

## Conclusions and Recommendations

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**M**ongolia's economy in 2005 continues to change, and some of these changes have important environmental repercussions. Trade and services have gained importance within the overall economy. Small-scale mining is having a major impact on rural employment and incomes. Restructuring of the livestock sector has been slow but rightly claims the attention of technical and environmental authorities. Internal migration continues to be driven by economic opportunities rather than design. The economic dominance of Ulaanbaatar and its infrastructure needs have further increased in contrast to the stagnation or decline of many smaller settlements. All of these developments take place in a country known to be environmentally fragile, where rapid economic change associated with economic liberalization has already tested the resilience of the natural systems (e.g., pasturelands and forests) and is likely to test it more. In the Mongolia of today, low population density in the countryside alone cannot be relied on to ensure sustainability in the use of natural resources.

The topic of regional development is emerging as a major development policy issue. Something that was unassailable only a few years ago, namely the recommendation for the Mongolian economy to move in the direction of economic diversification and a more even spatial pattern of development, seems less certain today, with market forces exerting a strong push toward further urbanization and a more opportunistic clustering of population around any new economic activities (such as mining). The strategic challenge for the Government and Mongolia's development partners is to strike the right balance between assistance targeting mainly Ulaanbaatar's urban infrastructure to accommodate migrants, as opposed to attempts to reverse the population inflow by directing assistance to rural areas. In retrospect, it is clear that the Government's regional policy was ushered in without adequate analysis and feedback by a broad enough segment of the development partner community. That feedback is only now beginning to materialize (not least under ADB's Capacity Building for Integrated Regional Development project [a technical assistance undertaking]) but much more is needed, in particular for the feedback to be coordinated.

Without wishing to take anything from certain government achievements in the environmental domain or from Mongolia's long-standing commitment to sustainable development, it is doubtful that Goal 7 of the millennium development goals (i.e., "to ensure environmental sustainability") is likely to be achieved. In any event, such or similar statements (ADB 2004) are difficult to make in the absence of a proper performance assessment. The State of the Environment Report, much improved, still falls short of a thorough review of performance, characterizing, for example, the work of the United Nations Economic Commission for Europe in Eastern Europe and Central Asia or the Organisation for Economic Co-operation Development practice of environmental performance reviews of its member states. As to the assessment of the CAPE, its principal target was ADB's performance, not that of the Mongolian Government.

The gap between the Government's environmental commitments and development partner-funded upstream work, on the one hand, and effectiveness of work in the field, on the other hand, has not been bridged. Underfunding of environment-related field activities continues, and application and enforcement of legislation is weak. Considerable work on tightening environment-related legislation has been a positive factor. The quality of new legal and policy documents has varied but in some cases has fallen short of expectations. Several steps taken in the last 3 years have improved environmental governance.

Mongolia has always been exceptionally vulnerable to natural risks. If anything, the underlying vulnerability has increased as a result of new phenomena, such as climate change and desertification. Climate change, desertification, and exposure to natural risks are linked in complex ways in Mongolia and cannot be discussed separately. A significant part of the vulnerability is not exogenously determined but is due to domestic policies, institutional arrangements, and practices. The number of factors influencing the vulnerability of Mongolia's population to natural risks is very large and includes those that originate in sectors such as health, energy, transport, and education. In a relatively low-income country exposed to an unusually high level of natural hazards, just about everything matters.

The worst of the sudden transfer of natural risks from the State to individuals (especially herders) has probably passed. Despite a decline of importance of livestock in the structure of national income, pastoral risks continue to dominate the overall pattern of disaster incidence in Mongolia. The magnitude of pastoral risks depends to a major degree on the arrangements made for the management of grazing land and water resources. In that context, improved community-based management of pastureland has become a tool of risk mitigation and disaster prevention.

Ability to manage disaster risks remains strained in a sparsely populated country such as Mongolia, with its poor infrastructure and communications and where just about everything matters for vulnerability reduction. Those handicaps increase the importance of greater local coping ability.

Nonpastoral risks may have been underestimated, and a high concentration of people in the capital city counsels attention to disaster readiness in Ulaanbaatar.

There has been a welcome improvement in the organization and performance of weather and hydrological monitoring and a sensible reorganization of the Government to deliver these services.

Recent reorientation of disaster management away from a civil defense and toward a civilian-based framework brings Mongolian arrangements closer to best world practices and possibly facilitates interagency coordination and integration of disaster preparedness into the (civilian) mainstream. Changes in several procedures, regulations, laws, organization, and practices are needed to enable NDMC to operate at its full potential. A culture of coordinated interaction with other government entities, international agencies, and international disaster response systems needs to be established and nurtured.

ADB needs to continue to approach environmental management in Mongolia as a crosscutting issue. This demands readiness to exploit the environmental potential of mainstream activities. In Mongolia, as much as in the majority of DMCs, many environmental goals can be achieved indirectly, through appropriate design of assistance. ADB has already acted on this conviction in several instances, and action of this kind should continue.

A corollary of this is that ADB should not necessarily create new environmental programs and projects but improve the understanding of environmental repercussions of ongoing or proposed activities. Despite a variety of implementation problems, the existing loan and technical assistance for application of land use policies or agricultural development promises to have more far-reaching environmental repercussions than many possible alternatives more explicitly pursuing environmental goals.

ADB grant resources likely to be available for environmental management objectives in Mongolia are relatively modest compared with those of some bilateral agencies. The avenues for ADB to pursue are to (i) step up technical and loan cofinancing efforts involving bilaterals and GEF; (ii) shape the design of technical assistance and loan projects in ways that provide a maximum overlap between the objectives of livelihood improvement and environment, such as projects possibly formulated for GEF cofinancing; and (iii) continue to make full use of the Mongolia Resident Mission, given the presence of an environmental economist.

ADB should not finance any action or master plan related to the environment unless the preparation of such plans has the support of the Ministry of Finance and Economy (besides the relevant technical ministry), based on the expectation that the planning document in question would spell out the cost and revenue implications of the proposed course of action.

With the important exception of the issues surrounding local environmental financing, ADB is probably not best placed to provide direct assistance for further strengthening of the capacity of MNE. That role is better filled by the development partners more closely associated with conservation activities and the protected realm. However, ADB should engage MNE (and the Ministry of Infrastructure and MOH) in policy-related work involving natural resources, in particular in the area of water management, which is emerging as an important priority.

ADB should consistently seek ways of making environmental policy formulation and execution in Mongolia more informed by economics. This does not necessarily mean support for market-based instrument-type advisory technical assistance, of which ADB has financed a large number in its DMCs, with only mixed results. There are a large number of situations in Mongolia where planning and investment decisions would benefit from the economic valuation of natural resource use.

There is general support for the idea of environmental funds in Mongolia. The important debate surrounding such funds' pluses and minuses has not yet taken place in Mongolia.<sup>102</sup> ADB should promote such a debate, supported by its experience in other DMCs, such as Thailand.

ADB has financed a number of programs and projects in Mongolia that, for the most part, have been good for better disaster management. They include the Agriculture Sector Program and, in particular, the Agriculture Sector Development Program, Cadastral Survey and Land Registration, and Health Sector Development Project. Just because these investments were justified principally by reference to incomes or poverty (defined in terms of incomes mainly), without specifically mentioning disasters, does not lessen their usefulness as vehicles of reduced vulnerability. Some components of the existing or planned program, such as support for

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<sup>102</sup> First, ideal environmental funds in theory are capitalized through virtuous environmental taxes, rather than through budget transfers, to lock in the desirable pattern of incentives (to pollute less). Many proponents of environmental funds in Mongolia ignore this distinction. Second, efficiency in the disbursement of environmental funds is a difficult task, as the experience of former planned economies that have embraced the concept of environmental funds (Lithuania, Poland, and others) illustrates. A discussion of these and related issues is in Appendix 5 and ADB. 2001. *Promotion of Market-Based Instruments for Environmental Management in Thailand*. Manila.

renewable energy provision, promise to reduce the precariousness of life in many locations in a particularly telling way. This analysis suggests that attention to vulnerability reduction and disaster mitigation deserves to be addressed explicitly in many (though probably not all) new activities in Mongolia. Explicit attention to vulnerability helps improve project and program design and could be a more reliable guide to investment allocation than poverty, as conventionally defined.

ADB's involvement in the reform of Mongolia's agriculture sector, more than any other initiative in Mongolia, offers lessons, and ADB should build on these. One lesson is that Mongolian agriculture, especially its livestock component, is not like any other. It is its exposure to natural risk that makes it special. This uniqueness does not necessarily invalidate common sense economics and its heavy dose in the design of the Agriculture Sector Program, but it argues for market reform with adequate consideration of natural risk, rather than market reform as simply a means of dealing with such risk.

The disaster risk dimension in ADB's future assistance can take three principal forms. First, ADB can help Mongolian authorities draw on the best international and own experience in vulnerability reduction and disaster preparedness. Through its participation in the ProVention Consortium, for example, ADB can help Mongolia apply the best practices, probably via technical assistance. Second, ADB is well placed to make mainstream investments (e.g., in income diversification and improved infrastructure in small towns), the principal tool of vulnerability reduction, provided it is ready to explain the hoped-for impacts, master the disaster risk management reduction brief, and apply this creatively. Third, in its programming, ADB can evaluate investment alternatives through the prism of vulnerability. This may demand willingness to question and supplement the methods of assessment of economic and financial feasibility.<sup>103</sup>

The text of this analysis identified a number of assistance possibilities that fit the overall direction of ADB assistance while taking into account the various limitations and constraints inherent in the process.

In terms of regional priorities, the preference here is for support for regional activities under the aegis of the United Nations CCD, which was

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<sup>103</sup> Or, to put it differently, to justify investments in terms of contribution to vulnerability reduction, rather than only the effect on incomes or, in ambitious cases, incomes' distribution. Reducing exposure to risk should count as a separate benefit in a cost-benefit analysis (i.e., the expected flow of benefits in a CBA should reflect the difference between without risk-reduction and with risk reduction states [Twigg 2002]). That type of calculation, done instinctively by those whose livelihood can most easily be thwarted by a natural calamity (i.e., farmers and herders), is not usually practiced by economic development professionals.

designed to address the problems of land degradation and desertification and effective contact of Mongolia with emerging regional initiatives such as Central Asian Countries' Initiative for Land Management and Program on Renewable Energy and Greenhouse Gas Abatement. Similar work remains an important area for Mongolia and one that deserves more active ADB involvement than it has received so far. ADB may wish to begin exploring the environmental repercussions and opportunities created by Russia's possible entry into ADB.