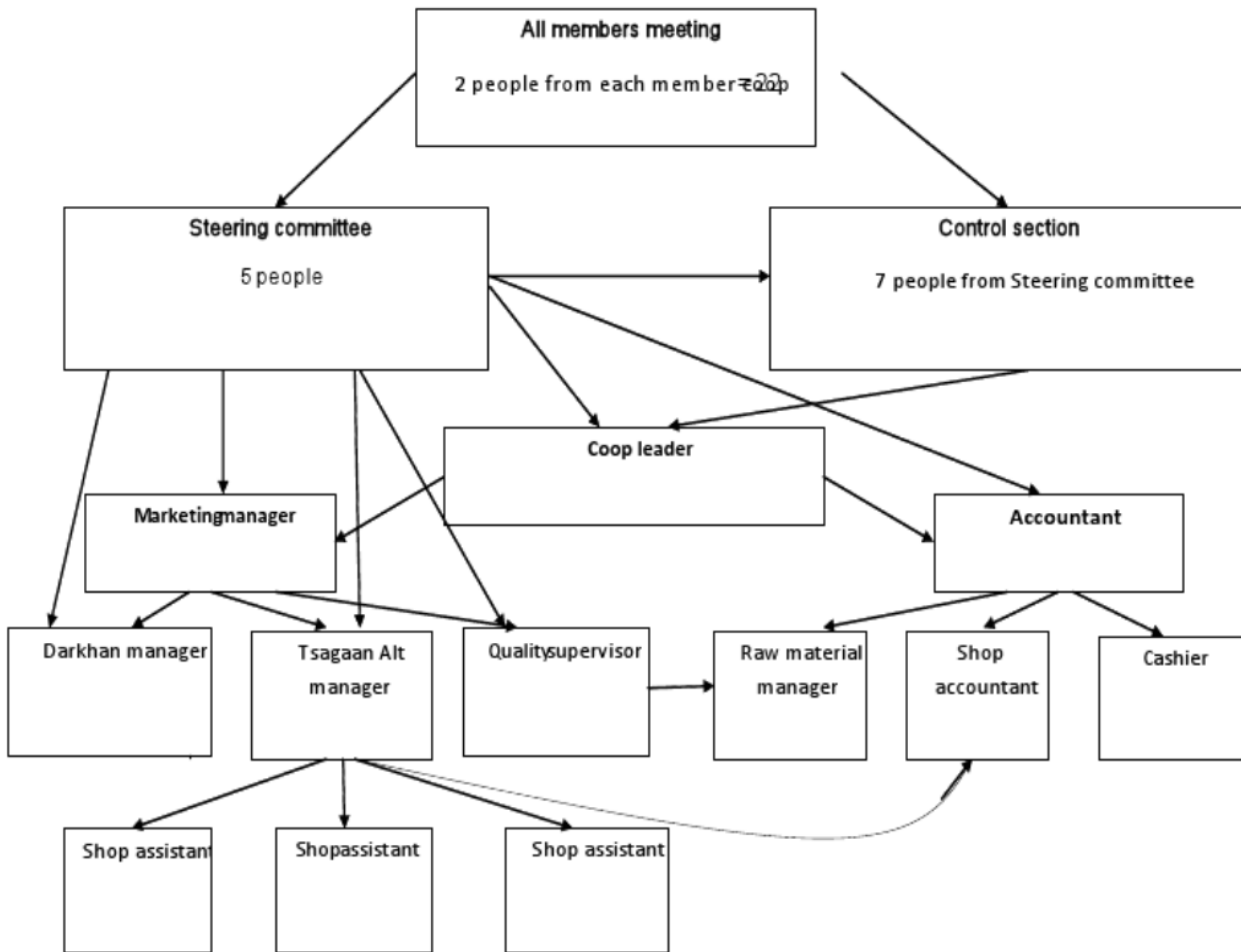


Figure 8: Organisational Chart of the CU

Source: The CU (2010)

6.3.5 Managing HR

Recruiting staff with the required skill level has been a challenge ever since the establishment of the CU. In 2006 the evaluation team (Fisher *et al* 2006:7) expressed their concern about the “lack of marketing, business and English language capacity in the Cooperative Union’ and recommended to increase the capacity of the Cooperative Union to fulfil its function as the marketing and business arm of the primary cooperatives. This was to be done through extensive trainings of the CU management staff. The extensive trainings have however not been sufficient to fill the skill-gaps, and there are currently no fluent English speakers working within the CU.

Managing the human resources is a major challenge for the CU, and the reasons for this are multiple. First, there is a distinct need for people with good language and marketing skills, which is not easily found with limited budget resources. The lack of adequate skills has become particularly evident in the recruitment of a marketing manager for the CU and a shop manager for the TA. Both positions have been hard to fill, and the marketing manager of the CU is now being replaced for the third time in less than a year. Secondly, there is mistrust towards ‘outsiders’ among the cooperative members. ‘Outsiders’ are people that have no history with the project or inside knowledge of the CU. This has led the CU to aim for former WPMP/NLM staff when recruiting; these people are, however, head-hunted for higher positions in sectors that can offer better salaries. Thirdly, recruiting from within the CU community is challenging as the general level of education and knowledge is limited. This is partly linked to how the beneficiaries were selected (see 5.2.2) during the WPMP intervention. Targeting ‘poor and vulnerable people’ naturally endorsed participation from the weaker group of society, hence, low levels of management and marketing skills.

Despite challenges, management in the primary cooperatives seems to work well, as does financial planning and accounting. The major challenge is the operational management of the CU, which is a large organisation with nearly 300 members. It is likely to assume that a higher level of business, marketing and language skills within the CU management would potentially increase the number of order and generate more income for the producers. Productivity within the marketing department of the CU is, however, low due to lack of education and knowledge.

6.3.6 Lack of Equal Opportunities for Urban and Rural Based Producers

As the CU branch office in Darhan closed in 2009 the operational part of the CU is now based in UB. This forces the wool producers in Darhan to travel up to seven hours in a day if they need to speak to the CU management. Despite the infrastructure between UB and Darhan being well developed, travel costs and time are challenging close communication. Further, market opportunities in Darhan are poor, due to location and limited tourism. This has resulted in Darhan based producers being less optimistic than those in UB, generally reporting less income than their urban colleagues. Moreover, Myagmar-Ochir (2010) found that the number of cooperative memberships has decreased in Darhan since the project started. According to the USAID (2003:34) a twin emphasis on business development that involves both viable commercial activity in the countryside and newly emerging commercial opportunities in urban Mongolia, offers the best combination to truly involve large numbers of Mongolians in the economic transformation of the country. The CU has the potential of fulfilling this duality, if the cooperation between producers in rural and urban areas is sufficient utilised. The CU needs to acknowledge the advantage that a large pool of skilled wool producers based in Darhan offers, in terms of cost (e.g cheaper rent and housing) and logistics (e.g. proximity to the herder-groups and raw material supply). If the number of Darhan producers for some reason decreases the impact on the production capacity of the CU would be dramatic, which in terms would severely affect the operation and income opportunities of the CU.

6.4 The Role of Aid Financed Support

6.4.1 External Support – Vital for Success

There is little doubt that the external support provided by the NLM has been vital for the establishment and further development of both the primary and the secondary cooperatives. All the respondents interviewed, said that the support provided by the NLM was imperative for the establishment of sales structures and further for the development of their businesses. Nearly half of the respondents said that they would not have started a business had it not been for the NLM. Only five of the wool producers would have started a business regardless of external support; nevertheless, all of them emphasize that the current level of business and management skills could not have been obtained without business development services (BDS).

Support has been provided by the NLM in three main areas:

Equipment: Equipment, in terms of spinning, carding and basic colouring equipment was provided by the WPMP for participants of the early felt trainings. This was financed through soft loans. During the interviews many of the wool producers were reluctant to admit receiving this kind of support as the mid term evaluation (Fisher et al 2006) and the BN (Lindeland and Lundstrøm 2006) were critical of such. The provision of equipment has, however, played a significant role in the wool producer's business development as there were no sufficient tools available in Mongolia - these were imported from Holland by the NLM.

Raw material: Despite 10.6 million sheep in the country (Strohmeier 2010) fine and semi-fine breeds are rare as they require much attention to survive the Mongolian winters. This means that the fine and semi-fine sheep wool gain much higher prices than that of Mongolian wool (which is coarse). The picture is further complicated by Russian and Chinese purchasers willing to buy above market price. In addition the high pre-processing costs adds to the price of raw material. To meet this challenge the WPMP purchased large amounts of fine and semi-fine wool from the NLM's herding project (SDP), and offered it to the wool producers below market price once it was processed. Although criticised for not being sustainable, the results from supporting raw material has been significant. Firstly, the stable quality that the NLM's producers are known for give them huge market advantages, and secondly the TA wool shop managed to build up a good liquidity during the years of subsidised raw material.

Training and capacity building: Training and capacity building which is commonly referred to as business development services (BDS) has been a major part of the WPMP. In addition to teaching felt and wool processing skills, a large numbers of trainings were conducted on business administration, quality management, business planning, design, supply and quality management, trade fair organisation, export promotion etc (Fisher *et al* 2008, Strohmeier 2010). During my research I found ‘training’ to be the most common answer to which type of support had been the most significant for the wool producers’ business development. Trainings provided by the WPMP has increased the human capital of the wool producers and facilitated a solid foundation on which the primary and secondary cooperatives are built. It is worth noting that there, also post WPMP’s phase out, is a wide range of free trainings being provided, especially in UB. My perception is that many of the wool producers are aware and take advantage of this opportunity. The CU also keep an overview and recommend (and if needed support) trainings for the primary cooperative members.

Comparing my findings with information gathered in similar case studies in Mongolia (Ganbold 2008, Myrphy et al 2008, Santa Maria 2007, Tuvshinbayar and Raysolyn Natividad 2007, Strohmeier 2010), show that external support has played a vital role in the establishment and further business development of the Noozon Zangilaa Cooperative Union. Aid financed support has further contributed to encourage entrepreneurial initiatives by providing a favourable environment for such. As many trains their family members and friends, the impacts of the WPMP are snowballed, which the large number of spin-off enterprises copying the project approach (Stohmeyer 2010) shows.

6.4.2 Business Priorities and Social Development Objectives

Merging social development objectives with for-profit business development like the WPMP did, is challenging (Lewis 1998). In the case of the CU, it is likely that the social development objectives in the WPMP have created challenges in regards to the business development (e.g. lack of ‘business oriented mindset’). The CU does, however, seem to have adopted both the social aspects and the business principles taught by the WPMP, using the latter to support the former. Respondent in my study said that the impact of the WPMP was ‘higher self-esteem’, ‘new friendships’, ‘higher living standards’, ‘possibilities to finance higher education for their children’, ‘possibilities to learn something new’ and ‘a high feeling of togetherness within the community’. This is similar to findings of Mayagmar-Ochir (2010:6), where respondents said that the WPMP had “significant impact on their own development and security”. Also Fisher *et al* (2008:28) emphasise the social impacts of the WPMP on their beneficiaries arguing that the project contributed to raise living status, the quality of life, confidence, morale and improved social acceptance. The focus on equality and democratic principles merged with further business development and increase of income has, in the hands of the CU, the potential to facilitate further development of these impacts.

During my research I did find that there are a number of challenges in regards to the merge of social development objectives and business priorities in the case of the Noozon Zangilaa Cooperative Union in Mongolia. I further found that these challenges have influenced the development of the CU and the primary cooperatives’ businesses. Due to the long implementation period of the WPMP it does, however, seem that the NLM’s flexibility and willingness to adjust to the changing environment and needs of the wool producers have contributed to avoided long term negative impacts of such. It is not possible to know if the CU could have reached further had it not been for the late introduction of business and marketing principles by the WPMP, nor is it possible to picture what the CU would have been without the WPMP. It is, however, likely to assume that the implementation of the WPMP could have been more effective and discovered less up and downs (e.g. introduction and failure of the XC) had the NLM had more experience with business management and small enterprises. In this perspective the vast knowledge and experience achieved through the WPMP should be put in system by its implementers and donors; to serve as reference and database for similar projects in the future.

Chapter 7: Conclusion

Well developed markets, in which businesses thrive, offer opportunities to create value for all; through income generation and improved human development (UNDP 2008). Doing business where markets suffer from lack of information, infrastructure and well functioning institutions is, however, challenging. Poor access to financial services, lack of knowledge and skills and shortage of market information, along with challenges in the physical and regulatory environment are preventing poor people from benefiting from market activities. Development actors are currently placing business development at the heart of efforts to obtain the Millennium Development Goals; the UNDP (2004:ii) argues that “the objective of poverty alleviation leads us to focus on developing businesses that create domestic employment and wealth” by increasing poor people’s ability to participate in markets and take advantage of the opportunities that lay herein.

This thesis has shed light on how business has facilitated development in the case of the NZ Cooperative Union in Mongolia. In this specific case, aid financed support has contributed to build human and physical capital among the wool producers, through the provision of equipment, trainings and skills transfer, and further facilitated institutional development through the establishment of the CU.

7.1 Business as Facilitator of Development

The empirical investigation and the discussions in the previous chapters demonstrate that business facilitates development. In the case of the Nooson Zangilaa Cooperative Union, *job opportunities* and *income generation* for a large number of people are the most obvious examples of this. Further, the establishment of primary and secondary cooperative structures has, through training and capacity building, contributed to the increase of the *human capital* among the Mongolian wool producers. In terms of the *physical capital*, this has been increased through improved access of communication and equipment for production. Moreover, the set up of a secondary level cooperative structure (the CU) provides a *well functioning institution* for the local wool producer. This institution is key to continued income opportunities for many of the primary sales cooperatives; procuring raw material, sourcing international export opportunities and offering a good domestic sales point (the TA wool

shop). The CU addresses business and development agendas on behalf of their members, showing their *public policy engagement* by *advocating* for a better operational and legal framework (UN Global Compact 2009:10) for the wool craft business in Mongolia. The business operation of the CU further contributes to spur on local development through the procurement of wool and leather from local herder groups (*localising the business value change*), and their *social investments* within the wool producer communities increases the quality of life for many. My findings showed that the wool producers receive more than their salary from the business development in the CU; ‘self-esteem’, ‘new friendships’, ‘higher living standards’, ‘possibilities of financing higher education for children’, ‘possibility to learn something new’ and ‘a high feeling of togetherness within the community’, where among the answers to what the cooperative business and the CU means to them.

In the case of the Nooson Zangilaa Cooperative Union, external support (aid) has been vital for success. My research shows that the wool producers found the support provided by the NLM imperative for establishing and developing their businesses. Almost half of the respondents said that they would not have started a business had it not been for the NLM, and all the wool producers agreed that they would not have reached the current level of business and management skills had it not been for the support provided to them. The boost of both physical and human capital required finances beyond the level of the wool producers and the CU and could hence only be provided by external sources. The need for external support is further underlined by the contextual conditions in Mongolia (e.g. poor infrastructure, weak legal framework, lack of access to finances, lack of private initiative due to communism etc). The extensive knowledge and experience in regards to the wool and felt sector that the NLM built over more than a decade has moreover been important for the significant position that the CU currently has in the wool and felt sector in Mongolia. International trade and export opportunities provided through the ITC are yet another example of how external support has contributed to (sector) development in Mongolia. Finally, the long-term commitment (1996-2008) by the NLM in Mongolia should also be considered relevant to the success of the CU as this, along with trust, has been key for taking poor and vulnerable people all the way from basic felt trainings to operators of a large sales cooperative union.

Although the wool producers in the CU have come a long way they are still faced with a number of challenges in regard to strengthening their capacity level and further developing their businesses. The study has therefore identified challenges in the operational framework of the CU; exploring factors that stand in the way of the CU fulfilling its potential.

7.2 Business Constraints

The main external business constraints identified in my research were access to finances which are challenging the procurement of raw material for the CU. For the primary cooperatives the fragile financial market in Mongolia further hampers investment in new business ideas and technology and, hence, prevents the cooperatives from fulfilling their potential. Conditions in the business environment and the legal framework of Mongolia were another problem identified by the wool producers where infrastructure and related costs are challenging the cost-benefit ratios of the products. In addition, poor market information and physical distance to the end-consumer are problematic for the CU. In terms of human capital, the operational management of the CU is suffering from lack of business management and language skills. This is further complicated by the “mismatch between the skills demanded by the employer and the supply of skills that workers bring to the market” (ADB2009:19), as it is difficult to recruit skilled personnel externally. Finally, lack of equal opportunities for urban and rural based producers, along with an unclear share of power in the CU, are to be considered constraints for the further business development of the CU.

7.3 Recommendations

Access to finances was among the top three obstacles for business performance and further development for all the wool producers interviewed in this study. The most pressing concern in regards to this is the procurement of raw material which is imperative for sustaining the current level of income for both primary and secondary cooperatives. Better access to finances and capital will provide greater opportunities for the wool producer and the CU, to fulfil their potential through investing in new business ideas and upgrading technology. Sufficient financial opportunities would also solve the problem of raw material availability.

Being a significant actor in the wool and felt sector of Mongolia the CU should aim to find a stable financial institution willing to negotiate long term contracts which should be in the best interest of both the CU and the financial provider. To do so the CU needs to gain an overview of their total income and present well developed plans; including their financial requirements and how and when this should be paid back. Finally the CU needs to ‘sell’ their producers and the huge income possibilities that lay in investing in their businesses.

In terms of the operational management of the CU there are three main areas in need of attention; the *human capital*, the *organisational structure* and the *approach towards rural based producers and entrepreneurs*. First, the CU needs to continue their emphasis on increasing the human capital. In regards to this it is advisable to employ a person with fluent English and high knowledge within business and marketing. It is likely to assume that higher levels of business, marketing and language skills within the CU management would increase the number of order and hence, generate more income for the wool producers. Moreover, this would secure a more consistent flow of orders and maximise the potential of the CU’s international contacts. Secondly, in regards to the operational management of the CU the organisation would benefit from a slimmer structure for three reasons; 1) the wool producers could focus their energy at what they do best; produce. 2) if a smaller number of people were involved to deliver the management services, the communication lines would be easier and time would be saved as the number of groups/boards/committees in need of reports would be less. 3) a slimmer structure would be more cost effective. Finally, if the CU is to fulfil its potential as a “full fledged business association for the whole wool and felt sector in Mongolia” (Stohmeyer 2010:13) an inclusive and innovative organisation needs to be emphasised, where rural and urban producers are equally treated and where entrepreneurship is valued. The CU needs to acknowledge the advantage that a large pool of skilled wool producers based in Darhan offers, in terms of cost and logistics, and further take measures to avoid decreases in the work forces in Darhan as this would severely affect the operation and income opportunities of the CU.

Being the leading association of the wool and felt sector in Mongolia, the CU should be aware of its responsibility to pass on knowledge and experience to those potential of replicating the cooperatives commercial model as “economic profitability and social benefits are strong drivers of replication” (Stohmeyer 2010:19). Strohmeier argues that a commercially viable idea will, in most cases, be imitated by other enterprising individuals, which in terms

effectively will enlarge the outreach and impact of the initial project idea. In this perspective the vast knowledge and experience achieved through the WPMP should be put in system by its implementers and donors; to serve as reference and database for similar projects in the future.

For most of the external business constrains identified (e.g. legal and regulatory framework, infrastructure and related costs, etc) in this study it is difficult to make recommendations as they require long term changes outside the CU. The CU should, however, seek to utilise its strong position in the wool and felt sector and continue to show their public policy engagement by advocating for a better operational and legal framework. Only by being visible and united can the wool producers in the CU improve their external business environment.

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Appendixes

Appendix 1: Interview Guide for the Mongolian Wool Producers

Source: Author

Bio data:

1. Name
2. Age
3. Sex
4. Community
5. Education (formal/informal)
6. Work (professional experience prior to this job)
7. Special events (with implication for the start up of the enterprise/cooperative)
 - What role has the WPMP project played for your career/involvement in the wool craft business and/or for your business/cooperative
 - Where/from who have you received training to fulfil this position
8. When did you join the WPMP project
9. Why did you join the WPMP project

Business data:

10. Partners (now/before)
11. Employees
12. Business details
 - Prices (pricing policies, satisfaction with prices achieved, etc)
 - Sales (general income level, future targets etc)
 - Raw material availability
 - Pre-processing opportunities
 - Main markets for buying/selling (domestic/international)
 - Taxes, revenues, etc
 - Bureaucracy (licences, availability, irregularity, taxes etc)

Business network:

13. With whom do you regularly discuss or consult regarding business ideas
14. With whom do you take business decisions (internally or consult externally?)
15. From whom/which sources have you received practical support, and at which stages at the development of the business (wool, trainings, equipment)
16. From whom/which sources have you received financial support, and at what stages of the business development
17. In what ways have this practical and financial support contributed to your business development
18. Which/who are your main sources of information/knowledge (markets, costumers, etc)
19. What is your experience with Tsaagan Alt (what is TA's main roles and what is TA's future)
20. What was your experiences with the WPMP (positive/negative)

Business constraints:

(What are the limitations that you experience working in the wool craft industry?) – Please tick off and elaborate where needed

- Education and skills – sufficient
 - Labour (skilled/unskilled) - is there enough trained work forces
 - Ecological (climate, pollution, production localities)
21. Where to you get your knowledge/information about markets, distribution, available materials etc from and is the information sufficient?
 22. What are your capital/finances and what is your investment needs/desires?

23. How well does your production and administration localities work

24. Is there enough raw material available (elaborate if no)

25. How and where do you store raw materials and how well does this solution work

26. Do you have the tools, machinery and equipment that you need

Priorities for using the profit:

- Please tick and elaborate where needed

- Producers
- Education (specify)
- Health facilities
- Re-investments
- More Employees
- Retirement
- Leisure
- Others

Others:

27. In your opinion, what role has foreign aid/support (NLM, ITC etc) played in the development of CU's wool craft businesses?

Appendix 2: Interview Guide for the NLM Management

Source: Author

Bio data:

- 1 Name
- 2 Age
- 3 Sex
- 4 Nationality
- 5 Education (formal/informal) – only brief information needed
- 6 Work (professional experience prior to Mongolia) - brief

History/background:

- 7 Why did NLM establish in Mongolia and what is/was the overall goal(s) for NLM's presence in Mongolia??
- 8 What was the background for choosing and implementing the WPMP project?
- 9 How were participants for the project chosen, and what were the rationale for this?
- 10 What were your personal reasons/preferences for getting involved in the NLM/WPMP?
- 11 During the implementation and operation, - what went well and which challenges did you meet?
- 12 In your opinion, has the fact that NLM is a faith based organisation affected the implementation and impacts of the WPMP - why/why not

Business development

- 13 In your opinion; in what way has the development agenda of the Norwegian Lutheran Mission affected the business development of wool producers in Mongolia (i.e what is your perception on the linkage between development aid and business?)
- 14 In your opinion; has this affect been positive, negative or/and neutral – please explain your answer
- 15 In what ways do you think the financial support provided by NLM has contributed to development of the wool craft businesses in Mongolia
- 16 In what ways do you think that practical support provided by NLM has contributed to development of the wool craft businesses in Mongolia

- 17 In your opinion, how was the challenges of accessing international markets targeted
- 18 What is your perception of the choice made to establish cooperative structures rather than small enterprises
- 19 In what ways were the overall project implementation planned monitored (i.e economic growth, poverty reduction - micro/macro perspectives)
- 20 What role has NLM and its implementation of the Wool Process and Marketing Project ultimately played in the development of the wool craft businesses in Mongolia?

Sustainability

- 21 How do you picture the future of the CU and its wool producers – Please elaborate
- 22 How do you picture the future of the Tsaagan Alt Wool Shop – Please elaborate
- 23 What do you consider the major challenges in terms of sustainability of the businesses for the former producers of the WPMP?
- 24 Do you think that the provision of development aid (donor money) may have affected the development of sustainable businesses for the producers in Mongolia? Please explain your answer.

Business constraints:

- 25 What are the particular challenges facing local wool producers and their businesses in Mongolia? (education and skills, climate, pollution, raw material supply, production localities etc)
- 26 In what ways would you say that these constraints are likely to affect the operation and further development of the producers businesses?
- 27 What would you say was emphasised greater in the project
 - a. (Please number the options from 1-4)
 - Business skills
 - Market research
 - Poverty reduction
 - Production skills and trainings
- 28 Please explain why the priorities in your opinion were like this

Appendix 3: Overview of Method, Sample Size and Number of Interviews per Respondent

Source: Author

Method	Actor	Codes	Sample Size	Number of Interviews per respondent
Semi-structured/ open-ended Interviews	Cooperative members	A1- A21	21	1
	CU Executive Director	C1	1	Several
	CU Marketing Manager	C2	1	1-2
	Individual Producers	B3-B5	3	1
	TA Employees	C1-C3	3	1-2
	Timeless	B1-B2	2	1
	Former WPMP Staff	C4-C5	2	1-2
	NLM Mongolia	E1-E2	2	Several
	NLM Norway	E3	1	Several
	Other NGOs	D1	2	1
Self-completion questionnaires	Former people involved with the WPMP	F1-F4	4	1 + Followed up by phone
Focus group	CU Management Team	D2	8	1