



**POLICY  
RECOMMENDATIONS  
ON AGRICULTURE  
SECTOR OF  
MONGOLIA:  
CHALLENGES AND  
OPPORTUNITIES**

**2024**



# **POLICY RECOMMENDATIONS ON AGRICULTURE SECTOR OF MONGOLIA: CHALLENGES AND OPPORTUNITIES**

## **AMERICAN CHAMBER OF COMMERCE IN MONGOLIA**

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# BACKGROUND

AmCham Mongolia consistently advocates for economic diversification whereby agriculture can and should play a pivotal role.

Mongolia's agriculture sector has advantages over other sectors, offering opportunities for investors and exporters. However, access to agri-financing, the regulatory framework, market access, and economic scale present challenges.

The development of the position paper involved meetings with members of AmCham's Agriculture Committee, international organizations, including Asian Development Bank (ADB) and the International Finance Corporation (IFC), and existing research and analysis papers.

This position paper analyzes Mongolian agriculture sub-sectors that offer potential for foreign direct investment (FDI) and offer recommendations for foreign investors.

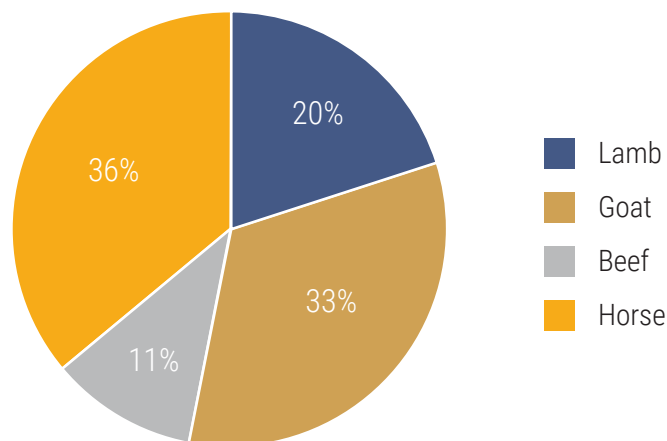


# 1. AGRICULTURE SECTOR OVERVIEW

The agriculture sector's role in Mongolia's economy cannot be underestimated. It contributes 13 percent to GDP and employs 30 percent of the total workforce. According to an ADB analysis, livestock accounts for 84.2 percent of agricultural output. Meat and milk are currently the primary products of the livestock sub-sector, amounting to 61 percent of livestock output and seven percent of GDP.<sup>1</sup>

The meat industry, particularly exports, is one of the most promising avenues for Mongolia to diversify its economy. Mongolia exported 70,000 tons of meat and meat products as of December 2023. Forty percent of this exported meat is thermally processed meat sold to China, while 11 percent is beef, 36 percent is horse, 20 percent is sheep, and 33 percent is goat.<sup>2</sup> However, these numbers are relatively low considering the national livestock count of over 70 million animals.

Percentage of exported meat /%/



There is still potential for domestic dairy production and processing. Milk production rose from 859 million tons in 2020 to 990.4 million tons in 2022, growing by 15 percent.<sup>3</sup> In addition, Mongolia's terrain and great distances make it difficult to reach collection locations on time.

<sup>1</sup> Economic analysis. ADB.

<sup>2</sup> 70 мянган тонн мах экспортолсны 86 хувийг Хятад руу гаргажээ | News.MN

<sup>3</sup> Mongolia Production of milk, 1961-2023 - knoema.com



## 2

# GOVERNMENT POLICY FRAMEWORK

The Government of Mongolia has proposed a program to support intensive livestock production, and under the President of Mongolia's Food Supply and Food Safety initiative, the country hopes to be self-sufficient in food production with higher safety standards, reducing its dependence on imported foods.

A national program to support intensive livestock production was approved in 2018. The program supports intensive livestock farmers and professional associations, transferring to cluster systems, importing high-yield livestock, ensuring feed production and food safety, and introducing new technology.

### The program is focused on the following:

- ◆ Increasing the capacity of milk processing plants by 35 percent;
- ◆ Doubling the number of breeding cows, raising the milk and meat yield from an animal by 20 percent, and increasing milk and meat processing by 30 percent;
- ◆ Eliminating the import of liquid milk, decreasing the import of milk powder by 30 percent, and decreasing the import of other dairy products by 15 percent;
- ◆ Egg imports decreasing by 90 percent and honey imports by 70 percent;
- ◆ Increasing the intensive animal husbandry feed supply by 40 percent and technical and technological innovation by 30 percent.

Mongolia's Sustainable Development Vision 2030 was adopted by the Government of Mongolia in 2016. The Sustainable Economic Development section of this document recommends introducing advanced technology in food production, improving competitiveness, and ensuring the production of safe and healthy domestic food products. The implementation of these goals is expected to lead to these results:

**Phase I (2016-2020):** Fully meet the demand for grains, potatoes, and vegetables from domestic sources, develop agricultural clusters in urban and rural areas, process 30 percent of the meat and 40 percent of the milk supplied to the domestic market.

**Phase II (2021-2025):** Meet domestic demand with safe and healthy food, introduce advanced technology, introduce Mongolian food products to the international market, and produce 50 percent of the processed meat and 60 percent of the processed milk supplied to the domestic market.

**Phase III (2025-2030):** Fully meet domestic demand with certified healthy food, increase the variety of Mongolian food products in the international market, and process 70 percent of the meat and 80 percent of the milk supplied to the domestic market.

The following goals will be implemented within the framework of food safety and processed food development plans:

Indicator	2014 суурь он	2020 он	2025 он
Processed meat (thousand tons)	16.8	100	200
Share of processed milk in total milk production	9	30	50

Overall, the Government of Mongolia strives to increase FDI in agribusiness for the following reasons:

- ◆ Economic diversification to minimize over-dependence on the mining sector;
- ◆ Import substitution as Mongolia imports large volumes of agri-products and vegetables that can be produced domestically;
- ◆ Increase value-added products to supply the domestic market and explore export opportunities.



## 3 AGRICULTURE SUB-SECTOR ANALYSIS

### 3.1. DAIRY SECTOR

Dairy products remain an important part of the economy. A significant portion of Mongolian cuisine is made from milk from cattle grazing on summer pastures. The milk is directly consumed and used to make a variety of traditional items, especially in rural areas. Many of them have long shelf lives and are kept for consumption in the winter and spring.

The lack of dairy processing facilities in rural areas hinders the sustainable supply of dairy products to the urban market, primarily the capital city of Ulaanbaatar. Four large Ulaanbaatar-based companies, APU, Suu, VitaFit, and TESO, account for nearly 95 percent of domestic production. However, the distance between producers and processors, the lack of storage facilities and other infrastructure, and seasonally inconsistent production result in the inconsistent utilization of installed production capacities.

In addition to opportunities to better serve the domestic market, there is great potential for dairy exports to large regional markets such as China, Russia, and Japan. Investments in the upstream value chain sub-sectors, such as intensive dairy farming, fodder production, and irrigation technology, offer targeted export and investment opportunities.

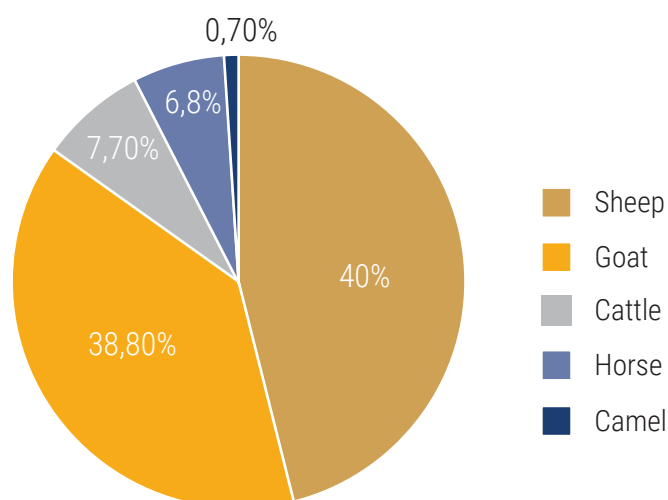
To encourage FDI in the dairy sector, the government should remove some of the regulatory obstacles for exports and address inadequate infrastructure.

### 3.2 MEAT PROCESSING

The government's annual livestock census recorded a record 71.1 million head of livestock in 2022, an increase of 3.8 million (5.6 percent) from 2021. The breakdown of the livestock population is 46.0 percent sheep, 38.8 percent goats, 7.7 percent cattle, 6.8 percent horses, and 0.7 percent camels.<sup>4</sup>

<sup>4</sup>Mongolia registers a record number livestock - News.MN

## Composition of Livestock in Mongolia in 2022



Fifteen million (20 percent) of all livestock are consumed domestically, with skins, hides, and other non-consumables used for other purposes. In 2022-2023, 12.8 million livestock (387,900 tons of meat) was supplied to the domestic market, and 9.1 percent (186,000 tons) was exported.<sup>5</sup>

Mongolia exported 129,000 tons of meat and meat products in the two years before the outbreak of the COVID-19 pandemic (2017-2019), but pandemic restrictions, logistics difficulties, and unstable economic conditions led to a 45 percent drop to 38,800 tons in 2020 and a 21,800-ton decrease in 2021. In 2022, 43 enterprises exported 16,000 tons of meat and meat products to 10 countries.<sup>6</sup>

In the last three years, Mongolia exported an average of 2.3 million livestock, with more than 90 percent going to China and the rest to Iran, the United Arab Emirates, Kazakhstan, and Hong Kong. The revenue generated from meat exports amounted to 146.5 million USD. Mongolia primarily exports horses to external markets, representing 90 percent of livestock and meat exports. By the end of 2022, Mongolia exported 50.6 million USD in meat. Horse meat exports were 21 million USD, lamb and goat meat 7.1 million USD, and beef exports totaled 463,000 USD. Moreover, 205,000 tons of meat products and 17.3 million USD of heat-processed meat were exported.<sup>7</sup>

The country's meat production in 2022 amounted to 512,000 tons, an increase of 16 percent over the previous year. Overall, meat production volume surged at an annual growth rate of 7.6 percent between 2017 and 2022.<sup>8</sup> Over the years, Mongolia has witnessed an increase in economic development and living standards, leading to a higher demand for meat products. The per capita meat consumption in Mongolia in 2022 reached 111 kg.

Consumers get their meat from three main supply chain links. Meat dealers purchase livestock from herders and the animals are transported to slaughterhouses near Ulaanbaatar, where they pay a slaughter fee. The meat is then distributed through food market channels.

<sup>5</sup> Bloomberg TV Mongolia

<sup>6</sup> Bloomberg TV Mongolia

<sup>7</sup> PressReader.com - Digital Newspaper & Magazine Subscriptions

<sup>8</sup> Production of Meat in Mongolia - 2022 - Charts and Tables - IndexBox





Meat processing enterprises play a crucial role in the supply chain. They collect livestock from herders and deliver them to slaughterhouses. These companies provide processed meat products to markets and retail stores in Ulaanbaatar.



Herders also sell meat directly to consumers.



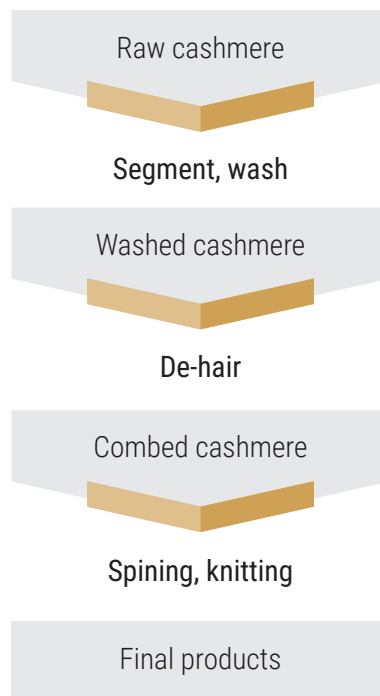
Due to the livestock surplus and the country's access to China, Russia, and Japan, international investors may choose to base their investment proposals on the export of red meat. However, several impediments must be dealt with to make this happen. Livestock health continues to restrict domestic sales and exports, and overcoming OIE certification prohibition is necessary. If a consistently secure supply of meat can be ensured for international markets, investors will have incentives to improve or contribute to processing capacity (slaughterhouses and meat processing facilities).

### 3.3. CASHMERE SECTOR

Mongolia accounts for one-third of global cashmere production, which totals 8,500 tons of raw cashmere annually. Cashmere and wool account for 34 percent of Mongolia's exports. Fifteen to 25 percent of wool and raw cashmere is used for finished products; the remaining 75 percent is washed or combed wool exported to China. In 2020, Mongolia exported 6.3 million tons of washed cashmere, 260,000 kg of combed cashmere, and 314,000 textile products.

In 2020, washed cashmere accounted for 84.4 percent (185.3 million USD) of all exports, while combed cashmere accounted for 7.7 percent (16.9 million USD), and only 7.9 percent (16.9 million USD) is knit or woven cashmere products.<sup>9</sup>

Finished cashmere products go through three production stages.



*Source: Ministry of Food, Agriculture and Light Industry*

A lack of working capital, modern technology, equipment, and know-how continues to hobble the cashmere sector's development. Mongolia cannot compete with foreign companies due to insufficient processing and value addition.

Cashmere demand has been growing steadily, especially in Europe. Italy, the United Kingdom, Japan, and the USA are the largest cashmere importers. The USA is the world's largest cashmere importer. The global cashmere clothing market was valued at 2.79 billion USD in 2020, and it is expected to reach 3.66 billion USD by the end of 2026, growing at a rate of 3.9 percent from 2021 through 2026.<sup>10</sup>

The demand for this soft, natural fiber has increased significantly in recent years. However, this demand has been linked to the overpopulation of goats, leading to overgrazing and threatening the sustainability of local ecosystems and the livelihoods of nomads. Overgrazing and climate change contribute to land degradation and desertification in Mongolia. Higher temperatures and less rain have resulted in a drying trend, affecting pastures and water sources.

The cashmere industry is now focused on reducing the negative environmental impact of their activities, securing herder livelihoods, improving animal welfare, and ensuring a sustainable supply chain. Gobi Cashmere has been working in the industry for almost 40 years. As a member of the Sustainable Fibre Alliance and through its Sustainable Cashmere project, Gobi works across three interconnected areas: promoting sustainable animal husbandry, improving cashmere quality, and strengthening community management.

Mongolia has no trade barriers for cashmere export as it enjoys General System of Preferences (GSP) access to Japan, the USA, the EU, and Canada. The industry's secondary processing segment can attract FDI in production outsourcing and joint venture operations.

### 3.4. AGRICULTURAL TECHNOLOGY AND MACHINERY

The Ministry of Food, Agriculture and Light Industry of Mongolia posts tender-related announcements for goods and services on its website (MOFA - Худалдан авах ажиллагаа).

The Government of Mongolia lists equipment that is eligible for tax and customs duties exemptions under the tender law of Mongolia. Otherwise, equipment is levied for taxes and customs duties.

<sup>9</sup> v1115\_revised report.pdf (mongolchamber.mn)

<sup>10</sup> CASHMERE INITIATIVES WORKING TOGETHER TO IMPROVE THE VALUE CHAIN | United Nations Development Programme (undp.org)

4

## 4. CASE STUDIES OF SUCCESSFUL AGRIBUSINESSES IN MONGOLIA

### **MSM Group**

#### **John Deere equipment**

MSM Group was established in Mongolia in 1998. It is active in a wide range of businesses, including agriculture, automotive, industrial equipment, chemicals, and imported beverages. MSM is the sole distributor of John Deere equipment in Mongolia.

The group acquired a 10 million USD loan from the U.S. International Development Finance Corporation (DFC) to expand its industrial, agricultural, and commercial vehicle services.

### **Metagro LLC**

Metagro LLC, with investment from MCS Group, supplies the market with its premium beef brand Primeat.

Established in 2021 to supply the domestic and foreign markets with high-quality agricultural products meeting international standards at competitive prices through a combination of intensive animal husbandry and smart agriculture, Metagro is doing business in world-renowned cattle breeding, feed, and animal husbandry. The company received funding from a local bank and purchased smart agriculture technology from the U.S.

The company focuses on food safety and taste. It utilizes zero-fertilization technology for soil protection, smart farming, irrigation systems that increase yield and optimize operations, and fertilizer farming that ensures livestock health, well-being, and biosecurity.

Metagro's intensive animal husbandry complex also engages in environmentally friendly activities and introduces investment, technical, and technological solutions to ensure food safety.

### **Gobi**

In September 2019, Gobi Corporation, Mongolia's largest cashmere manufacturer, launched Gobi Cashmere USA in Los Angeles, California, and a dedicated e-commerce website for U.S. customers. Gobi supplies high-quality raw cashmere products to the international market but faces competition from China in the U.S. market.

Gobi has franchise stores in Chicago, Los Angeles, and San Francisco.

## 5

## CONCLUSIONS AND POLICY RECOMMENDATIONS

Traditionally, Mongolia's agriculture sector is considered to have a competitive advantage, although the sector faced a nine percent decline in 2023, while the country's economic growth rate was over six percent.

AmCham Mongolia believes that despite the challenges, there are opportunities for investors in this sector. The Government of Mongolia is making efforts to develop the agricultural sector, but there are issues related to inconsistent policy with the frequent changes in government.

Based on a sector overview, AmCham Mongolia has made the following policy recommendations to make the sector investment attractive:

- ◆ AmCham Mongolia advocates for a level playing field for American and other third neighbor investors interested in doing business in the Mongolian agriculture sector.
- ◆ AmCham Mongolia urges the government to introduce regulatory and tax incentives for introducing advanced agri-technology, equipment, and machinery from the U.S. and other countries. Mongolia is facing pressure from its immediate neighbors, reinforced by state-backed financing to supply agricultural machinery and equipment.
- ◆ Bilateral quarantine and health agreements with neighboring countries need to be expedited to allow the export of Mongolian dairy products.
- ◆ Understanding the underdeveloped supply chain is critical for doing successful agri-business in Mongolia.
- ◆ Investors have various options for investing in agriculture through various forms of investment (greenfield, brownfield or joint venture) or franchising and licensing (e.g., international food chains), branding and marketing that highlight Mongolia's differentiation from other international markets (the secondary processing of cashmere or other niche markets), or machinery and equipment.
- ◆ The meat industry is a promising sector for export, and opportunities exist in Southeast Asia, Central Asia, and Middle Eastern markets.
- ◆ There are investment opportunities in the pharmaceutical and cosmetics industry, where agricultural raw materials, including seabuckthorn and camel milk, are widely used to deliver eco-friendly finished products to the market.

