

# Government Policies and Institutions

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## Formulation of Priorities and Policies

**D**uring the relatively short period of political and economic transition, successive Mongolian governments have easily assimilated the global mainstream environmental agenda and adapted it to Mongolia's conditions. The process has combined Mongolia's perception of its development needs, its embrace of principal international environmental conventions, and its obligations and grant funding associated with these conventions. ADB (2001a) lists the documents developed during the 1990s to deal with key areas of environmental management. They include the National Environmental Action Plan of 1996, State Environmental Policy<sup>46</sup> of 1997, National Plan of Action to Combat Desertification, Biodiversity Conservation Action Plan, and National Plan of Action for Protected Areas (all developed under MNE auspices and the Mongolian Action Program for the 21<sup>st</sup> Century, with subordinated aimag development plans developed by the National Council for Sustainable Development [NCSD]). The National Environmental Action Plan was updated in 2000. The National Action Plan for Climate Change was added in the same year, and several program documents<sup>47</sup> (e.g., National Water Program, National Forestry Program, Program of Protection of Air, Environmental Education, Special Protected Areas, and Protection of Ozone Layer) were also completed at the turn of the decade. Other guidance documents with important environmental repercussions were developed under Ministry of Food and Agriculture, MOH, and other ministry auspices, and these include the Road Master Plan, Power Sector Master Plan, Tourism Master Plan, and Renewable Energy Master Plan. Documents such as the annual human development reports have often incorporated environmental aspects. Plans developed by Ulaanbaatar's municipal government for the

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<sup>46</sup> Referred to as the State Ecological Policy, a hangover from the pretransition days. The difference between ecology (people not included) and environment (people included) is still lost on many.

<sup>47</sup> None of these has the status of a legal document.

future development of the capital, although not primarily environment-related, inevitably target municipal infrastructure.

Taken together, these represent a substantial amount of preparatory work that embodies domestic environmental priorities, perhaps imperfectly in those cases where the documents have been substantially development partner-driven (e.g. the National Action Plan on Climate Change). There would be little point in separately discussing the prioritization process itself, since most of this is already reflected in the preceding sections.<sup>48</sup> The more important topic, taken up further on, is the nature and quality of these documents, in particular their policy content (as opposed to a mere listing of what needs to be done), and the justification of the proposed actions (as opposed to others). In terms of sequencing, the planning and programmatic documents of each ministry, anchored to a development philosophy statement (Good Government for Human Security<sup>49</sup>), have been translated into a formal government plan of action coinciding with the term of each government, the previous one being 2000–2004.

## Legislative and Regulatory Development

The legislative activities in support of environmental management in Mongolia up to the end of the last decade were comprehensively surveyed by Deutsche Gesellschaft für Technische Zusammenarbeit in 2001. Summarized here are only the essentials, and the most important of the post-2001 developments are mentioned.

The hierarchy of environmental legislation in Mongolia has five layers: (i) the Constitution; (ii) international treaties (e.g., Convention on International Trade in Endangered Species, Ramsar, and others); (iii) general environmental law (e.g., Law on Environmental Protection 1995); (iv) Law on Environmental Impact Assessment 1998 and laws relating to natural resources (e.g., water, forest, air, land, fauna, hunting, strictly protected areas, natural plants, buffer zones, underground resources, petroleum, and mining laws); and (v) fee-related laws (water fees, hunting fees, forest use fees, natural plants fees, and a law on the reinvestment of natural resource use fees for

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<sup>48</sup> Each year, ministries submit lists of candidate projects during a development partner conference. A review of these lists is another way of confirming existing priorities.

<sup>49</sup> The Program for Good Governance for Human Security contains three broad environmental objectives: No. 7 (to implement environmental policy aimed at providing sustainable development by harmonizing protection of biodiversity with regional socioeconomic development); No. 8 (to intensify land reform); and No. 9 (to improve the living environment of citizens by reducing air, water, and soil pollution in urban areas and recycling waste materials).

conservation and restoration of natural resources). Most laws are supplemented by more detailed orders, regulations, requirements, or standards. Overall, there are 29 laws relating to environmental management in Mongolia (Appendix 7)<sup>50</sup> and some 150 associated regulatory documents (in excess of 40 in the case of forests and 20 for water). Total further increases resulting from the passing of legislation with indirect environmental impacts (e.g., that related to trade, public health, and sanitation) is taken into account.

Government actions since 2001 have been partly in line with the direction recommended in the 2001 CEA, namely to restrain the pace of new legislation and concentrate instead on removing areas of ambiguity through amendments and drafting clearer implementation guidelines. Strengthening the legal basis of natural resources management and attention to land legislation has been the overall direction of recent legislative activities. Two key natural resources laws (related to land and water) have been recently amended (in 2002 and 2004, respectively). An important land privatization law was enacted in 2003, and a new law on solid waste management also was adopted in 2003. Overall, the Government estimates that no fewer than 755 laws have been modified or prepared for modification since 2001.

As for the rest, the direction of further development recommended in the 2001 CEA continues to hold. This direction includes the need to (i) better disseminate regulatory details to local administrative levels and the development partner community (with that community's much better internal coordination) and prepare compendia summarizing existing provisions by each thematic grouping or resource, (ii) ensure a better grasp of existing legislative and regulatory provisions in development partner-funded projects through closer contacts of development partners with local authorities and all those expected to be in charge of implementation, and (iii) favor demand-driven and implementer-driven (not top-down) approaches to regulatory modifications.

Little is said in this analysis about the role of courts as an environmental policy tool, as comprehensive assessment of this topic is being undertaken right now by the World Bank. However, despite an impressive body of environmental legislation, Mongolia has no tradition of, and arguably limited disposition for, settling contentious environmental issues through courts.

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<sup>50</sup> There are other laws (not discussed here) that have an indirect bearing on environmental management (e.g., trade law affects the trade in hunting trophies and the export of wildlife).

## **Environmental Impact Assessment and Environmental Standards**

There are some 150 environmental standards in Mongolia. About two thirds of them were adopted before 1989, and the rest were added since that time. The majority of these standards define, provide general requirements for, or specify the method of measurement. Only eight standards are ambient or discharge standards. Ambient standards exist for air, drinking water, surface water, and soil. Discharge standards exist for selected air pollutants and wastewater entering centralized treatment plants.

Ambient surface water quality standards specify 18 parameters (biological oxygen demand, suspended solids, acidity, and others) and have values similar to those used by other countries for nonpotable water. Drinking water standards specify 25 parameters. The standards for industrial wastewater discharges into sewers, too, are not very different from those used elsewhere (e.g., in the People's Republic of China, biological oxygen demand is 400 milligrams per liter, chemical oxygen demand is 500 milligrams per liter, and oil is 25 milligrams per liter). Unlike in Organisation for Economic Co-operation and Development countries, Mongolia's standards have a legal status. New standards may be adopted by the National Standards Organization, based on a submission by the relevant technical ministry. Rapid growth in industrial gold mining in the 1990s, for instance, led to the adoption in 2000 of six standards prescribing certain mining procedures (e.g., handling of overburden) and, in particular, remediation measures (land reclamation, revegetation, and others). Elsewhere, especially in Ulaanbaatar, the critical regulatory tool is zoning. With the adoption of the Land Privatization Law in 2002, zoning provisions and procedures have acquired added importance as an environmental safeguard. The zoning decisions of municipal governments, however, remain unclear. The approach to pollution control is being energized under World Bank-sponsored technical support to MNE for development of environmental impact assessment sector and management guidelines. Early indications point to a massive improvement in the level of sophistication and relevance (Dick and Greyson 2004).

ADB's assistance to bring Mongolia's environmental impact assessment practices in line with international practices has been described and evaluated (ADB 2001a, ADB 2001b, and the 2001 CEA). The essence of the Law on Environmental Impact Assessment of 1998 is also known, as is the role of outside licensed environmental impact assessment consulting organizations in the conduct of these assessments from 1995. The pace of assessment activities since the mid-1990s is given in Table 11. The challenges

to the assessment process are those identified in 2001 (i.e., growth of small- and medium-sized enterprises and facilities such as petrol stations, which were long exempt from environmental impact assessments because of their rarity) as well as new, hard-to-regulate activities, such as small-scale mining.

**Table 11: Number of Environmental Impact Assessments by Category**  
(1995–2003)

Project Type	1995	1997	2001	2002	2003	1995–2003
Gold Mining	39	34	29	64	32	827
Coal Mining	4	4	27	57	32	473
Other Minerals Mining	6	13				
Tourism	4	72	47	85	57	700
Industrial	17	46	77	136	39	812
Gas Stations <sup>a</sup>			103	178	39	320
Others	8	17	100	285	187	874
<b>Total</b>	<b>78</b>	<b>186</b>	<b>383</b>	<b>805</b>	<b>347</b>	<b>4,011</b>

<sup>a</sup> Activity started in 2001.

Notes: The totals are inclusive of environmental impact reassessments.

Source: Ministry of Nature and Environment.

Other issues surrounding the environmental impact assessment practice in Mongolia relate to (i) uneven performance of licensed assessment providers; (ii) insufficient integration of assessment provisions with other existing environmental laws and regulations (such as urban zoning or land use decisions); and (iii) insufficient enforcement of assessment requirements not backed by meaningful financial deterrents and in some cases undermined by a conflict with local governments' searches for revenue. Some of the causes of poor enforcement are discussed later in this assessment (under enforcement and monitoring).

## Pricing of Natural Resources and Incentive-Based Approaches to Environmental Management

Mongolian law provides for the pricing of natural resource use. The Law on Environmental Protection specifically mentions the polluter-pays principle and calls for natural resources assessments as a basis for fee setting (although no specific guidance is given other than the intention to counter adverse environmental impacts and cover the cost of direct damage). The law also establishes the Environmental Protection Fund, to collect revenue

from pollution fines, hunting and tourism permits, and donations. All revenue from natural resources use is to accrue to local governments, unless otherwise specified in law. The fees for the use of individual resources are also specified in law.<sup>51</sup> Common to all these laws are fee schedules that vary according to the type of resource, purpose, and type of use.

The assessment of the fee structure included in the 2001 CEA continues to hold. It was stated at that time that the laws establish an important principle but their details leave much to be desired. First, in far too many cases, the fees established represent a fraction of the true value of the resource. This is seen most clearly in all cases where fees can be compared with values established by well functioning markets.<sup>52</sup> Second, the extent to which resources may be underpriced is harder to determine because of the absence on any systematic work in Mongolia on resource valuation. Thus, it is difficult to say, off hand, whether hunting licenses priced, in most cases, at MNT2–4 per kilogram of live weight (and fees for animals actually caught of MNT20–40 per kilogram or 10–20% of administratively established assessment value) are economically sound or not.<sup>53</sup> Third, in all cases where resources are priced as a percentage of the administratively assessed value, the method of establishing that value is not transparent. Fourth, the majority of fees are specified in togrog, in nominal terms, a situation that has led to a massive erosion of the fees' real value since they were adopted (mostly in 1995 or 1996).<sup>54</sup> The absence of inflation indexing throughout Mongolian resource and pollution-related legislation is a striking omission that would justify immediate amendment efforts. Fifth, a number of inconsistencies and gaps are found in the fee schedules.

In addition to resource use fee legislation, the 2000 Law on Reinvestment of Natural Resource Use Fees for Conservation provides for recycling of specified percentages of natural resource fees into environmental rehabilitation. The percentages are given in Table 12. Notable is the omission of mining revenue from the schedule and some inconsistencies with the provisions of the Hunting Law.<sup>55</sup>

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<sup>51</sup> This is a drawback, since any change in the fee structure requires legislative endorsement.

<sup>52</sup> In an example given in *Deutsche Gesellschaft für Technische Zusammenarbeit* (2001), one argali sheep is valued at MNT35,000 (about \$32), while its value in the international trophy hunting market is \$30,000–60,000. This gap is partly made up through special fees on foreign hunters (\$18,000 each).

<sup>53</sup> In general, the fees are more closely related to the true values of the resources if the resources are used by foreigners or are exported.

<sup>54</sup> In the case of pastureland, the fees are specified as the product of the administratively assessed value and the number of animals grazing on the land, expressed in sheep equivalent unit.

<sup>55</sup> For instance, under the Hunting Law, proceeds of fines for exceeding permit levels are divided between a local government and the central Government (1:9) without any mention of reinvestment by either.

**Table 12: Conservation Reinvestment Percentages under Law on Reinvestment of Natural Resource Use Fees for Conservation**

<b>Type of Natural Resource Fee Revenue</b>	<b>Percentage</b>
Natural Plants	30
Hunting	50
Land Fees	30
Timber and Fuelwood	85
Water	35

Source: Ministry of Nature and Environment.

Looking at the pricing of pollution, there is, at present, no system of pollution charges (i.e., a form of payment for the use of environmental sinks) in Mongolia. The main method of pricing is a very indirect one (i.e., fines for infraction of environmental impact assessment regulations and excessive dumping of waste in the small number of circumstances where allowable limits have been established and can be monitored). In general, the level of administrative fines is well below the probable damage caused, in some instances by a vast margin (for instance, the infraction of environmental impact assessment protection or monitoring plans is punished by a fine of MNT250,000 [about \$220 today]). A complex schedule of fines for a variety of hunting offenses exists under the Hunting Law, in most cases providing for fines in the range of MNT2,000–5,000, hardly a deterrent even during economically depressed times. What was stated earlier about the erosion of real values applies with the same force to all fines that also are specified in nominal terms.

If there are few incentive-based mechanisms of environmental management in use, it is not because they are not known. Some mechanisms, such as pollution charges, have been discussed for almost a decade. A 2004 draft of the wastewater management law does envisage the introduction of quasi-wastewater discharge fees. Others instruments, such as differentiated taxes on pastureland, have surfaced more recently. The interesting exception that has made it into law is the performance guarantee bond, which was mentioned earlier. Under the Minerals Law, mining and exploration companies are obliged to deposit the equivalent of 50% of the environmental protection budget, as estimated in the detailed environmental impact assessment, in a bank account established by a local governor. It is not known if the instrument has worked as intended.

## **Institutional Aspects**

MNE was reorganized in 2003. Its present structure is as follows. (The number of staff members is given in brackets).

### **First Tier**

- (i) Minister
- (ii) Deputy Minister
- (iii) State Secretary

### **Second Tier**

- (i) State Administration and Monitoring Department (7)
- (ii) Strategic Planning Department (4)
- (iii) Policy Implementation and Coordination Department (5, mainly responsible for biodiversity)
- (iv) Sustainable Development and Environment Department (6, mainly responsible for environmental impact assessment)
- (v) Finance and Budget Division (4)
- (vi) International Cooperation Division (10)
- (vii) Protected Area Division (5, linked to various agencies at the local level)

### **Third Tier** (own agencies)

- (i) Water, Forest and Natural Resource Agency (20, plus 365 at soums)
- (ii) NAMHEM (70, plus others at local monitoring facilities)

### **Other Ministries and Agencies with Environment-related Activities**

- (i) ALAGaC
- (ii) State Inspection Agency (700 environmental inspectors)
- (iii) Ministry of Finance and Economy, Ministry of Food and Agriculture, Ministry of Industry and Trade, Ministry of Infrastructure, Ministry of Justice and Internal Affairs, and MOH
- (iv) Other agencies and authorities in these ministries (e.g., Coal Agency and Tourism Agency in the Ministry of Infrastructure; Mineral Resource, Petroleum in the Ministry of Industry and Trade; and State Reserve Agency in the Ministry of Food and Agriculture), as

well as the State Border Patrol, Police Department (Ministry of Justice and Internal Affairs), and State Customs Agency (Ministry of Finance and Economy)

The principal changes since 2001 thus include the disappearance from MNE of the Land Resources Authority and Environment Protection Agency. The former was absorbed into ALAGaC, and the latter's functions taken over by the State Inspection Agency. ALAGaC unites the functions of surveying and mapping, land administration, and registration of immovable property. The unification of these three functions in a single agency is agreed by most to be a significant institutional improvement.

Deutsche Gesellschaft für Technische Zusammenarbeit (2001) counted 92 rights and responsibilities delegated to MNE by the environmental laws (2001). This number may have been reduced somewhat after the latest reorganization, but it remains formidable. The task of MNE's adequate liaison with linked government agencies, in particular, poses a major administrative challenge.

## **Institutional Arrangements to Deal with Emergencies in Mongolia**

For many years, and throughout the communist period, natural disasters and emergencies were considered military and civil defense matters. Furthermore, collectivized animal husbandry and the command nature of the economy containing inbuilt mechanisms of dealing with the most common emergencies, such as military-type responses to dzuds. This organizational simplicity disappeared with the political changes of 1990–1991, and new arrangements needed to be put in place. In 1990, the State Emergency Commission (SEC)<sup>56</sup> was established to supplement the State Civil Defense Board (SCDB),<sup>57</sup> under the Ministry of Defense, to coordinate activities relating to any type of natural disaster. SEC had a formal responsibility for (i) preparing a national disaster and calamities preparedness plan, (ii) coordinating disaster relief down to the ministerial and local government levels, and (iii) organizing reconstruction or rehabilitation measures.

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<sup>56</sup> Various referred to as the State Permanent Emergency Commission, State Emergency Standing Committee, or Disaster Prevention Authority.

<sup>57</sup> Sometimes translated as Mongolian Civil Defense Agency.

The 1994 Law on Civil Defense confirmed SCDB's authority to protect population and property from the effects of natural and human-caused disasters. SCDB's peace-time duties included (i) natural disaster warning and alarm operations and (ii) civil defense education and training. SCDB had a central organization in Ulaanbaatar and units at the aimag and soum levels.

Ministries were assigned formal duties and responsibilities to prevent, mitigate, and relieve natural disasters and build national capacity to combat these and educate the public. Specifically, MNE was made responsible for natural disaster-related data collection and processing, forecasting, and warning and disseminating relevant operational information to the public (besides specific duties related to radiation and chemical accidents). Later in the decade, MNE, as the focal point of the International Decade for Natural Disaster Reduction, was tasked with comprehensive national assessment of risks from natural hazards, formulation of policy and strategy for natural disaster reduction, and preparation of long-term prevention and preparedness plans at the national level.

Other ministry responsibilities were specified: (i) Ministry of Defense was responsible for disaster-resistance measures, especially maintenance of transport links; (ii) Ministry of Finance and Economic Development was responsible for financing reconstruction and relief measures; (iii) Ministry of Food and Agriculture was responsible for food and fodder reserves to meet natural hazards; (iv) Ministry of Infrastructure was responsible for fuel and energy supply in emergencies; and (v) MOH was responsible for medical equipment supply and organization of medical service and aid.

In 2003, the Law on Civil Defense was replaced by the Law on Disaster Protection.<sup>58</sup> SEC and SCDB were renamed the National Disaster Management Agency,<sup>59</sup> and in 2005 the National Emergency Management Center became a civilian agency under the Mongolian Prime Minister's Office. The new center combines all aspects of disaster management, disaster mitigation, fire fighting, and the management of state emergency reserves. At aimag, capital city, and soum levels, emergency management departments superseded former SEC and SCDB units.

The ministerial responsibilities listed continue with only small changes reflecting recent institutional realignments. The most relevant was the creation in 2003 of NAMHEM (sometimes known as the National Hydrometeorological Service), as a semiautonomous agency associated with MNE.<sup>60</sup> With its more than 400 field stations and observation points,

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<sup>58</sup> Sometimes known as the Law on Civil Protection.

<sup>59</sup> In some documents, this is referred to as the General Department for Disaster Protection.

<sup>60</sup> NAMHEM has taken over former functions of the Hydrometeorological Research Institute of MNE.

NAMHEM is responsible for observing, forecasting, and warning of hydrometeorological risks, such as droughts, dzuds, dust storms, and weather conditions conducive to wildfires.<sup>61</sup> The other important development has been the abolition of the State Emergency Fodder Fund and its merging, in 1996, into a centrally managed state reserve agency (Box 11).

Other institutions also play a role. The Academy of Sciences of Mongolia, for instance, conducts research on earthquakes and is supported by 10 study locations. The first earthquake observation station was opened at Ulaanbaatar in 1957, prompted by a major earthquake in that year.

The Mongolian Red Cross Society has been a major force in dealing with emergencies and a channel for International Federation of Red Cross and Red Crescent Societies assistance. Local branches of several international nongovernment organizations have also played an active role in emergency response.

## **Enforcement and Monitoring**

Among other important recent institutional developments has been the separation of environmental compliance monitoring from other environmental impact assessment responsibilities. Environmental compliance monitoring, formerly performed by MNE, has since 2002 become the exclusive domain of the State Inspection Agency (SIA), under the Prime Minister. Environmental impact assessment documentation and other related responsibilities remain the responsibility of MNE. SIA now combines all inspection functions in Mongolia (environmental but also sanitary and others). This has made it possible to substantially reduce the number of inspection visits of individual facilities, a much-needed simplification and stimulus to private sector functioning. While the separation of compliance monitoring from environmental impact assessment administration is a sound governance feature, its effectiveness is undermined by the lack of transparency in SIA's decisions. Also, SIA's powers within the protected realm (the responsibility for which has been assigned in its entirety to MNE) remain poorly delineated.

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<sup>61</sup> The forecasting and warning criteria were developed early in the decade (Government Resolution No. 68 of 1993). No special arrangements exist for wildfire observation. Information on wildfire occurrence is obtained from local government offices and local populations. In 2002, MNE claimed a much improved performance: Prediction of blizzards, dust storms, and heavy snow was said to be made in Mongolia with a lead time of 2–3 days and a reliability of roughly 90% (MNE 2002).

Actual implementation of environmental laws and regulations takes place at the aimag and soum levels. Deutsche Gesellschaft für Technische Zusammenarbeit (2001) list no less than 271 duties that environmental legislation places on local governments. Following the transfer of former MNE Environmental Protection Agency duties to SIA, the bulk of field staff (i.e., former environmental inspectors, normally five per aimag and one to two in each soum) are now employees of SIA, integrated into the aimag and soum level inspection offices. They total about 700. Most rangers (formerly three per soum) remain employees of MNE and have been increasingly assigned to protected areas. This is sensible because within an underfunded overall picture, it matches resources to needs. That matching is rarely perfect, however, and there are locations outside the protected areas (e.g., utilization zone forests) where MNE supervision is woefully inadequate. For its part, the main complaint of SIA in the new situation is that once removed from the orbit of MNE, environmental inspection has received less attention from development partners.

The key institutional problems in Mongolia's environmental management today are no different from those identified in 2001: imbalance between the assignment of implementation responsibilities and the allocation of budget resources. Most of the former and all work done at the (vast) field level, with the exception of protected area management, have largely been put at the door of local governments. Yet, local government budgets and existing assignment of revenue sources mean that implementation is seriously constrained, unless local budget resources are supplemented by development partner funding. In other words, the pattern of local environmental management continues to be unsustainable.

## **Financing of Environmental Management and Development Partner Assistance**

The adoption of the Public Sector Management and Finance Law in 2003 confirmed—with only small modifications—the assignment of tax revenues to the central Government and local governments. The central Government receives the proceeds of the most lucrative taxes (corporate tax; customs duties; and excises, including vehicle fuel levies, value-added tax, fees, and royalties for mineral resource use). Local governments retain the proceeds of other taxes, including, among others, payments for the use of water, license fees for the extraction of widely occurring minerals other than metallic ores, real estate taxes, vehicle registration fees, hunting license fees, wood cutting permit fees, and all payments relating to land use. The

2002 amendment to the 1997 Law on Mineral Resources changed the previous assignment of mining royalties to the local government and thus brought it in line with the provisions of the Public Sector Management and Finance Law. As far as the ability of local governments to finance environment-related activities is concerned, the situation in 2004 is therefore not fundamentally different from that in 2001. The centralization of the most important taxes secures the central Government's ability, in principle, to even out, through budget transfers, the widely varying revenue-raising potential of local governments. This, in principle, favors areas that cry out for environment and conservation expenditure but lack locally raised finance (e.g., much of the Gobi region, even those subareas with large-scale mining). In any event, in the near-absence of earmarking of revenue for environment-related purposes at the central and local levels, the authorities' ability to influence environmental outcomes will depend on the composition of annual budgets and the success the environmental authorities at each level have in influencing this composition.

## Ministry of Nature and Environment, Other Government Organization, and Development Partner Budgets

Following the passage of the new Public Finance Management and Finance Act in 2002, a unified MNE budget was approved, including amounts for MNE's local responsibilities that coincide with protected areas and local hydrometeorological monitoring. Table 13 gives the totals of the 2003 budget.

**Table 13: Ministry of Nature and Environment Budget**  
(2003)

Item	MNT Billion	\$ million Equivalent
Ministry of Nature and Environment Administration	1.40	1.22
Local Hydrological and Meteorological Monitoring	2.00	1.74
Natural Resource Rehabilitation	0.52	0.45
Protected Areas	0.32	0.28
Extra-Budget Resources (Environmental Protection Fund)	0.20 (average)	0.17
<b>Total</b>	<b>4.42</b>	<b>3.86</b>

Source: Ministry of Nature and Environment.

The expenditure for environmental inspection activities is now part of SIA's budget. The total of that budget in 2003 was approximately MNT2 billion (\$1.75 million). Prorating by the environmental inspectors' relative strength within SIA (700 staff members of about 3,000), the environmental component of SIA's 2003 budget was therefore about MNT0.4 million.

This is still only a portion of the funding directly or indirectly devoted to environmental management. A more complete picture is presented in Table 14.

The point of Table 14 is neither to claim total accuracy, especially in the case of ministries other than MNE, nor to praise the generosity of

**Table 14: Pattern of Overall Financing of Environmental Management in Mongolia**  
(2003)

<b>Item</b>	<b>MNT Billion</b>	<b>\$ Million Equivalent</b>
MNE Budget	4.22	3.69
MNE Extra-Budget Resources	0.20	0.17
SIA Budget for Environmental Purposes (prorated by staff strength)	0.46	0.40
Local Nongovernment Organizations <sup>a</sup>	—	—
<b>Subtotal (domestic resources)</b>	<b>4.88</b>	<b>4.26</b>
Government Development Partner or IFI-Funded MNE Projects (rolling annual average)		15.00
Environmental Trust Fund <sup>b</sup>		0.00
Government Development Partner or IFI-Funded MOI, MFA, and MOH Projects (with strong environmental links)		10.00
International Nongovernment Organizations <sup>c</sup>		5.0
<b>Total (available for environment)</b>		<b>34.26</b>

IFI = international financial institution, MFA = Ministry of Food and Agriculture, MNE = Ministry of Nature and Environment, MOH = Ministry of Health, MOI = Ministry of Infrastructure, and SIA = State Inspection Agency.

<sup>a</sup> No estimates are available. Even though the most active local nongovernment organizations tend to receive funding from their international sponsors, some funding (probably less than \$0.1 million) is domestic.

<sup>b</sup> The proposal to establish such a fund dates back to 1999. The arrangements had not been finalized by 2003, despite the United Nations Development Programme's initial commitment of \$1.00 million and the Government's commitment of \$0.05 million. Global Environmental Facility's contribution of \$2.00 million is expected at the close of the Eastern Steppe Project. The funds, in theory available in perpetuity, would be the annuity on the final capitalization of the Environmental Trust Fund, perhaps \$0.2 million per annum.

<sup>c</sup> Includes the likes of World Wildlife Fund and various foundations working with this organization (Messlerli, Mava, and Strahoff), Adventist Development and Relief Agency, World Vision (with an annual Mongolia budget of about \$5.0 million, part of which is devoted to environmental projects), Save the Children Fund, and a number of others. The figure of \$5.0 million is an estimate based on seriously incomplete information.

Source: Asian Development Bank estimates.

development partners, but to illustrate orders of magnitude and, based on those, draw conclusions. The first principal conclusion is that Mongolia will continue to be dependent on development partner financing in addressing its environmental priorities. Even if an adjustment were to be made for the high foreign consultant content of the development partner assistance (i.e., money that leaves Mongolia), development partner and international financial institution funding continue to dominate the overall picture.<sup>62</sup> Because of this, a second conclusion can be drawn: coordination of development partner assistance for environmental management is a priority.

Most implementation takes place at the local level. Budget resources and development partner funding reach the local level in several different ways. Budget transfers by the central government typically cover only a part of estimated requirements. Financing of protected areas, in particular, heavily relies on development partner funding. Without it, the total of \$280,000 equivalent per annum in 2003 to manage a combined area almost the size of the United Kingdom would be patently inadequate. To put things in perspective, the totals of Table 13 compare with, for instance, the total 2003 government budget of about \$500 million equivalent, the total government wage bill of about \$90.0 million, or the gross income from artisanal mining of about \$75 million.

The uneven scope of different local governments to supplement existing budget allocations by other sources, such as locally levied (and retained) taxes, proceeds of fines and fees for the sale of natural resources, and others is well known by now. Some aimags and soums are clearly better placed than others in this regard. These differences seem to be only imperfectly compensated for in the actual transfers.<sup>63</sup> As shown earlier, the assignment

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<sup>62</sup> In its admittedly ambitious projections of 2000, the National Environmental Action Plan anticipated that development partners would pay for 90% of the projected cost.

<sup>63</sup> World Bank (2002b) provides a thorough treatment of the topic, much of which is unaffected by the passage in 2003 of the Public Sector Management and Finance Law. The Government policy has been to reverse the falling share of revenues raised locally, observed during the 1990s. Local expenditures have consistently run ahead of local revenues in Mongolia. Much of this has been administered in a deconcentrated way (i.e., the central Government delegates and local governments administer). Local governments have had limited budget autonomy but a right to shift resources across expenditure categories once budget allocations are received from the central Government. Each level of government has had some authority to act in every sector, and it has been impossible to separate delegated expenditure from own expenditure. The results have been unwieldy, unpredictable, and impossible-to-implement intergovernmental finance and a high unit cost of local service provision. The reform of the intergovernmental finance needs to better match responsibilities to decision-making authority and increase the scope for raising local revenue to help finance the provision of services assigned to the local level. Taxes assigned to local governments have generated a small percentage of the revenue raised until now, and tax sharing formulas have been unstable, making local financial planning difficult. Local governments have had weak incentives to increase tax collection. In circumstances where it is the central Government that is ultimately responsible for paying for local services, the energies of local governments are directed toward securing budget transfers rather than developing own tax bases.

of revenue is clearly important for environmental financing. Here, the fees for the use of natural resources (Table 15) are an important potential source of funding for local environmental activities. In principle, they all accrue to the local government, with the exception of the most lucrative ones (i.e., mining royalties and trophy hunting, where all revenues accrue to the central Government). The proceeds of fines accrue largely (90%) to the central budget. The total raised by natural resource fees in 2003 of MNT24.2 billion (about \$21.1 million) amounted to about 2.5% of total government revenue in that year. Environmental revenue clearly exceeds domestic environmental expenditure (Table 13). Whether greater earmarking of environmental revenue for environment-related purposes would be justified remains a matter of considerable importance. But, informed debate about its merits and drawbacks has still not taken place.

**Table 15: Proceeds of Natural Resource Fees**  
(1996–2003)

<b>Category of Income</b>	<b>1996</b> (MNT million)	<b>2000</b> (MNT million)	<b>2003</b> (MNT million)	<b>2003</b> (\$ million)	<b>Percent of Total</b> (1996–2003)
Forest Use	155.1	460.4	629.9	547.7	2.5
Water	123.1	200.8	3,150.4	2,739.4	13.0
Land Use	493.9	3,224.3	6,077.2	5,284.5	25.1
Mineral Resources	2,579.0	3,431.5	11,545.9	10,039.9	47.7
Hunting <sup>a</sup>	396.3	907.5	2,174.3	1,890.7	9.0
Other	26.4	1.6	636.8	553.7	2.7
<b>Total</b>	<b>3,773.8</b>	<b>8,226.1</b>	<b>24,214.5</b>	<b>21,056.1</b>	<b>100.0</b>

<sup>a</sup> The totals of the table under hunting should not be mistaken for the export value of fauna (meat, skins, antlers, live animals, and others). That value is, first, much higher than the fees paid (e.g., the value of falcon exports alone in 2003 was \$1.8 million), and, second, the true export value is almost certainly greater than official estimates, according to some local estimates this is several times greater.

Source: Ministry of Nature and Environment.

## Evolution of Development Partner Assistance

The 2001 CEA painted a fairly extensive picture of UNDP's involvement in Mongolia, describing the United Nations Development Assistance Framework and the 2001 Common Country Assessment. UNDP's broad policy has remained unchanged since, focusing on basic social services, economic transition, good governance, the environment, and disaster management. In environment and natural resource management activities,

UNDP's approach continues to balance upstream initiatives (policies, program management, and capacity development) with downstream activities (grassroots participation and replicable pilot projects); strengthen the Government's capacity for environment and natural resource management; support local community initiatives to address and anticipate environmental problems; and leverage own financing to the full. The success UNDP had in securing GEF resources for Mongolia was noted in 2001. Major GEF cofinancing has been a feature of assistance since then (Appendix 3).

The Second Country Cooperation Framework for Mongolia 2002–2006 envisages application of UNDP-developed models, such as Sustainable Development of the Eastern Steppe Region in Altai-Sayan and Gobi areas, and calls for refinement and expansion of community-based sustainable livestock management. It also calls for expanded support for conservation activities through Mongolia's Environmental Trust Fund. The framework envisages some support for pollution and energy efficiency (especially in the building sector and in small-scale renewables) and in disaster management. The projected budget includes \$9 million in GEF resources and \$3 million worth of other trust funds to supplement UNDP's regular resources of \$1 million.

World Bank recent assistance priorities have included (i) emergency credits in banking and macro areas, such as enterprise restructuring; (ii) transport; (iii) services in Ulaanbaatar; (iv) computerization of government services; (v) development credits; (vi) energy; (vii) legal and judiciary reforms; (viii) distance learning; and (ix) development of the Poverty Reduction Strategy Paper.

The World Bank's recent loans with environmental content include the Energy Project (with an emphasis on energy efficiency) and the yet-to-be-signed Second Ulaanbaatar Urban Services Improvement Project, targeting mainly gher areas of the capital city. In rural development, World Bank's Household Livelihoods Support Program is helping tackle pastureland mismanagement and rural vulnerability. As before, World Bank has supported a variety of small but environmentally important technical assistance efforts (preparation of detailed environmental impact assessment sector guidelines for MNE, assessment of mining activities, and forest management). With GEF financing, World Bank continues to implement a household stoves project in Ulaanbaatar and several biodiversity-related projects.

An extensive program of German bilateral assistance is in place in Mongolia, containing several projects that combine resource conservation with improved livelihoods, as well as projects in the renewable energy and forestry sectors, making Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) the single most important source of grant finance

for environment-related activities in Mongolia. The Netherlands and Spain continue to support projects tackling urban environmental problems (wastewater treatment and clean production). The United States has renewed its commitment to financing sustainable development of the Gobi area. Nordic financing has been vital to current environmental awareness building activities. Several other bilateral or multilateral sources (Canada, European Union Technical Assistance to the Commonwealth of Independent States, France, Japan, and Korea) have also played a role. A number of private foundations have been supporting specialized biodiversity conservation efforts, as have several international nongovernment organizations. Other international nongovernment organizations have been active in reforestation (e.g., World Vision) and public health and sanitation. Appendix 3 contains details of post-2000 development partner assistance.

## Foreign Assistance in Disaster Management

Mongolia is vulnerable to natural risks in a way that strikes a chord in a number of development partner countries whose citizens know about snow and frost. This and a considerable amount of political goodwill that the country continues to enjoy have resulted in a substantial flow of assistance, of which a large percentage is humanitarian assistance, especially that directed at emergency relief and postdisaster reconstruction.

UNDP Mongolia and its sister organizations (e.g., Office for the Coordination of Humanitarian Affairs) and the International Federation of Red Cross and Red Crescent Societies have been in the forefront of coordinating emergency relief linked to natural catastrophes, especially dzuds. The number of governments, organizations, and individuals contributing financially or in-kind to International Federation of Red Cross and Red Crescent Societies or UNDP appeals has been large, and the Government of Japan's contributions have been particularly significant.<sup>64</sup> The detailed response to emergency assistance varies, and the assistance may include commodities, money for transport of fodder, medicines, stoves, repair of water wells, and others. A significant number of international nongovernment organizations (Adventist Development and Relief Agency, Save the Children Fund, World Vision, and others) have also been involved

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<sup>64</sup> The Government of Japan's grant of \$10 million equivalent in response to the 1999–2000 dzud, for instance, was four times as large as the value of the appeal for international assistance brokered by UNDP and International Federation of Red Cross and Red Crescent Societies. The Government of Japan grant predates the rise of Mongolia-born Asashoryu to the throne of sumo wrestling.

in various aspects of disaster relief work besides their regular activities. Other United Nations agencies (Food and Agriculture Organization, United Nations Children's Fund, World Food Program, and World Health Organization) have been active participants in disaster relief in Mongolia.

In a more systematic manner, UNDP has administered bilateral assistance directed at incorporating disaster mitigation and management into development projects and strengthening government capacity for disaster management, preparedness, and response. The recent transition in Mongolia from a civil defense structure of disaster management to a civilian organization structure reflects some of UNDP's recommendations.

Dealing with development assistance for disaster management in this section, separately from the rest of development assistance, is not intended to suggest that compartmentalization of assistance is the rule. Most of Mongolia's development partners are conscious of, and indeed insist upon, greater links between broad development assistance and disaster assistance. The long-term objectives are to make development assistance an active vehicle for disaster reduction and to reduce the demand for emergency interventions.

## **Regional Activities**

Mongolia has been an active participant in a number of regional activities that include several regional technical assistance undertakings financed by ADB, in addition to many Asiawide and global activities supported under international environmental conventions. ADB-funded regional technical assistance undertakings implemented during the 1990s are summarized in ADB (2002a). The post-2001 activities include Regional Technical Assistance 5969: Strategic Study on Development Options for Economic Cooperation between the Xianganmeng Prefecture (People's Republic of China) and the Eastern Region of Mongolia; Regional Technical Assistance 5972: Promotion of Renewable Energy, Energy Efficiency, and Greenhouse Gasses Abatement Projects; and Regional Technical Assistance 6068: Prevention and Control of Dust and Sand Storms in North-East Asia. Of these, Regional Technical Assistance 5969 is the least environmental by design, even if recent adverse publicity was a reminder of the importance of design considerations (or better communication).

The 2001 CEA argued in favor of a possible new subregional initiative targeting a conservation, watershed protection, and livelihood improvement project in the Altai Mountains that would exploit unrealized room for coordinated initiatives between Mongolia (Bayan Olgyi and Khovd aimags), parts of Xinjiang Province (People's Republic of China), the northeastern

tip of Kazakhstan, and possibly a part of Russia (not an ADB member) with the transboundary Irtysh River as one focus. The case for such a new initiative may have receded, given the expansion of activities in the Altai Tavan Bogd National Park being implemented in the same area and the somewhat sobering experience of Regional Technical Assistance 5969. More important now may be to ensure that Mongolia does not become left out of recent major land degradation partnerships in East and Central Asia, one of which is regional (Central Asia Countries' Initiative for Land Management).<sup>65</sup> The regional dimension was also mentioned in the 2001 CEA in the context of environmental management training, where regional solutions could offer distinct advantages to Mongolia, which is handicapped by low population and the high unit cost of local training activities.

## **Environmental Public Awareness and the Role of Nongovernment Organizations**

The 2001 CEA described the Environmental Public Awareness Program (funded by the Netherlands and UNDP) as one of the most interesting and effective to be implemented in Mongolia. Apart from working with government agencies, it effectively mobilized a large number of environmental nongovernment organizations through several dozens of small pilot projects (most of them costing less than \$5,000 each) implemented by these organizations between 1997 and 2001. Among other things, the program demonstrated the existence of opportunities to combine environmental improvement with income generation (e.g., the Blue Bag Campaign mentioned earlier, the Soil Fertility Management in Small-Scale Farming Project, and several others).

The public awareness efforts are now centered on the Netherlands, Norway, and UNDP Environmental Education Media Project (2003–2004) that offers curricula on environment, sustainable development, and public health via Mongolian television and under the auspices of the Ministry of Science, Technology, Education and Culture. The project seeks to magnify its impact through a network of project multipliers that include many environmental nongovernment organizations, academic and training establishments, and government agencies. Extension of the project is being sought.

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<sup>65</sup> The other one is the ADB-GEF Land Degradation Partnership in the People's Republic of China.

While doubting the effectiveness as a policy integration vehicle of Mongolia's Action Program to Implement Agenda 21, this undertaking has been successful in developing public awareness throughout the country and ought to be perhaps viewed as a misadvertised initiative. Most foreign-funded projects (notably GTZ-funded projects in the Gobi region and the GEF-funded Eastern Steppe Project) have public awareness components that take the environment-related messages to the grassroots. The Government has been able to link with these undertakings to project the general direction of its environmental policies and programs.

Dutiful in distributing pictures of protected species, the Government has not been prepared yet to use public disclosure as a tool of policy. Details of environmental financing and environmental impact assessment results, especially the results of environmental inspection activities undertaken (since 2003) by SIA reach the public unsystematically or not at all. Most officials continue to have little experience in communicating regularly with their constituents, and other than periodic development partner-sponsored conferences, few formal mechanisms and funding exist to seek feedback from them.

By 2004, the number of environmental nongovernment organizations increased further to 125. Appendix 10 contains the list of the most important among these. Nongovernment organizations are represented in the NCSD. The effectiveness of that representation, however, is uncertain. Nongovernment organizations have bridged the information gaps only in part, and mostly in Ulaanbaatar. Partly at ADB's cost,<sup>21</sup> UNDP was instrumental in organizing the very first public hearing on the proposed Nomrog bridge and road alignment in the Dornod aimag.