

THE BACKGROUND

Maturing Economic Transition: Economic Change and Environmental Repercussions

6. Rightly, much has been made of Mongolia's ecological and social uniqueness in discussing the country's economic performance (see Box 1). Mongolia's remote location, a climate that requires relatively large energy investments and constrains agricultural productivity, the thinness of rural population and markets and a nomadic past and present are well known to most with an interest in Mongolia. The broad links between these factors and the direction of environmental impacts have also been sketched both under the centrally planned era and the recent transition decade⁴.

Box 1: A few geographical reminders

Mongolia lies at least three ecological crossroads: its territory is divided into three hydrological basins (Pacific, in the East, Arctic Ocean around the Selenge river in the north, also containing the second largest freshwater lake in Asia, the Khovsgol, and Central Asian Internal Drainage basin containing the most important Central Asia wetlands, the shallow lakes of Uvs, Khar Us, Khar and Khyargas). In terms of vegetation, in Mongolia the Siberian coniferous taiga forest (with permafrost) meet high-altitude grasslands (steppes) and, further to the south, the great Gobi Desert. Also, Mongolia is covered by two out of three major waterfowl flyways in the Asia-Pacific.

Bio-climatic zones of Mongolia

Zone	Area (million km ²)	% of total area
Desert	0.297	19
Desert steppe	0.329	21
Steppe	0.406	26
Forest steppe	0.125	8
Boreal forest	0.063	4
Montane	0.344	22
Total	1.564	100

Source: MNE (2003)

7. To summarize, they can be largely structured around: (i) the barriers to the mobility of livestock that more than anything else determines the overall conditions of pasturelands, (ii) the pressure on unique ecosystems⁵ (iii) the degree of willingness and ability of the Mongolian society to maintain and add to urban environmental and public health infrastructure, and (iv) unit cost of energy provision. All of these are reviewed and updated in the sections that follow. In addition, this report addresses some of recent developments that have far-reaching, and often

⁴ See ADB (2001) for a historical and cross-country perspective.

⁵ Mongolia provides a good illustration of the notion that uniqueness of ecosystems can be substantively linked to uniqueness of lifestyle.

complex, environmental repercussions. The opening of the Mongolian economy to China and OECD countries has led not only to changes in the structure of the national herd or the rapid expansion of mining and mining exploration -both well known-but also to the emergence of markets for scrap metal, for instance, much less well known. Similarly, the interplay of foreign investment in mining, loss of traditional rural earning opportunities and several other factors is behind the explosion in informal gold mining that started only several years ago but has already changed the dynamics of rural employment and the pattern of population settlement in several regions of Mongolia, besides having environmental repercussions.

Macroeconomics

8. Much has been said about the “downside” of Mongolia’s economic transition during its first decade, and efforts to counter it, particularly in recent years. Little point would be served revisiting this material. Suffice it to say that GDP continues to grow albeit at a slow rate, inflation remains contained (4.7% in 2003), and trade continues to expand (exports in excess of \$600 million p.a. for the first time with the share of mining increasing in importance⁶ though trade balance continuing to deteriorate). Employment creation has been the Achilles heel of the economy for some time. The skepticism expressed in 2001 about the growth prospects of the pastoral sector remains. Agriculture accounted for 23.5% of GDP in 2002 against 38% in 1995, and employment in agriculture is now down to 45% of the total and possibly less⁷, the difference taken up by the service sector (25% in 2002 against 17% in 1995). On the positive side, there are increasing reasons to abandon the notion that mining cannot be a source of growth and the driver of local -and possibly also broad-based-- development. The flow of money generated by informal mining in Mongolia has had a positive impact well outside the mining areas themselves (with important qualifications made further below). The trading and service sector that seemed of minor importance in mid-1990s has become the single largest constituent of the country’s GDP (without even counting the black economy) by now⁸. Its environmental repercussions are varied and spill into areas such as solid waste management, structure of demand for urban environmental services, and the design of environmental regulation. On balance, Mongolia seems to have been a net beneficiary of globalization⁹. Bloated public bureaucracy continues to be a concern¹⁰ and a major consideration whenever calls for increasing staffing strengths of environment-related agencies are made.

⁶ Metals, dominated by gold and copper, accounted for 49% of total exports in 2003. The fast-expanding gold exports (official production worth \$137 million in 2003) alone were 2.3 times greater than all food imports, this “cushion against external vulnerability” growing thicker in recent years casting some doubts on the justification of the policy of greater domestic self-sufficiency in grains (wheat production up from 142,000 t in 2000 to 165,000 t in 2003, still less that a fourth of what it was at its 1980s peak). The figure of \$137 million compares with some \$65 million worth of all agricultural exports in 2003. The value of production by the informal gold mining sector in 2003 was put at around \$75 million [Greyson et al (2003)].

⁷ Official figures put the number of people employed in mining and quarrying at 24,000 in 2002. Recent survey-backed work [Greyson (2003)] puts the figure of individuals engaged in small-scale mining in 2003 at over 100,000 (some on part-time basis). Thus, the 391,000 people officially listed as employed in agriculture is almost certainly a serious overestimate or at least a misleading number hiding the part-time nature of much of agricultural employment.

⁸ In terms of GDP industrial composition, the service sector (trade etc.) and transport (plus storage etc.) taken together accounted for over 40% of the country’s GDP in 2002 and this share is further increasing. Mongolian economy today is indeed dramatically different from what it was only a decade ago.

⁹ Official figures illustrate the importance of exports to China of unprocessed animal products (either a boon or a curse depending on the view taken of the competitiveness of local processing). Other trends, such as increasing exports of metal scrap to China, are unrecorded in official statistics but documented in detailed studies [see Eggerth and Diaz (2002)].

¹⁰ 44,000 people were employed in public administration and defense in 2002, up from 31,500 in 1999. When education, health and community services are added, the total employment in the state sector rose from 134,000 in 1999 to 164,000 in 2002, i.e. about 19% of the total employment. A large number of government agencies is part of the picture. “One public agency per 350 Mongolians”, is how ADB (2004) put it.

9. The assessment made in the 2001 CEA of the environmental repercussions of temporary “de-industrialization” of Mongolia continues broadly to hold: it has resulted in increased pressure on the commons as many former government and industry employees turned to the land and forests for their livelihood (some subsequently switching to underground resources as we discuss later on). Nonetheless, by now, “de-industrialization” has largely run its course and some resumption of industrial production is evident though not in the original locations. Many *aimag*-level and most *soum*-level processing facilities continue to be non-functional and in many cases, probably past the point where they could be re-habilitated even if market circumstances justified it. New economic activities have been vital but have created their own environmental problems (e.g. tanneries in and around Ulaanbaatar). Elsewhere, doubts common in the mid-1990s regarding the existence of entrepreneurship -especially at the *soum* level-are beginning to melt thanks to several convincing demonstrations of the local capacity to adapt [Schmidt (2002)].

Population, Mobility and Regional Balance

10. The temporary outflow of urban residents to rural areas following the privatization of the national herd in the early 1990s came to a halt by 1995 and the long-term trend of urbanization has since resumed. By 2003, urban population had surpassed its 1990 peak percentage of about 57 %. The capital with over 800,000 people now accounts for more than a third of the country’s population. Urban registration fees in force in Ulaanbaatar until between 1995 and 2003 are no more¹¹ and there is every indication that the city’s growth will continue. New centers of population, often far more numerous and economically active than *soum* centers have sprung up in the vicinity of gold mining operations (e.g. in Zaamar) raising questions about existing patterns of social service delivery and the direction of regional development.

11. The high unit transport cost in a vast and thinly populated country was easily identified in the 2001 CEA as a factor posing economic as well as environmental challenges. Today, there is little reason to substantially change this assessment. Greater reliance on market forces in the last decade and the disappearance of fuel and other subsidies continue to move economic resources towards high-value-to-volume/weight commodities, most notably cashmere and gold (see Box 2 below). It is also clearer now than it was a few years ago that location of economic activities in Mongolia cannot be discussed in isolation from the topic of administrative and fiscal decentralization. (see para. 96) Recent World Bank assessment [World Bank (2002)] provides sufficient grounds to believe that major improvements are possible, and indeed necessary, in the way budget resources –including those for local environmental management-- are generated and managed. The passage of the new Public Sector Financial Management Law in 2003 is a clear improvement but by itself, probably insufficient to bring about fundamental change in the local capacity to manage the environment.

Box 2: Regional Planning and Environmental Impacts in Mongolia

¹¹ Cancelled by GOM in June 2003. The existence of the fees during the period 1995-2003 helps explain underestimation of the capital’s true population in official statistics until now as well as associated problems of social service delivery [See Bulganchimeg (2003) for a discussion of the evolving situation on Ulaanbaatar’s fringes]. By now, registration remains not so much a duty as a condition of access to social services.

Recent regional development proposals of the Mongolian Government (“Regional Development Concept”) favor re-centralization of population and service provision along a small number of key axes. Although rightly criticized for a tendency to *legislate* poles of economic activity they recognize the fundamentally weakened case for decentralized provision once the full economic cost of fuel and other inputs is allowed to influence the allocation of resources. The question of interest to this report is whether a more market-driven approach to regional development, agreed to be desirable on economic grounds [see PDP Australia (2003)], would be also more sensible from an environmental management point of view. The answers are not straightforward. In general, market-drivenness is a friend of concentration of economic activities and population. This would be bad for pasture management, but might be good for dealing with urban environmental problems. Even that is not certain, however, given recent experience with the management of *gher* areas around major Mongolian towns, especially Ulaanbaatar. Concentration may create an opportunity for cost-effective action. Absent such action, however, an opportunity easily transforms itself into a concentrated environmental (and social) problem.

Poverty and Health

12. Latest (2003) official figures indicate modest improvements in the worrisome indicators picked up in the 1996 and 1998 poverty surveys. On the health side, substantive work has now been undertaken by Mongolia’s Ministry of Health on the links between changing environmental conditions and the health status of Mongolia’s population, identified in the 2001 CEA as an area of particular weakness. The results [Public Health Institute (2003)] are less clear-cut than prevailing notions about how serious these impacts are. All is not well but the situation is not critical. In contrast, recent work conducted on the exposure of small-scale miners to mercury [Tumenbayar et al (2003)] has zeroed in on a major public health hazard (see para. 44 ff below). Partial data have also become available on the arsenic content of Gobi water [Bolormaa et al (2003)] indicating existence of a potential problem.

Environment and Mongolia: Twelve Years After Rio.

13. It is now more than a decade since Mongolia’s entry into the world of international environmental discussion, a process nurtured by a broader desire for opening to the world at large, beyond the former boundaries of COMECON. By now the integration of Mongolia into the environmental mainstream is almost complete. Mongolia is an active member of the UN system and signatory of most international environmental conventions. In some of them, Mongolia plays a prominent role (e.g. hosting TPN5 of UNCCD and meetings of Asian focal points of UNFCCC). The notable gaps include the non-ratification of the Kyoto protocol so far and absence from Mongolia of the Aarhus and Espoo Conventions¹². The global awareness and openness has served Mongolia well, among other things generating substantial funding by GEF and other donors for environment-related activities (see Annex 6 for a list of donor-financed environment-related projects since 2000). Thanks to this funding also, many prominent local environmental specialists have been able to escape -or part-escape-- low-paying routine government positions. More importantly, Mongolians, especially those in Ulaanbaatar, have gained a much better understanding of how the outside world manages their environments as well as how it structures its assistance to developing nations such as their own.

14. The “international” approach to debating environmental problems has become commonplace in Mongolia and is evident in the language and framing of domestic approaches to dealing with environment-related issues. Yet, the gap between the apparent sophistication of some of the work on environmental management, in particular in support of international environmental conventions, and the world of “getting things done” has grown larger. The former

¹² Aarhus Convention of 1998 on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters and the 1991 (Espoo) Convention on EIA in a Transboundary Context, both featuring importantly in other transitional economies of Asia.

reflects the tradition of scientific training in Mongolia as well as received notions about what the role of science is. Modeling results multiply and donors neither question them nor demand peer reviews. Ecology theoreticians communicate poorly with “people-also-policy-makers” and field staff. Policy makers, on the other hand, rarely ask hard analytical questions, especially those relating to efficiency of resource use. And like everywhere else, getting things done in Mongolia is difficult because it demands simultaneous and often unpopular action on many different fronts.

15. The Government has been active, building further on its 2000 Program for Good Governance for Human Security (GGfHS), the pace of legislative amendments and formulation of new programs unrelenting. Positive because placing environmental concerns in the limelight the approach appears nevertheless to have devalued somewhat the government approval. This has far too often been given to undigested, unmonitorable and non-binding policies and programs (see paras 0 for examples).

16. A few months ahead of the 2004 parliamentary election there is little reason to expect major changes in official positions, generally supportive of the environment. The differences are mainly those of style. It is doubtful that recent vacillation or retreat on certain market-based elements of environmental policy (e.g. park entrance fees) or reluctance to tackle hard tariff-related issues (water, wastewater) will feature importantly in the pre-election debate. Genuine policy differences are found in matters wrongly considered to be of little environmental importance such as approach to crop production (where a strong *dirigiste* direction of the recently adopted agricultural policy is being opposed by some). Views on regional policy, now with a strong central planning flavor, could become the most revealing of the differences in approach by the political protagonists.