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secure and equitable market development “

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# The reform of livestock marketing in post-communist Mongolia: problems for a food secure and equitable market development

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Agricultural production (predominantly nomadic pastoralism) and the distribution of agricultural produce from producers to consumers have both begun to be privatised, as part of the current process of economic reform in Mongolia. Levels of off-take and marketing of livestock, however, are declining and the government is actively seeking new ways of developing marketing, so as to increase off-take rates and—as a consequence—herders' incomes and national food security. This paper, however, argues that raising levels of off-take and marketing would not, by itself, necessarily increase incomes and food security of herders in the longer term, unless the general environment for livestock trade is improved and developed in a more impartial and non-interventionist mode than has been the case to date. Continuation of a policy environment which discriminates against the interests of herders and private traders, is likely to keep levels of marketing low and also to perpetuate (and probably increase) rural poverty and wealth differentiation. Rather than the government 'setting up' new marketing organisations, marketing development policy should focus on creating the appropriate climate in which existing and new marketing organisations and operators can be allowed to develop and compete.

## Introduction

This paper treats the general subject of livestock marketing in Mongolia from the perspectives of the pastoral household economy, and of urban and rural food security, as well as its role in the transformation of the former centrally planned economy to a market economy. Current government policy is broadly aimed at liberalising livestock marketing and although price liberalisation in the livestock sector was considerably delayed relative to other sectors, prices are now (since June 1993) officially free for private operators; subsidised meat rations were finally abandoned very recently (in August 1993), in time for this year's slaughtering season. Nevertheless, levels of marketing of livestock are still declining by all indications, and the government is actively seeking new ways of

developing marketing so as to improve the flow of goods, secure food supplies to consumers and enhance the chances of a successful transition to an efficient and growing market economy. Emphasis is placed on the need to improve supply, by raising levels of off-take for meat consumption. Additionally, greater market participation by herders is seen as the major avenue to raising levels of rural incomes; since the rural sector accommodates some 35–40 percent of the population, this is of extreme importance to incomes and welfare nationally. This paper, however, argues that raising levels of off-take would not, by itself, necessarily increase incomes and food security of herders in the longer term, because small herd sizes for the majority of herders (less than 50 animals for some 59 percent of herding households) mean that the balance between home consumption needs and

herd growth requirements, on the one hand, and exchange requirements (for basic staple goods), on the other, means that minimising off-take rates is often the most rational strategy for households to adopt at present. Further, the general environment for livestock trade (external to the household economy) is currently so unfavourable for herders that livestock is seen as the best available option for storing wealth; and marketing is considered too costly, as livestock prices are seen to be unacceptably low.

After reviewing some recent changes in the production, distribution and exchange of livestock in Mongolia, we will discuss some field evidence of how basic production rationales in herding have changed in recent years, followed by a description of current constraints in the general environment for livestock trade in the country and some suggestions as to how the situation might be improved. Whilst the prospect of market reforms in a former socialist economy presents new problems in terms of the predictive power of economic theory (Braverman and Guash 1990), it also presents an unusual opportunity to propose ways which will encourage the establishment of an equitable base for economic growth, given the fairly small inequalities in the current levels of education, health and wealth of the Mongols, as well as the relatively mild urban biases and gender biases in policy, so common and damaging to most developing countries.

### Recent changes in livestock production and trade

During the current process of economic reform in Mongolia, agricultural production (livestock and crop production) and the distribution of agricultural produce from producers to consumers have both begun to be privatised, as part of a larger effort to turn the former socialised and centrally planned economy into one based on the principles of market forces. The basic means of production in the pastoral

economy, namely livestock, have largely been passed into private hands (whether directly to individual herding households or to agricultural share holders companies, which are 'private' but sometimes still state controlled), although there remains a considerable stock of capital assets to be privatised, such as vehicles, farm and processing equipment and buildings. Agricultural crop land and pasture lands remain in the ownership of the state, but a new draft land law is currently being discussed, which anticipates the privatisation of crop land and the leasing of some pasture land to herders.

Before decollectivisation, the distribution and pricing of agricultural and other products was the responsibility of the state, via specific departments and supply boards. Due to the stability of export and import prices within the former East Bloc CMEA trade arrangement, inflation was kept under control through the fixing of prices. Demand—or rather, 'requirements'—for products were met by local, regional and central planners estimating production capacities and requirements and issuing state procurement orders to producers, such as *negdels* (collectives) or state farms. Producers were required to sell their respective quotas to the state through the state supply system under the former Department for Trade and Procurement, which would purchase animals and livestock products and be responsible for their transport to various state slaughterhouses and processing factories. In the case of livestock, orders were specified in terms of tonnes of live weight, and most animals would be bought in the early summer (when they weigh the least), trekked to urban centres and fattened during the long trek (taking up to five months), then sold as meat at dead weight prices or exported to Russia processed, by rail, from Ulaanbaatar, Darkhan or Choibalsan. Additionally, animals were exported live to Russia, directly on foot from *aimags* (provinces) in the extreme West of the country, as these are located too far from the capital for trekking

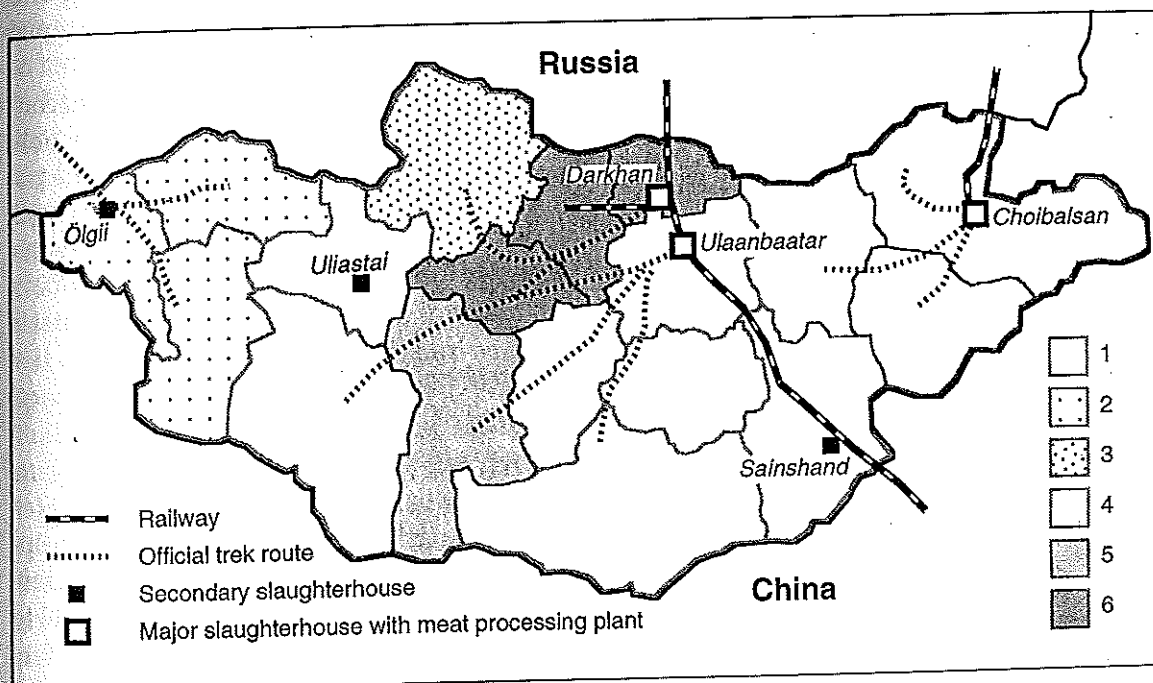
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livestock, and since this region had no major slaughterhouse with meat-processing plant nor any railway connection with the outside world. Map 1 below shows how animals were trekked for vast distances overland on state designated trekking routes, to certain urban centres. Trekking along these routes is still going on, although certain changes in its organisation are currently taking place.

The government has set out a general framework for proceeding with the reform of the agricultural sector, in a policy document of March 1993 (Mongolia 1993), which

outlines the main objectives of reforms as well as intended ways of implementing them, though the latter remains somewhat vague. In general, however, it involves a commitment to encouraging competition in production and marketing, as well as scaling down the involvement of the state in economic activities, with the exception of certain areas where substantial state investments are deemed difficult to privatise equitably, and where currently unprofitable state enterprises are regarded as too important to discontinue (particularly in the case of dairy farms and some crop farms).

Map 1. Traditional destinations of trekked livestock in Mongolia



Typical trekking destination of marketed surplus livestock:

1. Ulaanbaatar
2. Export of live animals to Russia
3. Darkhan and export of live animals
4. Choibalsan
5. Darkhan and Ulaanbaatar
6. Darkhan

Out of the old system of procurement and distribution, a number of new marketing organisations have been created: some through privatisation and some through reorganisation. Branches of the old Department for Trade and Procurement were privatised and set up as shareholders' companies called Consumer Cooperatives (CC), with considerable assistance from the state in terms of assets and credit at subsidised rates. Although legally private companies, they are theoretically obliged (in some vague sense of that word) to comply with state orders at fixed prices, though there are no explicit penalties for not meeting these orders.

Another new invention in marketing was the creation of the Agricultural Commodities Exchange (ACE), consisting of a national exchange, and a network of *aimag* exchanges as well as local brokers and brokers' firms in various *sums* (districts). As with the Consumer Cooperatives, the ACE agencies are subject to state orders for certain goods at prices fixed by the administration (whether set centrally or by city or *aimag* administrations). The mode of operation of the ACE organisations and brokers differs somewhat between areas and in many places they are state controlled or even fully state owned, whereas in others they operate as private companies (even if linked to the administration through the exchange network).

Aside from the CC and ACE agencies, other parastatal trading companies include Makhimpex (meat corporation), the Gobi company (cashmere), and a few skin and leather processing companies. Some of these are planned to be privatised in the future, however, and many others with severe financial problems may well end up on the privatisation list in the future.

The two most significant steps towards liberalisation in livestock marketing have undoubtedly been the legalisation of private enterprise in the livestock and livestock product trade, together with the official freeing of meat and other livestock product prices for the private sector. It is

important to stress that partially privatised and parastatal enterprises, such as the ACEs, CCs, or Makhimpex, do not enjoy a free price regime and are as a consequence losing ground to the competition. On the other hand these agencies enjoy certain other forms of institutional support not available to independent private enterprises.

Export policy has also changed somewhat, with the liberalisation of exports of livestock products such as skins, hides, wool and cashmere, where there are no export taxes, resulting in the majority of these products being exported to China. Exports of live animals and meat however, remains illegal for private operators, with the exception of some companies with state connections who can manage to negotiate an export licence from the Ministry of Trade and Industry. Additionally, the export of intestines remains reserved as a state monopoly, despite the stated intention of encouraging competition in marketing and promoting the export of surplus animal production (Mongolia 1993).

In order to better appreciate current constraints in the livestock marketing situation, it is useful first to briefly describe the nature of the household economy in Mongolian pastoral production and how that intersects with the broader economy.

### Herders' new production rationales and current marketing strategies

A range of different factors normally influence market participation among pastoralists, including both factors internal to the household economy and external factors imposed on herders by the wider context of their situation. Internal factors include (1) the inherently reproductive nature of livestock as a store of wealth—where herd production dynamics influence the level of off-take and, hence, also the likely level of market participation—as well as (2) the extent to which domestic subsist-

ence needs (and the relative benefits of home consumption versus marketing for exchange) constrains the level of livestock sales by herders. External factors include a range of aspects affecting the pastoral environment: from climatic disasters and livestock disease to land policy, infrastructure, market development, urban demand, prices and taxation policies (Kerven 1992). In Mongolia it appears that current levels of livestock sales by herders are kept to a minimum for both internal reasons, including that many herders are still purposely building up their herds, and external reasons, such as that prices are still considered too low, as well as that the lack of liquid cash means that once basic requirements for consumer goods have been met, largely through barter, herders have few incentives for further sales. This section will mainly discuss internal aspects of the Mongolian pastoral household economy affecting the degree of market participation of herders, whereas certain external factors (most relevant to marketing policy) will be discussed in more detail in the following section.

Fundamental to understanding the changing situation with respect to marketing is an appreciation of how the production rationales, and the organisation of production, in Mongolian pastoralism has changed with decollectivisation and privatisation. This subject is treated in more detail elsewhere in this volume, but with respect to marketing it is important to stress that the modes of ownership, decision making, remuneration and reward for risk-taking has shifted away from a salary-based system, where the *negdels* and the state were the owners, decision makers and risk-takers in production. Now these functions have shifted back onto the herding households, and remuneration for production and reward for risk-taking is to be realised through the mechanisms of the market—that is, through the sale of livestock and livestock products. Although *khot ails* (small groups of households) often form the basic organic unit of social organisation of production, ownership and marketing deci-

sions are fundamentally functions of the household, as was the case before collectivisation, as well as in the case of private animals during the communist period (Wadekin 1990). Production risks involve real costs which should normally be shared between producers and consumers, through the market mechanism adjusting prices to reflect the cost of those risks. As a result of price controls and market distortions (discussed in more detail in the following section) however, this has not been allowed to happen in Mongolia until very recently. A common response to the combination of the disappearance of the former system (including the erosion of services and safety nets) with the slow development of marketing in rural areas, has been the partial withdrawal from an economy based on exchange, towards a more diverse, less risky mode of production, which is more reliant on subsistence production and home consumption.

Herding has in most respects become more traditional, as herds are yet again becoming more balanced and mixed in terms of species and age composition (reducing risks by diversification, but also reducing breeding rates and potential off-take rates). Also, mobility has again become more important as a response to climatic variability and risk than was the case under the *negdel* system, where construction of shelters and the supply of supplementary feed were facilitated by the economies of scale inherent in the collective system (the State Emergency Fodder Fund is currently in a state of disarray and virtual collapse). The re-emergence of *khot ails* as a social institution for cooperation in production has to some extent mitigated the loss of additional labour and economies of scale since the *negdel* period, but overall the new system of production is geared towards a lower level of off-take as well as a lower reliance on exchange and the cash economy for food security as well as production inputs. At present, herding decisions appear to be aimed more at risk minimisation than at profit maximisation (at least for the short term).

Different livestock provide herders with a range of benefits, ranging from transport, wool and leather, to drink and food such as *airag* (fermented mare's milk), milk, blood, offal and meat. Additionally, each animal has an exchange value of benefit to the herder, both in terms of being able to sell it to acquire other goods, such as wheat, sugar, tea, rice or cloth, and in terms of being a reproductive store of wealth (a type of savings account). As a result of both weight gain and changing productivity in terms of other (non-meat) uses of animals, the perceived benefits of marketing varies by age and by sex. Figure 1, below, shows how the benefits of keeping a mare changes throughout the life cycle of the animal (as viewed by a Mongol horse-breeder), whereas Figure 2 displays how both 'use value' and market prices are seen to vary for different age groups and sex for horses. Both graphs were constructed on the basis of herders classifying age and sex groups of animals, scoring reported benefits derived by each category, weighting the benefits (in terms of their overall importance to the household) and estimating market prices for the different groups of animals.

As a result of the relative changes in productivity of animals as compared to their market value over the life cycle, herders usually prefer to sell adult males, or barren females. Additionally, the value of animals fluctuate over the seasons, being worth least in the spring (when they weigh the least) and reaching their highest market value in the late autumn (when the slaughtering season begins). Consequently, herders prefer to sell late in the year, if possible, whereas major meat traders prefer to buy early in the season, in order to fatten animals during trekking. Buyers who trek animals also prefer to buy females rather than males, since the latter put on less weight by the autumn, as a result of the extra energy expended throughout the mating season. Due to herders' new powers of decision-making in marketing resulting from the privatisation of livestock, major established buyers find it increasingly difficult to purchase sufficient—or planned—quantities of animals on their own terms, which may partly explain the decreasing levels of meat sold through official channels (other reasons for this decline, relating to external factors such as pricing, are discussed in the following section.

Figure 1. *Relative benefits from mares throughout the animal's life cycle*

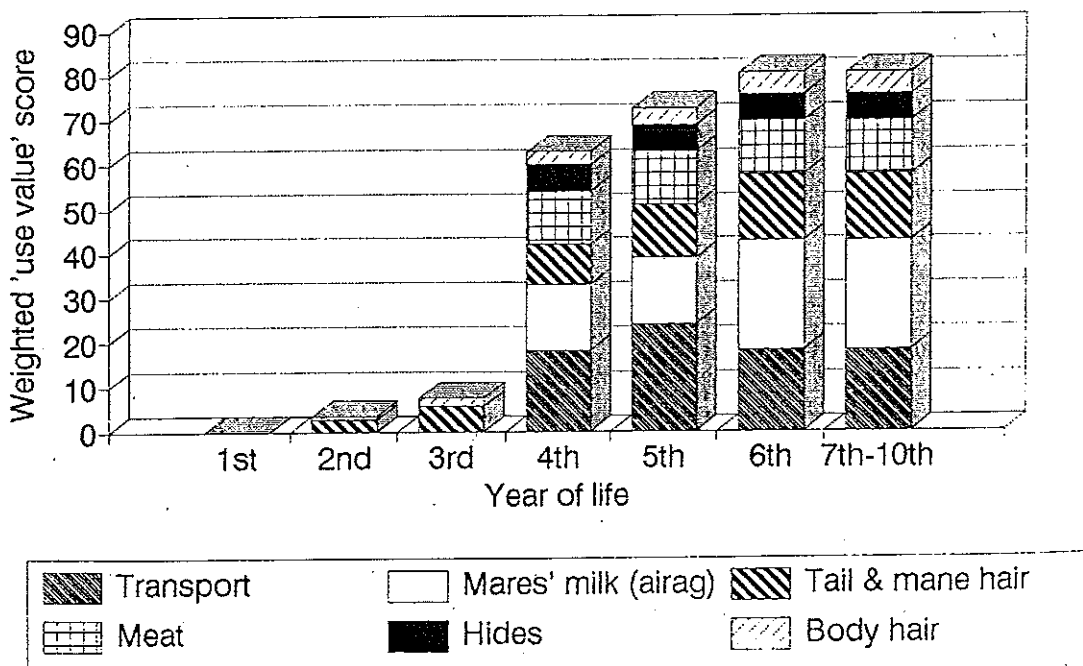
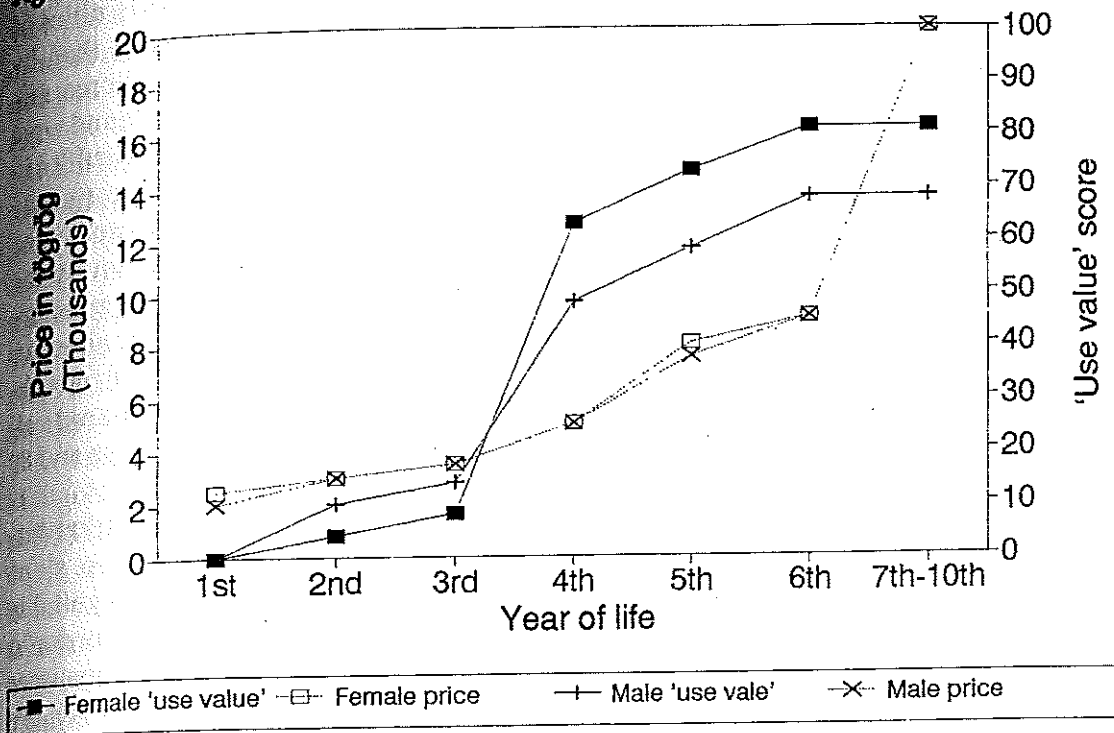


Figure 2. 'Use value' score and prices of horses, by age and sex group



On first principles one would expect the marginal utility of each additional animal for purposes of home consumption to decline with increasing numbers of animals, since the capacity to process and consume products (and goods, like transport) is ultimately limited. Therefore, one might expect levels of sales relative to herd size to increase, with increasing numbers of animals. A competing hypothesis, which would also point to the fact that there is a limit to home consumption, would argue that the main purpose for marketing livestock amongst pastoral herders, is precisely to meet limited domestic requirements for basic consumer goods, such as flour and rice. After these basic necessities have been procured, there is little reason to sell potential reproductive assets for cash, when a mobile lifestyle, an inefficient banking system and high rates of inflation all combine to reduce the usefulness of money as a store of wealth. That the reproductive investment nature of livestock reduces pastoralists' incentives for marketing livestock has also been argued for pastoral production systems in other parts of the world (Doran, *et*

*al.* 1979, Perevolotsky 1986, Kerven 1992). This would be expected to be even more so in an environment where barter trade forms the basis of the majority of exchange, herders being paid mainly with goods like flour, rice, tea, sugar and material for clothing.

The relationship between the size of household herds and marketing revenues is not very clear according to field research, and it even appears to be negative in certain places, like Kharkhorin, where company-owned livestock form an important proportion of household herds. Here most surplus from these animals is marketed by the former state farm companies themselves, remunerating herders through salaries and bonuses. Hence, the larger the company-owned proportion of the herds, the larger the monetary income from those salaries and bonuses, reducing herders' need to market private animals. In other sites like Altan Bulag, on the other hand, where herders are remunerated for company animal production through actually selling the products to the companies, marketing income is more closely related to herd size, as one would expect. The level of



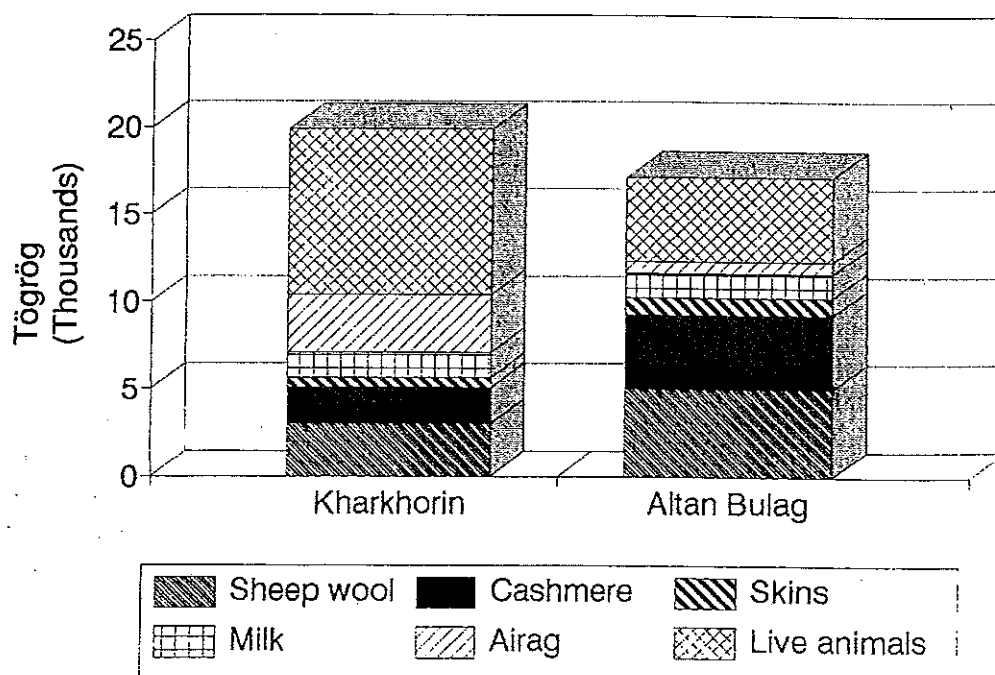
marketing incomes per animal however, appears to decline with larger herds of animals, suggesting that sales are made out of necessity rather than as a means to make larger monetary profits. That the majority of off-take of livestock is used for home consumption of meat, is supported by preliminary results from an ongoing marketing survey, where only 36 live animals had been sold amongst 40 households from two areas (Kharkhorin and Altan Bulag), whereas a total of 88 hides and skins were sold. This suggests that in excess of 70 percent of off-take is used for home consumption. The real figure may well be higher as a number of skins and hides are also used in the *ger* and since some skins and hides are destroyed by birds and wildlife. The great majority of households in these sites did not market any live animals at all during the year and slaughtered animals purely for home consumption.

In the case of dairy products, one might expect the levels of sale to increase rapidly after domestic consumption needs have been met, since there are few alternative and productive ways to use surpluses of these products. However, the great majority of households have seasonal surplus

production of milk, and marketing appears to be constrained more by difficulties of finding sufficient market access, than by volume of production. As domestic requirements for products like cashmere and wool are rather limited (given the difficulties in home processing) and since they can easily be stored, these tend to be sold or exchanged almost exclusively. This is shown by the fact that there exist strong linear relationships between the size of private sheep or goat herds and quantities of wool or cashmere sold by families (with R squared values of 67 percent in the former case and 89 percent in the latter).

It appears that herders will market certain products, like wool, cashmere, skins and hides as well as milk (when suitable market channels are available) in order to meet their requirements for basic consumer product needs. Live animals, however, are usually not sold unless the family has immediate cash needs for a large sum of money. Figure 3 displays the average composition of marketing incomes of 40 households in two sites of the central forest-steppe region, suggesting that livestock product sales—rather than live animal (or meat) sales—form the most significant proportion

Figure 3. Livestock marketing income, 40 households, Kharkhorin and Altan Bulag



of marketing revenue. Hence, from the viewpoint of the food security and incomes of herders, the marketing of livestock products is at least as important a subject matter as is the marketing of live animals. Some caution has to be exercised in de-emphasising the importance of meat marketing however, both because of issues of urban food security as well as because the low levels of marketing of animals relate partly to serious imperfections and distortions in the meat trade, which are less pronounced in the case of livestock products.

In brief, the changing internal logic of Mongolian pastoral production, in this new period of private ownership and management, means that the majority of herding households need to minimise levels of off-take (and, hence, the marketing of animals) in order to enlarge private herds, so as to minimise production risks and enhance their long term household food security. Small-scale credit schemes, such as lending animals for breeding to enhance herd growth (van Dooren 1983), or accepting livestock as collateral for cash loans to buy production inputs, would help poor herders overcome these internal constraints with time.

Internal constraints to production affect the marketing strategies of poor and wealthy herders differently. Poor herders appear to suffer from a low-level barrier to herd growth: their need to sell a minimum of animals to acquire necessary consumer goods limits herd growth and prevents them from rising out of low-level and highly risky production systems (possibly resulting in increased poverty and probably in increasing wealth differentiation between groups of herders). Average herders appear to limit marketing to a minimum in order to maximise their herd sizes and improve their long term security and self-reliance for subsistence needs. Wealthy herders with large herds, on the other hand, though being able to market more, can also afford to market less, as home production is more abundant. The latter appear to be waiting for the external environment to change in

their favour, since livestock is a more tangible and reliable store of wealth than bank accounts or material goods (which often also restrict mobility).

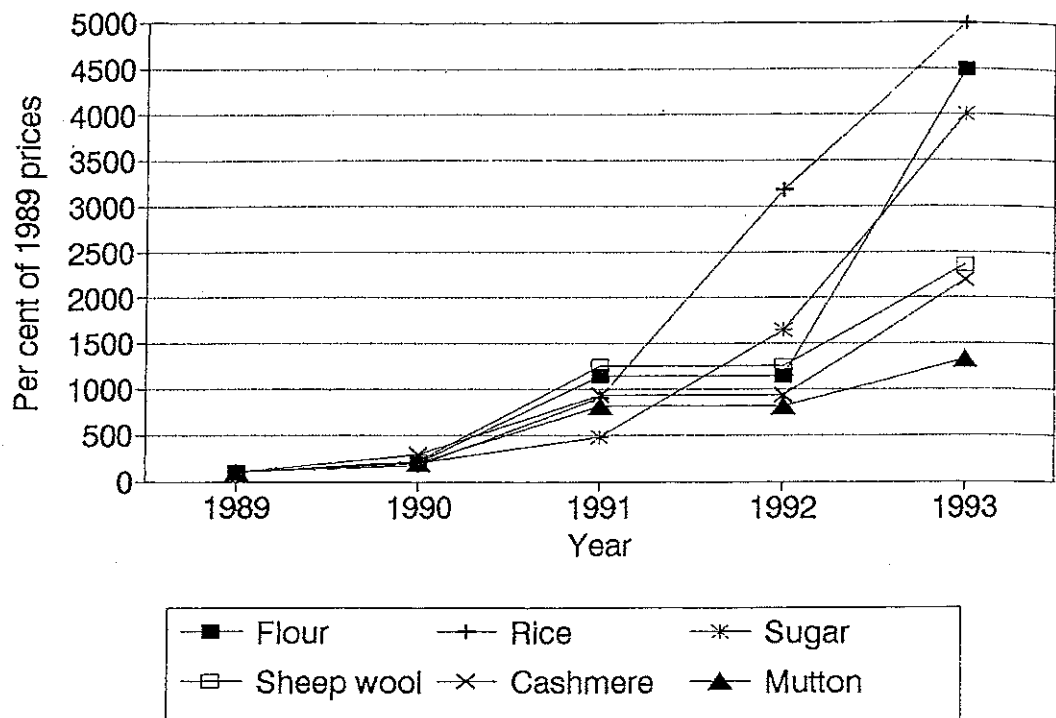
In the short term an improved external environment for livestock trade would most likely make poor herders market less (as they could reach their target incomes by selling less) and wealthy herders market more (as they would have more productive uses for additional incomes—such as production inputs and alternative uses of cash). In all cases it would improve the real wealth and food security of all herders. In the longer term, as poorer herders could build up their herds, their levels of marketing would also increase, raising not only their own welfare, but also raising overall levels of marketing and improving welfare and food security on a national level. The external environment is undoubtedly the main constraint to raising overall levels of marketing and increasing herd off-take rates in Mongolia today. The following section will deal with some factors external to the household economy, which are most directly relevant to marketing policy and reform.

### Problems in the general environment for livestock marketing

Important factors external to the sphere of production, which affect the level of livestock marketing in Mongolia, include (i) pricing policies and terms of trade in meat for other consumer goods, (ii) market structure and competition, (iii) liquidity and barter trade constraints, (iv) international trade policy, (v) business development and local processing industry, (vi) transport problems, as well as a range of (vii) infrastructural shortcomings for livestock marketing. Each of these will be outlined briefly below.

Virtually all herders interviewed complained about the worsening terms of trade for livestock and livestock products, as compared to other consumer goods (such

Figure 4. Price indices for Altan for livestock and consumer products



as sugar, flour, rice tea and textiles), since the economic reform programme began in the late 1980s. As the liberalisation of farm gate prices for livestock and livestock products were delayed until 1993, whereas other prices were liberalised in 1991 and earlier, livestock producers (both individual herders and livestock companies and state farms) have faced a continuously worsening economic climate in the early 1990s. Figure 4 displays relative movements in livestock product and other consumer goods prices since 1989.

The delays in agricultural price reforms (as well as a continuing practice of attempting to control prices through local price regulation and parastatal wholesale buying agencies) have proved a critically important constraint to encouraging marketing development, and indeed, to the survival of current parastatal marketing organisations, as well as state farms (Milne *et al.* 1991). The price of meat was freed in June 1993 for private sector operators, and meat rations were given up in August, but local town governments, for example, usually have a controlled price policy for 'official' marketing channels. According to sev-

eral directors and officials of local parastatal agencies, this system is currently collapsing as these marketing channels find it increasingly difficult to buy animals at low prices.

Apart from official pricing policies, producer prices are also influenced by the institutional structure of marketing and the extent of price competition between different marketing channels. The marketing of surplus production in many *sums* (districts) is very markedly dominated by the former *negdel* (collective) and state farm companies, particularly in the case of company-owned livestock. Herders can also sell their private produce through the companies, but most herders refrain from this, since prices are considered too exploitative, except for certain products, like milk or wool, which are regularly collected by the companies. In some areas—particularly near urban centres—livestock companies face considerable competition from alternative marketing operators, in terms of buying produce from herders' private animals. Alternative marketing channels, which are available to herders, include the CCs, private trader companies, unregistered 'free trad-

ers', ACE brokers and, in some cases, small-scale marketing *khorshoos* (cooperatives). However, many of these options are not available or accessible to herders in most parts.

As is shown in Tables 1, 2 and 3 below, herders tend to sell their products through the marketing channel which offers the highest prices, except in cases where the products are highly perishable—such as milk—or where the unit price of products is low—such as milk or sheep wool. In both these cases it is often easier for herders to rely on the most accessible market outlet (e.g. company milk collection points, and wool collection). Private live animals are usually sold to private traders, when possible and when these offer good prices. It must be stressed, however, that the volume of live animal sales tends to be very limited, as the frequency of visits by private traders (also called 'occasional traders') is extremely low in many areas and as company and CC prices are considered too low by herders. Nevertheless, despite being pressured to keep buying prices low, livestock companies and CCs can still buy some private animals, though they are finding it increasingly difficult to buy up planned

quantities. On the other hand, the marketing of products such as skins, hides, cashmere and, to some extent, wool seems to be more broadly spread over different types of marketing channels, as price differentials are not vast, and where competition on price appears to be stronger than for other products.

Although the reform process is broadly aimed at introducing competition in marketing, the current reality appears to be that in the process of privatising the organisations of the old system, oligopolies (with 'monopolistic competition') among a small number of permanent operators, dominating marketing in many areas of the country, have been created. The result is often that those buyers can both pay less and purchase less than they would have to do in a fully competitive environment, in order to stay in business. Although monopoly prices are less of a problem now than was the case in the recent past, serious distortions and downward pressure on prices remain, since pricing mechanisms depend on the actual extent of competition as well as on official pricing policies.

Since different types of marketing structures in Mongolia have different benefits

Table 1. Relative volumes of products sold by 20 herding families, in Altan Bulag, Töv aimag, by marketing channel, and average prices offered by buyers, 1992/1993

Products sold	Total	Livestock companies		Consumer co-op		Private traders		Sum broker		Marketing <i>khorshoos</i>	
	Total vol.(%)	Price (Tg.)	Vol. (%)	Price (Tg.)	Vol. (%)	Price (Tg.)	Vol. (%)	Price (Tg.)	Vol. (%)	Price (Tg.)	Vol. (%)
Live Horses	100	-	-	-	-	15,000	100	-	-	-	-
Live Cattle	100	13,000	20	13,000	10	15,000	10	15,000	20	15,000	40
Live Sheep	100	1,800	20	1,900	10	2,500	10	2,000	10	2,000	50
Live Goat	100	1,400	30	1,500	20	1,800	20	1,600	20	1,600	10
Sheep wool, kg	100	60	20	62	30	65	10	65	10	65	30
Cashmere, kg	100	1,500	10	1,400	30	1,500	20	1,400	20	1,500	20
Milk, l	100	20	80	-	-	30	20	-	-	-	-
Airag, l	100	20	70	-	-	25	20	-	-	25	10
Skin, pc	100	500	20	500	20	600	20	500	20	600	20
Hides, pc	100	900	50	900	30	1,000	10	-	-	950	10

Source: Marketing survey of the Livestock Marketing Project carried out with PALD (PALD, 1993).

Table 2. *Relative volumes of products sold by 20 herding families, in Kharkhorin, Övörkhangaï, by marketing channel, and prices offered/quoted by buyers, 1992/1993*

Products sold	TOTAL	Livestock company		Consumer co-op		Private traders	
	Market vol.(%)	Price (Tg.)	Share of vol. (%)	Price (Tg.)	Share of vol. (%)	Price (Tg.)	Share of vol. (%)
Live Horses	100	5,800	-	10,000	-	17,500	100%
Live Cattle	100	8,750	-	14,000	20%	22,700	80%
Live Sheep	100	2,000	-	1,600	-	3,000	100%
Sheep wool, kg	100	65	50%	68	20%	70	30%
Cashmere, kg	100	1,300	20%	1,500	40%	1,500	40%
Milk, l	100	20	90%	-	-	30	10%
Airag, l	100	20	80%	-	-	25	20%
Skins, pc	100	600	40%	600	30%	650	30%
Hides, pc	100	900	20%	1,000	50%	1,000	30%

Source: Same as Table 1.

Table 3. *Relative volumes of products sold by 10 herding families, in Mandal-Ovoo, Ömnögöv', by marketing channel, and average prices offered by buyers, 1992/1993*

Products sold	TOTAL	Livestock company		Consumer co-op		Private traders	
	Market vol.(%)	Price (Tg.)	Share of vol. (%)	Price (Tg.)	Share of vol. (%)	Price (Tg.)	Share of vol. (%)
Live Camels	100	8,000	20%	-	-	10,000	80%
Live Sheep	100	-	-	-	-	3,000	100%
Live Goats	100	-	-	-	-	2,500	100%
Sheep wool, kg	100	60	70%	65	20%	70	10%
Camel wool, kg	100	200	60%	200	30%	200	10%
Cashmere, kg	100	1,300	40%	1,400	40%	1,500	20%
Hides, pc	100	700	20%	800	70%	800	10%
Skins, pc	100	700	20%	500	70%	400	10%

Source: Same as Table 1.

and drawbacks, it seems clear that the main thrust has to be on how to encourage the development of a greater number of marketing operators in any given area. Whereas parastatals, for example, have a certain advantage in terms of economies of scale and already existing networks of contacts, private enterprises and traders—particularly new ones—tend to be more cost efficient, flexible and offer producers higher prices. Producer *khorshoos* can often relieve the constraints of poor marketing outlets for specific groups of herders, in ways which safeguard their own members' interests, and processing and marketing *khorshoos* (often run by *sum* centre residents)

can provide herders with additional reliable market channels.

The development of alternative marketing businesses as well as businesses for processing livestock products, would both improve herders' ability to diversify their incomes from livestock marketing. All market operators, however, are having serious problems with raising cash to purchase animals or livestock products for at least two reasons: (i) local banks rarely have sufficient liquidity for large withdrawals of cash (even where customers have large deposits on paper) and (ii) interest rates for borrowing cash are currently extremely high at 20–25 percent per month. The first

of these problems is partly related to the general inefficiency of the Mongolian banking system, with banks not being familiar with basic concepts of financial discipline and accounting practices required for profitable operations within a market environment. In rural areas the predominant bank, the Agricultural Bank, is state owned, with strong links to the administration, which means that the interests and demands of local administrators often prevail over commercial considerations. Even where the major state owned meat processing company, Makhimpex, transfers funds to local branches to purchase animals, these funds are often used by the bank for other purposes (such as paying administrators' salaries), leaving the client (also a state owned company) unable to withdraw its money; instead it has to send people carrying cash (and goods) to various rural sites. The second problem, of very high interest rates, means that any marketing activity where the time elapsed in completing transaction takes more than a few weeks—such as the trekking of livestock (which takes several months), or where profit margins are modest, can not afford official credit. Large parastatals enjoy subsidised credit in many cases, but private operators have little access to this, except if they form small-scale voluntary *khoshos*.

To the extent that subsidised credit should be used at all as a tool to encourage market development, a case should be made for establishing small scale credit schemes for individual traders and small enterprises as well as *khoshos*, possibly through local traders' associations, where these appear to be reasonably cohesive and impartial, particularly in regions where the existing numbers of competing market channels are very low. If specific efforts to extend assistance with credit to market entrepreneurs and local small-scale enterprises are not made, a strong case should be made against the continuation of subsidised lending to any particular groups, so that all can compete under fair conditions.

Business development, however, should not focus on marketing enterprises exclusively, since local processing enterprises would also benefit herders, through providing additional fixed marketing outlets (and possibly better prices) as well as providing additional employment and incomes in rural *sum* centres and provincial towns. The development of livestock product processing in the country generally needs considerable attention for a range of reasons, including urban employment, international terms of trade, national income and government revenue. Much of the processing industry has already been privatised in the case of livestock products, but outdated technologies, working practices and marketing approaches are posing serious problems for domestic processing industry. Furthermore, liberalisation in export policy for livestock products, without comparable liberalisation of import policy, has resulted in industry finding it increasingly difficult to compete in buying up skins, hides, wool and cashmere, as Chinese importers can afford to pay higher prices, whereas imports of production inputs, such as chemical and spare parts are increasingly costly in relative terms.

Without denying that the range of problems for local processing industry is vastly more complex than a matter of international trade policy, the latter is certainly seen as a major constraint by industrialists in the country (judging from personal interviews with officials from two skin factories, a leather primary processing and trading firm, and a wool trading and processing concern of 14 companies, amongst others). A common suggestion to encourage local processing is to impose export taxes on primary livestock products, or limit their export through quotas, as is the case for meat exports. Low and balanced levels of export and import taxes are clearly more efficient and equitable than quotas, as well as being more lucrative for government revenues (though quotas allow for greater opportunities for personal bribes, making them politically difficult to remove). The

government's intention to reserve the export market for intestines as a state monopoly and its continued limiting of export of live animals and meat through quotas, is not easy to understand, given its stated commitment to moving away from state participation in marketing and towards the dismantling of former monopolies. It would be advisable to reverse this policy decision together with liberalising export of live animals, through replacing existing export quotas with limited export taxes.

Protectionist trade policies are generally not in the interest of the Mongolian economy (as international trading between Moscow and Beijing, via Ulaanbaatar, may currently be one of the most dynamic sectors of the economy), but it is important to ensure that local industry does not suffer discrimination from *de facto* higher export taxes on processed goods (resulting from tariff escalation in importing countries) and higher import taxes for production inputs. In the final analysis, however, the country can only realise and develop its comparative advantages (a major one being livestock production) under the pressure of competition on the world market and, although efforts have to be made to ensure that trade policy is balanced, equitable and efficient to implement, these policies should not be used to favour the interests of industrialists over herders, who benefit from free trade and higher livestock product prices.

A further problem for livestock marketing is the cost of and access to petrol, for transport. Unlike most other sectors of the Mongolian economy, in the transport and energy sectors the state continues to exercise substantial control and involvement. As fuel supplies are very short in some areas, parastatal companies and the consumer cooperatives have privileged access to fuel, whereas private entrepreneurs often have to turn to the black market where they pay as much as 400 percent higher prices (in extreme cases); this strongly suggests that fuel is not being allocated efficiently and this poses great obstacles to market entry in the livestock trade. As the supply of pet-

rol to all remote areas of the country may not be a commercially viable proposition for private investment, it may well be that the state needs to continue some involvement in ensuring the supply of fuel to these areas. However, short of fully privatising the supply of petrol, the government could separate the allocation of petrol—and/or petrol coupons—from local public administrations and make the relevant state corporation, Neftconcern, a more autonomous parastatal with powers to apply a flexible pricing policy.

Liberalisation in the trade of livestock has generally made some progress, but it has been slower than in other sectors, and continued government participation in the sector has by and large slowed down the development of competitive marketing. Furthermore, continued excessive government involvement in the banking and fuel sectors has meant that independent operators suffer discrimination in terms of access to essential marketing and production inputs. Though continued government support of certain parastatal agencies may be justified under some circumstances, these should be made more autonomous both in both operational and pricing policy terms. Instead, the government needs to adopt a more supportive stance in relation to all types of economic entities, which would be both more equitable and effective for a long term sustainable market development.

Specific actions recommended to provide direct support for marketing development (apart from the broader policy issues outlined above) include: (1) improving infrastructural support in the areas of (i) transport, (ii) market places and auctions, (iii) trek routes, (iv) slaughter houses and (v) storage facilities; (2) providing market information on prices, markets, including innovations, developments, animal health and cures, extension etc.; (3) supporting marketing and other economic research; (4) developing regional strategies for marketing development, including infrastructure support, small business development, mar-

ket information etc.; (5) providing management training and guidance for all types of operators and redesigning higher education curricula to include business management and economics; and (6) using institutional credit only to encourage the growth of new local small-scale operators in marketing and processing in under served areas, in order to (i) increase competition, (ii) add value locally and (iii) improve local employment generation prospects.

Aside from government investment in these physical as well as 'soft' aspects of market infrastructure, the investment in legal infrastructure provides a final, and fundamentally important, area of government responsibility with respect to marketing. The elaboration of a legal framework which is both clear and enforceable, so that increased knowledge of, and confidence in, commercial law will reduce uncertainty and transaction costs. Furthermore, specific bodies of government may need to be established, or strengthened, so as to be able to monitor and regulate trading standards generally, including preventing the creation of monopolies, oligopolies and other forms of collusion amongst producers and traders.

## Conclusion

In summary, levels of live animal sales by herders are currently kept to a minimum for a variety of reasons: (i) many herders are still purposely building up their herds and have not yet achieved what they consider to be optimal herd sizes, (ii) prices are still considered too low, in relation to consumer goods received in exchange, (iii) a predominance of barter trade (as opposed to monetised exchange) means that once basic requirements for consumer goods have been met herders have few incentives for further sales, and (iv) herders are usually limited to a narrow choice of market outlets in any one local area (even if there are a fair number represented at *sum* level) or any one season. A critical constraint to

the development of a larger number of effectively competing marketing channels for herders is a severe shortage of liquid cash in the economy, resulting in an effective de-monetisation of exchange (a significant increase in barter trade), with serious efficiency losses in terms of flexibility and price competition. Interest rates for ordinary entrepreneurs and producers are currently so high that access to credit has become practically impossible for most. Furthermore, the rising cost of fuel and transport as well as the increasing difficulty which non-connected newcomers have in getting access to government controlled fuel in some areas, constrains marketing and the development of competition. Infrastructural support for marketing by different types of operators is currently rather undeveloped (both for physical and 'soft' infrastructure) and is likely to remain highly inequitable as long as the government insists on participating in marketing through price regulation and manipulation of its parastatal agencies.

The single most important aspect in the development of livestock marketing in Mongolia today is the realisation that this should not be about the government setting up new marketing organisations, but rather about creating an appropriate climate in which existing and new marketing organisations and operators can be allowed to develop and compete. Inevitably, in this process, a number of marketing agencies and operators will face bankruptcy, but as long as this is merely the result of fierce, fair and open competition, then consumers, producers and the economy in general can only stand to gain in the long term. It becomes the responsibility of the government, however, to ensure that marketing agents are not driven out of business by illegitimate means, or unfair competition, and that all have equitable access to resources and inputs, such as information, finance, fuel and legal protection.



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