

*Case Study – Development of Mongolian Wild Blueberry Opportunities
Harnessing the Demand-Driven Market opportunities to involve the private
sector in Economic and Social Development for Indigenous Crops*

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EXECUTIVE SUMMARY

Few places on Earth are as desolate and isolated as upper Mongolia near Lake Hovsgol, a region where the average mean temperature in January is minus 32°C coupled with no economically significant resources. In this area there are few villages and most of the resident population is nomadic, moving their herds with the seasons and availability of grazing land.

Faced with the challenge of providing a better quality of living for the people of Mongolia the government is faced with seemingly insurmountable challenges. To support the governmental efforts, U. S. Agency International Development (USAID) has a number of programs in Mongolia ranging from assisting in improving the transparency and accessibility of the government to supporting business development.

In Mongolia during October 2005 I discovered a locally produced wild blueberry jam at a Ulaanbaatar (UB) market. Realizing that world demand for blueberries exceeds the available supply, I queried about the local crop and learned that it was estimated that only 2% of the available berries were harvested annually due to limited demand.

Subsequently, I visited several companies in Japan to discuss market opportunities for Mongolian products. I received an overwhelming interest in blueberry products with a solid inquiry for 2,800 cases of blueberry jam for immediate shipment based upon the price that I received from the producer in Mongolia. Learning that there was insufficient product to meet this demand, yet an un-harvested crop and excess labor in the region, we realized that there was an opportunity for profit to be developed.

For economic development to be sustainable it is critical that the companies and individuals involved continue to make a profit when support comes to an end. The Japanese companies that I met with expressed their interest in cooperating to develop this opportunity. They each felt that having the ability to offer Mongolia wild blueberry products would provide them with significant competitive advantages over other sources of blueberries.

USAID Economic Policy Reform and Competitiveness Project (EPRC) began their work to develop a supply chain capable of meeting the demands for quality and volume of the customers. With a firm commitment from a buyer for the final product, the chances of success and sustainability justified USAID and local participation. In May 2006 I traveled to Lake Hovsgol with two buyers from Japan to review the opportunities and determine if there was sufficient supply and technology to provide the customers with product to justify their commitment to the project. On this trip we started the process of exploring the concept of producing other value added products from the available blueberries including dried blueberries, blueberry powder, and IQF frozen blueberries.

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The development of an economy associated with the Mongolia wild blueberry crop will help achieve the economic objectives of the government of Mongolia by helping to improve the standards of living for the local populace without changing their lifestyle or requiring them to give up their centuries old traditions as nomadic herdsman.

This case study documents the efforts, successes and failures of the development of sustainable economic activity around the Mongolia wild blueberry crop. With one harvest season currently working its way through the supply chain to the customer in Japan it is too early to determine the ultimate sustainability of this effort, however, the lessons learned through this effort to date can help others achieve success and sustainability in similar situations.

Overview – Environmental factors

The environment in the Lake Hovsgol region of Mongolia has suffered greatly from the tragedy of the commons. With private property non-existent the resulting lack of resource management has left nearly all of the Mongolian landscape over grazed, over utilized and suffering from desertification, erosion and degradation as a seemingly unchangeable fact.

The nomadic lifestyle of nearly two thirds of Mongolian citizens coupled with common ownership of the natural resources has kept agricultural production limited to a few annual crops (that can be protected from wandering herds) and herds of livestock that continue to be relocated to greener pastures when the current area becomes over grazed or otherwise unproductive. With no incentive or protection for private investment, the planting and management of perennial crops and fixed facilities is nonexistent.

Sustainable economic development and growth in Mongolia is difficult due to several factors including the environment, the location as a landlocked country between Russia and China, and years of suppressed education, entrepreneurship and incentive under the Communist system. In the area around Lake Hovsgol these factors are amplified by the lack of investment in infrastructure which puts transportation between Lake Hovsgol and Ulaanbaatar a rough 1200 kilometers across valley floors with few paved roads and facilities and inconsistently scheduled flights.

Overview – Market opportunities and first steps

The global demand for blueberries has increased significantly in recent years due to the health benefits of blueberries in the diet including their anti-oxidants and cholesterol reducing benefits. Finding a customer to buy blueberries was not a difficult thing. Many buyer that I talked to wanted to purchase more blueberries than they currently had offered to them.

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Getting the blueberries in an acceptable condition to the buyers at a competitive price was identified as the real greatest challenge finding customers was not going to be a problem.

Sustainability of development efforts are greatly enhanced when the private sector is involved from the beginning of a project therefore I set out to identify a buyer that I believed would be willing to take a risk on an unproven product from a primitive packing situation and introduce it into the toughest market in the world – Japan. I identified Lingzhi Technical Institute and Pacific Trading Japan as two companies that were willing and able to source product under these conditions. Lingzhi Technical Institute indicated that based upon the current price and the representative quality of the samples they had seen they were willing to commit to 20,000 cases of product and another buyer had immediate demand for 2400 cases.

By identifying a buyer prior to investing in production and processing we were able to eliminate the risk of producing a product without demand. We were able to integrate the specific demands of the client and to get their cooperation through every step of the process. We also understood a successful program would provide sustainable income to local herdsman who have historically had few income opportunities without leaving their ancestral lands or selling their herds.

The processor had a risk of producing 20,000 cases for the Japan market because if the quality did not meet the demands of the market they would have product far exceeding local demand. The processor had to commit to the jars and packaging materials well in advance of knowing if the product was going to be acceptable to the market. To help mitigate this problem the buyer provided a pre-processing payment to the local processor to support the supply chain. This agreement between the processor and the buyer ensured that the needs of both the producers and buyer were met; resulting in a win/win marriage between buyers and producers, which provides for the sustainability of this business.

This case study reflects how private and public entities can join together in a demand-driven environment to achieve mutually beneficial, sustainable results providing a harmonic marriage to achieve social and economic development.

IMPLEMENTATION

Step 1: Opportunity assessment

To determine if there was in fact sufficient product available for a commercial wild blueberry processing industry, a trip of discovery needed. In May of 2006, accompanied by two representatives from importers in Japan, I traveled to the Lake Hovsgol region of Mongolia. The blueberries were not growing on the bushes yet; however, we were able to determine the potential of the crop, the system for harvesting and processing. We took the trip as soon as the snow had melted as we realized that if modernization needed to be

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done to processing technology or supply chain in time for the 2006 harvest, we would have to be accomplished prior to harvest beginning in late August.

The buyers “invested” in this trip by providing their staff to make this trip. In most USAID, and other development projects, this work would have been accomplished by consultants with technical knowledge of blueberry processing but with no authority to purchase product or conclude business. Having businesses involved at this stage allowed the project to save money but more importantly we had buyers that from this point forward were vested in the success of this project. For this trip the private sector paid for the time and local hotels for their staff while USAID funded the travel and transportation for the buyers. By subsidizing the private sectors costs for this research they were able to justify the expenses while without this support they would not have made the trip and the opportunity would have been lost.

Step 2: Develop processing procedures and protocol for jam production

There are several value added products that can be produced from wild blueberries. With a low wage rate and abundant crop, Mongolia could have a competitive advantage on greater value added products. However it was decided to focus on jam during the first season for the following reasons: 1) jam is the least susceptible to quality, storage, transportation and sanitation problems compared with the other products and 2) a domestic market exists for blueberry jam should the product not meet international quality standards the product could be sold domestically while the other products would have no domestic market.

To develop a protocol for sanitation of blueberry jam production in Japan the EPRC project hired Dr. Junichi Uno from Japan. Dr. Uno had represented Lingzhi Technical Institute during the May visit and therefore had the respect of the buyer. Dr. Uno’s role was to develop standards and to transfer this technology to the pickers, handlers and processors of the berries. Prior to harvest beginning, Dr. Uno developed the techniques and protocol that would take the production of blueberry products in Mongolia from a primitive industry to one which produced a product that would be accepted around the world as a sanitary and safe product.

In July 2006 before harvest began, Dr. Uno returned to Mongolia and transferred the technology to the local staff of the processor Benedict.

Step 3: Organize Supply

In September as the crop began to arrive in UB from the Lake Hovsgol area. Dr. Uno returned to UB to work at the plant to ensure that the protocol he developed was applied and that the resulting product met with his buyers expectations.

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Step 4: Assessing problems and identifying solutions and new opportunities for future seasons

With success obtainable with the first effort of exportation of Mongolia wild blueberry products, the focus switches to a study of the feasibility of value added blueberry products. USAID and the private sector are supporting the business studies necessary to determine the economics associated with production of various blueberry products.

BEST PRACTICES

There were several essential elements to the successful coordination between the public and private companies in sustainable development. These elements are important to consider as this effort matures and for replication elsewhere.

1. *Demand driven:* Export of Mongolian wild blueberries was ultimately successful because a buyer in Japan viewed it as a potentially profitable venture and submitted a purchase order to a Mongolia processor accordingly. USAID/EPRC facilitated the process through strategic interventions to lower initial transaction costs and reduce the risk incurred at each level of the market chain.
2. *Cooperation:* The private sector worked with USAID/EPRC and NGOs to build synergies based on mutually beneficial interests.
3. *Start with a buyer:* At an early stage buyers were the driving force for the development of the supply chain.
4. *Sustainability through profit:* Profit is the motivator and the glue that holds opportunities together after support funding ends. USAID/EPRC played a major role in catalyzing the initial steps for export success. However, project assistance becomes less and less necessary as long as profit exists for buyers and sellers at each level of the market chain.

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