

Asian Development Bank Approach and Program

The analysis of this document builds on the assessment made in 2001 (ADB 2001a). That material continues to be a reasonable anchor for ADB'S strategy-setting and assistance-structure purposes. Some modifications are necessary, however, as well as attention to new possibilities in ADB assistance.

This time, the CEA is formulated as it should (i.e., ahead of the CSP, rather than halfway through an existing country assistance program. The outcomes are fewer suggestions about how to green an existing portfolio (since that portfolio for the period 2005–2008 is yet to emerge) and more emphasis on what suitable new elements might be.

Asian Development Bank's and Others' Experience in Mongolia's Environmental Management

In the course of the 2002 CAPE, the total of ADB grant technical assistance with direct or indirect environmental content to Mongolia during the period 1992–2001 was estimated at \$14.4 million, while the total amount of ADB loans (with direct or indirect environmental content) during the same period was put at \$217.6 million. The additions to these totals since then are given in Appendix 3.

The assessment offered at the time is summarized in Appendix 2. Very briefly, ADB played a timely and generally positive role in developing environmental impact assessment procedures and improving awareness of certain regulatory tools (e.g., pollution permits). ADB correctly identified land administration as an area of major developmental potential with important environmental repercussions but underestimated institutional obstacles to faster progress. In its agricultural lending, ADB did not also cast, from the beginning, the reform of the crop-growing sector as an environmental question (slashing the area inappropriately cropped), as a result, the reduction of the grain output came as something of an embarrassment. ADB correctly saw the pattern of livestock management as

highly important but did not succeed in translating its analysis into action fast enough. The emphasis on improvement of vital infrastructure in provincial capitals, uncontroversial and positive at the outset, has since become intertwined with unanswered questions about the best pattern of regional development (Box 2).

UNDP conducted an assessment of its own environmental performance a little earlier in 1999, and once more its detailed content has been described (ADB 2001a). The most telling was the observation that despite having (or believing to have) an environment and natural resource management mandate in Mongolia, UNDP did not quite succeed in clearly articulating and developing that role. UNDP appropriately attached importance to its information and coordination capacity, biodiversity, and environmental awareness creation. Among the recommendations of UNDP's review was to use a think-tank approach when dealing with a range of environmental issues, expand GEF's Small Grants Program support, and pursue the establishment of the Mongolian Environmental Trust Fund. The assessment was positive about the extent to which UNDP initiatives combined upstream with downstream activities but somewhat skeptical about the quality of community-based initiatives. UNDP's efforts to develop frameworks, strategies, and action plans has been generally appreciated but accompanied by doubts about the will and resources to implement these.

World Bank's experience has been partly captured in its *Environmental Monitors* (the 2002 and 2003 issues) as well the World Bank-commissioned reviews of several technical issues, such as forestry and biodiversity conservation. Land reform continues to be seen as crucial but complex, and effectiveness of resource conservation programs is often blunted by human resources and financial constraints. Environmental financing continues to be poorly understood. The World Bank's experience with urban infrastructure, the key area in the World Bank's lending, remains to be summarized.

ADB, its development partners, and Mongolian authorities themselves have acquired substantial experience in several critical areas of environmental management. Thanks mainly to the GTZ-funded Nature Conservation and Buffer Zone Development Project (Deutsche Gesellschaft für Technische Zusammenarbeit, 2003)⁹⁵ and its successors, the Government and the development partner community finally have what appears to be a workable large-scale model that combines support for rural livelihoods with

⁹⁵ The Project targeted the Gobi Gurvan Saikhan National Park and surrounding area, totaling some 200,000 square kilometers, which is about one fifteenth of Mongolia's total area.

land and nature conservation and adds several institutional innovations (e.g., buffer zone councils and community conservation funds). The project has matured, and it is somewhat less dependent on continued grant funding. The experience is important further to analyze and possibly use in designing projects combining GTZ content with elements of infrastructure development less suitable for grant funding.

Similarly, as a result of the GEF-UNDP Eastern Steppe Project (Biodiversity Conservation and Sustainable Livelihood Options in Eastern Mongolia), a more realistic view is emerging of the best degree of reliance on local communities in conservation activities in sparsely populated areas of Mongolia. It is clearer now that communities capable of managing all aspects of natural resource management are hard to be found or even molded. Improved mechanisms of hunting regulation and hunting fee recycling are emerging as essential for sustainable conservation management. Here, too, elements pioneered under a GEF-UNDP project (i.e., establishing a scientifically sound rangeland monitoring system, strengthening protected area legislation, improving land-use planning and monitoring activities, and developing buffer zone management plans) can be considered for mixed grant-loan packages of financial support.

Asian Development Bank's Environmental Strategy in Mongolia

The aspects of ADB's environmental strategy follow.

Linking Poverty Alleviation to Environmental Concerns

With poverty reduction claiming the ADB programming heights, CSP formulation will assign the place of pride to the link between CSP elements and the scope they offer for poverty reduction. This is not easy, given that the relationship between poverty reduction and its arguably two principal determinants (economic growth and provision of social services) is complex and often indirect and lagged. Also, poverty reduction is much more than simple income growth and includes (or should include) factors contributing to better quality of life.

The role of environmental analysis is to contribute to CSP formulation in three ways: (i) to help identify opportunities that efficiently combine poverty alleviation with environmental improvement; (ii) to help judge where in the spectrum of existing environmental problems remedial or mitigation

action is most urgent (i.e., offers the highest social return, initially regardless of the form of such return [e.g., flora conserved or fewer asthma attacks from air pollution]); (iii) to help judge which of the opportunities identified under (i) and (ii) are suitable for ADB's involvement, given ADB's strategic focus, the nature of the relationship between expected outcomes and their effect on poverty, ADB's comparative advantage vis-à-vis other development partners, and a number of other factors. These considerations are separate from ADB's internal environmental compliance policy, which intends to ensure that no environmental harm is done as a result of ADB-financed activities, whether this is in the name of promoting economic growth or poverty alleviation.

The higher profile given to poverty reduction in selecting environmental components in a CSP was illustrated in the 2001 CEA, in a table contrasting the design consequences of a shift from a growth-mainly approach to a poverty reduction-mainly approach. Although the differences between the two should not be overstated, the 2001 CEA gave a number of examples where the link between environmental improvement and poverty reduction is direct and unidirectional and where the activities were self-financing after an initial period of learning. Introduction of more fuel-efficient stoves to low-income households, commercial recycling of selected waste streams, rehabilitation of water wells, and improved rules of pasture use belong to this category. Elsewhere, poverty reduction compatible with sustainability will demand separate environmental expenditure (e.g., environmental safeguards in informal mining and better wastewater treatment to support greater domestic agro-processing).

This CEA does not analyze the latest data on poverty incidence in Mongolia and merely accepts the continuing seriousness of the situation, despite some improvement of late in related variables (such as education).⁹⁶ The 2001 CEA drew attention to three dimensions of poverty of relevance to environmental management in Mongolia. First, high incidence of poverty normally (but not necessarily) means low willingness to pay for things or services with high environmental content (e.g., water, power, and urban environmental services). This may continue to affect the degree of success in ensuring cost recovery and sustainability. Second, the 2001 document underlined the relatively short history of poverty in modern Mongolia and the emergence of coping strategies that contributed to certain environmental

⁹⁶ The results of the latest (2003) Living Standards Measurement Survey and Household Expenditure Survey are not yet available. The last living standards survey before that, on which most discussion about poverty in Mongolia is based, goes back to 1998.

problems. The example of new herdsmen, less knowledgeable about the technical side of their tasks and sustainability demands, was given. This CEA provides another powerful example of the new coping strategies in describing small-scale mining and its environmental repercussions. Third, poverty in Mongolia is a complex and dynamic mix of factors that includes disappearing jobs in the still moribund majority of soums and aimags, scaled-down social service provision, and a struggling livestock sector but also the traditional mobility and adaptability of much of the population that make migration in search of new opportunities an important option. The questions tentatively asked in the 2001 CEA, namely how poverty and environmental stress are correlated in space, and what the repercussions are, are still with us, but it does appear that answers to poverty might increasingly lie in migration to more dynamic parts of the economy. If so, however, poverty may be reduced at the cost of environmental threats to receiving areas. And if so, the implication for the strategy would be to support migration as the most efficient approach to poverty alleviation and reserve assistance for mitigating the potentially adverse impacts of that migration.

Environmental Strategy for Mongolia

The considerations of the previous sections can be brought together and simplified in the form of an environmental strategy. Following the approach used in a number of other CEAs, the environmental strategy for Mongolia will be a particular selection of priorities within the structure of ADB's current (2002) Environment Policy⁹⁷ (Table 18).

The discussion in the first two sections of the CEA strongly argues in favor of retaining the broad approach to environmental management in Mongolia recommended in the 2001 CEA. That means (with very few exceptions) preference is given to an integrated approach to environmental problems rather than stand-alone interventions. Given the importance of job creation as an essential element of poverty alleviation, the strategy also needs to raise the importance of environmental safeguards that need to accompany job and income creation. The recommended approach calls for attention to cross-sector coherence and greater use of existing national coordination mechanisms.

⁹⁷ To recall, the policy at its broadest has five principal elements, which are shown in the first column of Table 18. Each of these is subdivided into several areas of concern. The essence of a strategy is the narrowing down of this broad menu, reflecting the specifics of the existing country situation and its analysis.

Table 18: Environmental Strategy for Mongolia

Asian Development Bank Environmental Policy Elements and Areas of Concern to be Given Prominence	Justification of the Selection and Emphasis	Recommended Approach to Implementation
<p>ELEMENT 1: Environment interventions for poverty reduction</p> <p>Area 1: Protection, conservation, and sustainable use of natural resources</p> <p>Area 2: Environment quality improvement</p> <p>Area 3: Reducing vulnerability to natural hazards and preventing disasters</p>	<p>Employment creation in both rural and urban areas is a key to poverty alleviation. Urban migration is to be considered a valid alternative.</p> <p>Widely accepted priority supported (especially protected areas and biodiversity) by grant funding from a variety of sources.</p> <p>Deterioration of public health infrastructure (water supply, water quality, and periurban waste management) is a major factor influencing livelihoods.</p> <p>This is a well-known priority in Mongolia.</p>	<p>Help ensure that job growth or changing structure of employment does not come at the cost of adverse environmental impacts. (e.g., support environmental safeguards in small-scale mining, and help ensure that influx of migrants into cities does not further aggravate the environmental status).</p> <p>(i) Continue to support sustainable livestock production and more diversified agriculture.</p> <p>(ii) Extend involvement in mitigating land degradation beyond Agriculture Sector Program-type loans. Formulate projects for cofinancing with the Global Environmental Facility, and ensure Mongolia can learn from Central Asia Countries' Initiative for Land Management and similar experience.</p> <p>(iii) Initiate a policy review of new water-related legislation and programs. Depending on the outcome, consider technical assistance for a reorientation of water management, investments for irrigation rehabilitation, or both.</p> <p>Consider new loan assistance. The choice between more investment in <i>aimags</i> (provinces) or even <i>soums</i> (districts) and possible infrastructure investment in or near Ulaanbaatar needs to be conditional on the outcome of policy dialogue on regional policy.</p> <p style="text-align: right;">continued on next page</p>

Table 18: Environmental Strategy for Mongolia (continued)

Asian Development Bank Environmental Policy Elements and Areas of Concern to be Given Prominence	Justification of the Selection and Emphasis	Recommended Approach to Implementation
<p>ELEMENT 2: Mainstreaming environmental considerations in economic growth</p> <p>Area 1: Policy integration</p> <p>Area 2: Integrated economic and environment development planning</p> <p>Area 3: Strengthening regulatory systems and environmental governance</p>	<p>Honest attempts have been made in Mongolia to mainstream environment, but some doubts remain about the ultimate results.</p> <p>At the national level, the regional policy and its environmental content need feedback from Mongolia's development partners. At the local level, the true importance and effectiveness of local bodies remains unclear.</p> <p>Environmental financing, especially at the local level, is unclear, nontransparent, and likely inefficient, even after the passage of the Public Finance Management and Finance Act.</p>	<p>(i) Support mainly creation of a more resilient domestic pattern of production, rather than emergency response. Learn from the evolving experience of the livestock insurance component of the Household Livelihoods Support Program.</p> <p>(ii) Continue to monitor the changes in the functioning of the State Reserve Agency.</p> <p>(iii) Continue to press for attention to sustainability of rural energy supplies through further tariff reforms and reduction of technical and nontechnical losses.</p> <p>Assist the process of making integration more substantive at the level of policy. Help improve policy analysis and formulation. Look for think tanks, support technical peer reviews, find time to comment on evolving policies and programs before it is too late.</p> <p>(i) In the absence of other volunteers, drive the dialogue between development partners and the Government on regional policy.</p> <p>(ii) Seek a greater role for local bodies and citizenry in influencing environmental policy and investments.</p> <p style="text-align: right;">continued on next page</p>

Table 18: Environmental Strategy for Mongolia (continued)

Asian Development Bank Environmental Policy Elements and Areas of Concern to be Given Prominence	Justification of the Selection and Emphasis	Recommended Approach to Implementation
<p>Area 4: Market-based instruments and other instruments</p>	<p>Pricing of water, power, urban environmental services, and land and natural resources demands more development partner attention. It should not be overshadowed by possible attention to more “modern” market-based instruments.</p>	<p>(iii) Encourage visiting Asian Development Bank staff member’s to travel to the field. Review the advisory against domestic air travel by foreigners.</p> <p>(i) Provide technical assistance for improved financing of local environmental management, as suggested in the 2001 country environmental analysis</p> <p>(ii) Study the experience of new sector guidelines in improving the environmental impact assessment process and environmental monitoring.</p> <p>(i) Continue to demand up-to-date information on the degree of cost recovery in essential urban services, in Asian Development Bank-supported provincial towns and in Ulaanbaatar.</p> <p>(ii) Ensure good understanding of evolving policy and practice of wastewater-discharge pricing and make its further improvement a component of possible loan assistance.</p> <p>(iii) Seek improvements in the pricing of natural resources and link this concern to that with local financing of environmental management (Area 3).</p> <p style="text-align: right;">continued on next page</p>

Table 18: Environmental Strategy for Mongolia (continued)

Asian Development Bank Environmental Policy Elements and Areas of Concern to be Given Prominence	Justification of the Selection and Emphasis	Recommended Approach to Implementation
		(iv) Begin exploring possibilities that might arise if Russia were to join the Asian Development Bank (e.g., transboundary water management and phasing out leaded gasoline)
ELEMENT 4: Building partnerships	Same as justification as Area 2.	(i) Continue developing a closer partnership with the Global Environmental Facility for possible future cofinanced activities in Mongolia under the Global Environmental Facility's Operational Program 12 and Operational Program 15. (ii) Begin to think about environment-related repercussions of possible membership of Russia in the Asian Development Bank
ELEMENT 5: Integrating environmental considerations into Asian Development Bank operations Area 1: Country environmental analysis	The country environmental analysis should be more than a periodic document. It should serve as a background to continuous dialogue between the Asian Development Bank the Government, and the wider society.	(i) Regardless of its final form, consider the country environmental analysis a working document, an invitation to keep exploring the issues presented. (ii) The country environmental analysis should not be the sole analytical effort in the area of the environment. A separate assessment may be appropriate, for instance, for water management. (iii) Effective exchange of views is needed on substantive questions of water management and land continued on next page

Table 18: Environmental Strategy for Mongolia (continued)

Asian Development Bank Environmental Policy Elements and Areas of Concern to be Given Prominence	Justification of the Selection and Emphasis	Recommended Approach to Implementation
<p>Area 2: Implementation and monitoring and evaluation</p>		<p>degradation among the Agriculture, Environment, and Natural Resources Division (East and Central Asia Department); Operations Coordination Department (East and Central Asia Department); and Agriculture, Environment, and Natural Resource Division (East and Central Asia Department), and possibly also Environment and Social Safeguard Division (Regional Sustainable Development Department).</p> <p>(iv) Infrastructure Division (East and Central Asia Department) more actively linking the work on climate change and the Clean Development Mechanism with activities of the Ministry of Infrastructure and the Program on Renewable Energy and Greenhouse Gas Abatement.</p>

Future Assistance

The potential projects listed below supersede some (though not most) of the candidates suggested in 2001. In some cases, this is because ADB has acted on the suggestions made in 2001 (e.g., renewable energy and environmental conditions in periurban areas), even though the manner of response may have departed from the concepts submitted. Elsewhere, the suggestions made in 2001 are not resubmitted, because similar activities have been started by the Government and other development partners (e.g., forestry, to some extent). In the rest of the cases, the original proposals are

reproduced alongside the updated ones, to give a more rounded description of the opportunities.

At this stage, the opportunities presented here have had the benefit of only informal consultations with government officials (as well as other individuals⁹⁸) but not of formal discussions of future assistance possibilities. That process is yet to take place, ideally during the CSP exercise itself. No systematic discussion has taken place with concerned ADB divisions about the details of the entries but a Mongolia Resident Mission staff member acted as interlocutor and guide.

Advisory and Institutional Support Opportunities

These opportunities include the following.

- (i) **Improved financing of local environmental management** (largely unchanged from 2001). Among key reasons for poor implementation of environmental laws in Mongolia are limited budgets of local environmental authorities. Establishing reliable values of environmental resources facilitates their appropriate pricing, an important condition for generating funds potentially available to local authorities for environmental management. At present, most natural resources and environmental sinks are underpriced or unpriced. There are a number of related specific concerns. For example, policies on ecotourism and hunting are currently not supported by hard data about the revenues generated, and questions remains concerning subsequent use of the revenues and the economic costs and benefits of these activities. Choices involving grazing, mining, ecotourism, and hunting need to be better informed by appropriate economic valuation of each of these conflicting or complementary options. Here, Mongolia has yet to emulate work done in a number of other ecotourism and hunting-dependent economies.
- (ii) **Environmental, health, and social safeguards in small-scale mining.** Use of mercury by a segment of the mushrooming informal small-scale gold mining sector in the last few years has created a major public health hazard (i.e., increased threat of the Minamata disease). Nevertheless, small-scale gold mining has recently become something of a savior of the rural economy and a poverty escape route. Its

⁹⁸ Appendix 5 explains the composition of a first consultation meeting held in Mongolia to discuss the CEA.

environmentally less damaging segment (placer mining) needs light-hand regulation and government support (e.g., delivery of social services closer to the mining areas). The environmentally damaging segment (hard-rock mining) should be phased out and the existing practitioners redirected toward placer areas. This process is likely to be gradual, and health monitoring is needed in all areas affected. Rules and mechanisms of coexistence between the small-scale miners and industrial operators are needed, as is development of environmental safeguards for small-scale mining operations.

- (iii) **Strengthening of capacity for water management.** The new government water policy is structured around integrated river basin management. This management approach is new in Mongolia, and little or no experience with its application exists. Development of policy details and regulations is needed, as is training of government staff members at the central and river basin levels.

Water management, in cities and in rural areas (from the 2001 CEA) is an important aspect. Until the end of 1980s, Mongolia developed water resources with no consideration of scarcity. The continuing gross misallocation of water in Ulaanbaatar is disturbing. A large amount of useful work can be done, starting with water pricing and including industrial and household water use audits, water efficiency improvements, registration and licensing of water supply wells and private septic systems, cost-benefit analysis of irrigated vegetable farming, water harvesting and other low cost water management options, and others.

- (iv) **Use of the Clean Development Mechanism for national and international benefits** (advisory and operational technical assistance and GEF cofinancing). It would be possible to build on the substantial amount of work funded by ADB (Asia Least-Cost Greenhouse Gas Abatement Strategy and Program on Renewable Energy and Greenhouse Gas Abatement) and others to develop proposals for financing energy efficiency activities in Mongolia under the Clean Development Mechanism. The work would have to be conditional on the ratification of the Kyoto Protocol by Mongolia and fulfillment of certain institutional prerequisites. Among other things, it would call for a more deliberate action on ADB's part to bridge the efforts made in Mongolia under UNFCCC and those of Ministry of Infrastructure.

- (v) **Land use planning and management at the local level** (from the 2001 CEA). With land reform gathering speed and more leases or titles likely to be issued in the near future, an urgent need exists to impose a pattern of environmentally sensitive zoning at the local level, in anticipation of future development of roads, other infrastructure, and mining, as well as to safeguard conservation objectives of the central and local governments. Maps need to move out of locked drawers and become a day-to-day tool in the demarcation of existing land uses and limits to future uses. It is important to take Mongolia's Action Program to Implement Agenda 21 aimag-level environmental action plans at least one stage further and convert them into land-use plans for the aimags (and soums) concerned, especially those located in the environmentally fragile dry ecosystem zone.

Project and Program Lending Opportunities

These are the following.

- (i) **Implementation of wastewater management strategy in Ulaanbaatar City.** A considerable amount of preparatory work on wastewater management along the Tuul River (the recipient of all discharges from Ulaanbaatar) has been completed with bilateral funding. A new wastewater discharge policy and legislation are being readied. Implementation has been slow and piecemeal. In the meantime, a major problem has arisen involving several dozens of small-scale tanneries in the city. These industries match Mongolia's comparative advantage, yet they are among the most polluting anywhere. Offering the existing and prospective tanneries the option to relocate to an industrial estate equipped with a pretreatment facility could dramatically improve the industry's prospects and the pattern of pollution in the Tuul River. ADB's assistance could demonstrate the effectiveness of combining incentive approaches with enforcement approaches to environmental management and drive green industry promotion policies. Opportunities exist to extend the scope of the project to municipal wastewater treatment, either in areas already connected to the centralized wastewater treatment plant or in gher areas not yet connected to the centralized network.
- (ii) **Solid and hazardous waste management in Ulaanbaatar.** The unsatisfactory state of solid waste disposal in Mongolia's capital is well known, as is the absence of any facilities for hazardous (e.g., hospital)

waste treatment and disposal. Besides the day-to-day operations and the functioning of the truck fleet, the problem extends to unsafe and inappropriately located and inadequate principal disposal sites. New, environmentally safe disposal sites need to be created, together with a hazardous waste treatment facility. Construction of such facilities would be an opportunity to introduce improved mechanisms of waste disposal financing.

- (iii) **Environmental, health, and social safeguards in small-scale mining.** In addition to hazardous waste management efforts, the assistance can be structured either as advisory and operational technical assistance or project preparatory technical assistance plus loans with bilateral cofinancing and/or a Japan Fund for Poverty Reduction component. If structured for loan assistance, social support to small-scale mining communities will improve and environmentally safe mining by small-scale operators will expand.
- (iv) **Irrigation and water conservation.** Attempts to rehabilitate portions of the old irrigation network were sporadic during the last decade and frustrated by the continuing uncertainty regarding the ownership structure of the former state farms. More recently, that structure has become clearer, and the new land legislation has created conditions under which rehabilitation of parts of the former irrigation network could be viable. There is a greater willingness on the part of the Ministry of Food and Agriculture to approach irrigation rehabilitation in a pragmatic manner and in a way that would divide the cost between the Government and water users. ADB assistance could spearhead this process.
- (v) **Dry ecosystem land management.** This is a generalized class of projects aimed at lessening degradation or desertification pressures on pasturelands that border the globally important ecosystems enjoying some degree of protection status (e.g., transboundary watersheds). Such projects would be prepared following the procedures and mechanisms developed under the Central Asia Countries' Initiative for Land Management or the ADB-GEF Partnership in Land Degradation in the People's Republic of China (Box 9). The projects can incorporate novel ways of managing periurban grasslands (as suggested in the 2001 CEA).
- (vi) **Air pollution in Ulaanbaatar and other major urban centers.** The main gap is the absence of an integrated approach, based on comparing a wide range of abatement options and their relative cost. Although the scale of the problem may not be as serious as often claimed, it is likely to become serious in the absence of concerted action. Vehicular pollution and policies that directly or indirectly contribute to it have been

neglected, and they should not be. New low-cost opportunities to improve winter air quality in urban and periurban areas (including indoor air quality) should be identified to supplement ongoing projects focusing on the upgrading of household stoves.

Linking the Asian Development Bank Program to Government and Other Development Partners' Environmental Activities

The 2001–2003 ADB Country Assistance Program (Appendix 3) indicates an annual lending level for Mongolia of \$30–55 million (all of which is from the Asian Development Fund) and an annual technical assistance program of about \$4 million (the latter now depending on a performance-based allocation of Asian Development Fund resources). The program has a deliberate focus on poverty reduction, not environmental improvement, and this is reflected in the absence of loans or technical assistance that are directly environmental. In any case, environment is not considered a sector for programming purposes.

ADB's technical assistance resources, especially those available for direct support of environmental objectives, are not particularly large compared with some bilateral sources⁹⁹ or the combined UNDP-GEF pipeline. However, there is no reason to alter the 2001 opinion that in using its grant funds, ADB should remain involved close to the policy-formation and implementation center in Mongolia rather than carving out an environmental niche determined solely by the size of the funds available.

With little cofinancing so far,¹⁰⁰ the question of whether and how best to use this mechanism for environment-related assistance in Mongolia demands attention. The 2001 CEA looked at the possibilities of developing a project-level partnership with GEF and concluded that while ADB technical assistance funds and GEF funds are not substitutes (that can be easily blended), little stands in the way of the two complementing each other. ADB technical assistance funds can address acute domestic needs, and GEF financing-related activities can generate external (global) benefits. Indeed, being this complementary is highly desirable, since projects conceived solely to generate global benefits will likely be flawed in the absence of domestic

⁹⁹ The combined amount of technical assistance related to environmental management in Mongolia since 1992 has reached about \$14.5 million (Appendix 4).

¹⁰⁰ Mostly limited to regional technical assistance (Asia Least-Cost Greenhouse Gas Abatement Strategy and Program on Renewable Energy and Greenhouse Gas Abatement projects).

components that safeguard the delivery of the global benefits. Livelihood-promoting activities in areas adjacent to globally important biodiversity sites are a type of mixed setting that lends itself to ADB-GEF complementary financing. Complementary financing gives coherence to project design.

Since 2001, GEF has further expanded its financing of Mongolia-based activities (Appendix 6). In the meantime, the opportunities for ADB-GEF cofinancing had improved and continue to improve (Box 15). In a country as environmentally fragile as Mongolia, there would seem to be a number of potential types of projects that might meet the joint objectives considered suitable for ADB-GEF cofinancing. Two broad categories come to mind immediately. The first category includes activities tailored to lessen degradation pressures on pasturelands bordering the globally important ecosystems enjoying some degree of protection status. There are a number of such areas in Mongolia, and several development partners (especially GTZ) have recognized the importance of improved management of these buffer zones. The second category includes activities designed to lessen land

Box 15

Asian Development Bank-Global Environmental Facility Cofinancing to Combat Land Degradation

The Asian Development Bank (ADB)-Global Environmental Facility (GEF) model favored in the 2001 Country Environmental Analysis had emerged under the United Nations Convention to Combat Desertification (CCD), a subject of obvious importance to Mongolia. CCD's Global Mechanism was created because CCD's secretariat was tasked with mobilizing resources for CCD implementation. ADB is one of the Global Mechanism's partners, alongside Food and Agriculture Organization, GEF, International Fund for Agriculture and Development, United Nations Development Programme, United Nations Environment Programme, and World Bank. The Global Mechanism (via Operational Program 15 of GEF) has become a conduit for complementary funding for ADB-implemented projects targeting land degradation and desertification, where the objective of land degradation control overlaps with the core GEF concerns (biodiversity, climate change, and international waters). GEF cofinancing has already materialized in the People's Republic of China (ADB-GEF Partnership on Land Degradation in Dry Ecosystems in the People's Republic of China) and is being prepared for Central Asia (as Central Asian Countries' Initiative for Land Management).

Source: Asian Development Bank.

degradation pressures on the Mongolian side of transboundary watersheds (e.g., parts of the Selenge River basin and upper reaches of the Yenisei).

The principal recommendation in this CEA is for ADB to ensure that Mongolia’s land degradation concerns can benefit from ADB’s growing experience in partnership-based work in the People’s Republic of China and Central Asia (Central Asian Countries’ Initiative for Land Management). Outside land degradation, promotion of renewable power among the dispersed and mobile rural population continues to fit in well with GEF’s Operational Program 6 (designed to promote the adoption of renewable energy by removing barriers and reducing implementation costs). Here, too, coherence in project design favors a combination of domestic (nonincremental cost) components with those designed to deliver global benefits. In view of the precarious existence of many herding families, such a partnership could justifiably be described as jointly targeting poverty alleviation and climate change benefits.

Given several unresolved issues at the end of UNFCCC’s Sixth Conference of Parties, it is premature to be specific about the eligibility of energy-related projects for financing under the Clean Development Mechanism. The delays in Mongolia’s ratification of the Kyoto Protocol and creation of the required institutional support for Clean Development Mechanism implementation were mentioned earlier. Potentially, the number of suitable candidates is large (Batima, et al. 2000b).¹⁰¹

¹⁰¹ The ADB-implemented and GEF-funded ALGAS Project contains a convenient list of greenhouse gas-reducing options with low policy barriers, applicable also to Mongolia:

<u>Options</u>	<u>Feasibility</u>	<u>Greenhouse Gas Reduction Potential</u>
1. Photovoltaics	High	Medium-Low
2. Small Wind Generators	High	Medium-Low
3. Minihydro	High-Medium	High-Medium
4. Industrial Cogeneration	Medium	Medium
5. Fuel Consumption Efficiency in Transport	High	High-Medium
6. Efficient Household Coal Stoves	High	High-Medium
7. Efficient Lighting	High-Medium	Medium-Low
8. Building Insulation Improvements	High	High-Medium

Options 6 and 8 have already attracted GEF funding in Mongolia (Appendix 6).