## ADB APPROACH AND PROGRAM

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

139. This time, the CEA is formulated as it should, i.e. ahead of the CSP, rather than half-way through an existing Country Assistance Program. The outcome 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.

### ADB's and Others' Experience in Mongolia's Environmental Management

140. In the course of 2002 CAPE, the total of ADB grant technical assistance to Mongolia with direct or indirect environmental content 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 Annex 3 of this document.

141. The assessment offered at the time is summarized in Annex 2 below. Very briefly, ADB played a timely and generally positive role in developing EIA procedures and improving awareness of certain regulatory tools (permitting). The Bank 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 cast -right from the beginning-- the reform of the crop-growing sector as also an environmental question (slashing the area inappropriately cropped) and as a result, reduction of the grain output came as something of an embarrassment. ADB correctly saw the pattern of livestock management as hugely important but did not succeed to translate 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 (see para. 118).

142. UNDP conducted an assessment of own environmental performance a little earlier in 1999, and once more, its detailed content has been described [ADB (2001)]. The most telling was the observation that despite having (or believing to have) an ENRM mandate in Mongolia, UNDP did not quite succeed in clearly articulate and develop that role. UNDP appropriately attached importance to its information and co-ordination capacity, biodiversity and environmental awareness creation. Among the recommendations of the UNDP review was to use a think-tank approach to deal with a range of environmental issues, expand the GEF Small Grants Program support and to 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, action plans etc. has been generally appreciated but accompanied by doubts about the will and resources to implement them.

[77] This CEA, to give an example, is one of at least three (and possibly as many as six) being prepared for Mongolia by ADB, USAID, World Bank and others.

143. World Bank's experience has been partly captured in the Bank's *Environmental Monitors* (the 2002 and 2003 issues) as well the 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 often blunted by human resource and financial constraints. Environmental financing continues to be poorly understood. World Bank's experience with urban infrastructure -the key area in the Bank's lending-- remains yet to be summarized.

144. 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 Bufferzone Development Project [see Schmidt at al (2003)] [78] and its successors, both the Government of Mongolia and the donor community finally have what appears to be a workable large-scale model that combines support for rural livelihoods with land/nature conservation and adds several institutional innovations (bufferzone councils, community conservation funds). The project has matured and by now it is somewhat less dependent on continued grant funding. The experience is important further to analyze and possibly use in designing projects combining the "GTZ content" with elements of infrastructural development less suitable for grant funding.

145. Similarly, thanks to 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 the sparsely populated areas of Mongolia. It is clearer now that communities capable to manage *all* aspects of natural resource management are hard to be found and even molded. Improved mechanisms of hunting regulation, and hunting fee "re-cycling" are emerging as essential for sustainable conservation management. Here, too, elements pioneered under the GEF/UNDP project (establishment of a scientifically sound rangeland monitoring system, strengthening of the Protected Area legislation, improved land-use planning and monitoring activities, development of buffer zone management plans etc.) can be considered for mixed grant-loan packages of financial support.

**ADB's Environmental Strategy in Mongolia**

**Linking Poverty Alleviation to Environmental Concerns**

146. 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.

147. The role of environmental analysis is to contribute to CSP formulation in three ways: (1) To help identify opportunities that efficiently combine poverty alleviation with environmental improvement. (2) 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 (flora conserved or fewer asthma attacks from air pollution) (3) help judge which of the opportunities identified under (1) and (2) are suitable for ADB's

[78] The Project targeted the Gobi Gurvan Saikhan National Park and surrounding area totaling some 200,000 sq. km, i.e. about one fifteenth of Mongolia's total area.

involvement given the Bank's strategic focus, the nature of the relationship between expected outcomes and their effect on poverty, ADB' 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 intended to ensure that no environmental harm is done as a result of ADB-financed activities, whether this is in the name promoting of economic growth or poverty alleviation.

148. 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 "growth mainly" approach to "poverty reduction-mainly approach". Although the differences between the two should not be overstated the 2001 gave a number of examples where the link between environmental improvement and poverty reduction is direct, unidirectional and the activities 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, better wastewater treatment to support greater domestic agro-processing etc.).

149. 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)[79]. 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 (water, power, 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 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 (paras. 44 to 48) 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, 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 its 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 or 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**

150. The considerations of the previous sections can be brought together, simplified, in the form of an environmental strategy. Following the approach used in a number of other CEAs, the

[79] The results of the latest (2003) LSMS/HIES surveys are not yet available. The last LSNS survey before that, on which most discussion about poverty in Mongolia is based, goes back to 1998.

environmental strategy for Mongolia will be a particular selection of priorities within the structure of ADB's current (2002) Environment Policy [80] (see Table 16).

151. 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 for 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

**Table 16: Environmental Strategy for Mongolia**

| ADB Environmental Policy Elements and Areas of Concern to be Given Prominence | Justification of the Selection and Emphasis | Recommended Approach to Implementation |
|---|---|---|
| *Element 1: Environment interventions for poverty reduction* | *Employment creation in both rural and urban areas key to poverty alleviation. Urban migration to be considered a valid alternative.* | *- Help ensure that job growth or changing structure of employment does not come at the cost of adverse environmental impacts. Examples: support environmental safeguards in small-scale mining, help ensure that influx of migrants into the cities does not further aggravate the environmental status.* |
| *Area 1: Protection, conservation and sustainable use of natural resources* | *Widely accepted priority supported (esp. the protected areas, biodiversity) by grant funding from a variety of sources.* | *- Continue to support sustainable livestock production, and more diversified agriculture - Extend involvement in mitigating land degradation beyond ASP-type loans. Formulate projects for co-financing with GEF, ensure Mongolia can learn from CACILM and similar experience. - Initiate a policy review of the new water-related legislation and programs. Depending on the outcome, consider technical assistance for a re-* |

[80] To recall, the policy at its broadest has five principal *elements* shown in the first column of Table 15 below. Each of them is sub-divided 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.
The broad menu includes the following:
Element 1: Environment interventions for poverty reduction
- Area 1: Protection, conservation and sustainable use of natural resources
- Area 2: Environment quality improvement
- Area 3: Reducing vulnerability to natural hazards and preventing disasters

Element 2: Mainstreaming environmental considerations in economic growth
- Area 1: Policy integration
- Area 2: Integrated economic and environment development planning
- Area 3: Strengthening regulatory systems and environmental governance
- Area 4: Market-based instruments and other policy instruments
- Area 5: Promoting education and public awareness

Element 3: Maintaining global and regional life support systems
- Area 1: Responding to multilateral environmental agreements
- Area 2: Supporting regional and sub-regional cooperation on environment

Element 4: Building partnerships
Element 5: Integrating environmental considerations into ADB operations
- Area 1: Country environmental analysis
- Area 2: Appropriate classification of loans
- Area 3: Public consultation and information disclosure.
- Area 4: Implementation and monitoring and evaluation
- Area 5: Environmentally responsible procurement
- Area 6: Performance-based allocation of ADF resources

| ADB Environmental Policy Elements and Areas of Concern to be Given Prominence | Justification of the Selection and Emphasis | Recommended Approach to Implementation |
|---|---|---|
| | | *orientation of water management, investments for irrigation rehabilitation, or both.* |
| *Area 2: Environment quality improvement* | *Deterioration of public health infrastructure (water supply, water quality peri-urban waste management, etc.) a major factor influencing livelihoods.* | *- Consider new loan assistance. The choice between more investment in aimags or even soums vs. possible infrastructure investment in or near Ulaanbaatar to be conditional on the outcome of policy dialogue on regional policy.* |
| *Area 3: Reducing vulnerability to natural hazards and preventing disasters* | *Well known priority in Mongolia.* | *- Support mainly creation of 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 - Continue to monitor the changes in the functioning of the State Reserve Agency - Continue to press for attention to sustainability of rural energy supplies through further tariff reforms and reduction of technical and non-technical losses* |
| *Element 2: Mainstreaming env. considerations in economic growth* | | |
| *Area 1: Policy integration* | *Honest attempts made in Mongolia to mainstream environment but some doubts about its ultimate results.* | *- 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.* |
| *Area 2: Integrated economic and environment development planning* | *At the national level, the regional policy and its environmental content need a feedback by Mongolia's development partners. At the local level, the true importance and effectiveness of local bodies remains unclear.* | *- In the absence of other "volunteers", drive the dialogue between donors and the Government on regional policy. - Seek greater role for local bodies and citizenry in influencing environmental policy and investments. - Encourage visiting ADB staff's to travel to the field. Review the advisory against domestic air travel by precious foreigners.* |
| *Area 3: Strengthening regulatory systems and environmental governance* | *Environmental financing, especially at the local level, is unclear, non-transparent and likely inefficient, even after the passage of PSFMA.* | *- Provide technical assistance for Improved financing of local environmental management as suggested in the 2001 CEA -Study the experience of new sectoral guidelines in improving the EIA process and environmental monitoring* |
| *Area 4: Market-based instruments and other instruments* | *Pricing of water, power, urban environmental services, land and natural resources demands more donor attention. It should not be overshadowed by possible attention to more "modern" MBIs* | *- Continue to demand up to date information on the degree of cost recovery in essential urban services, both in "ADB" provincial towns and in Ulaanbaatar. - Ensure good understanding of evolving policy and practice of wastewater-discharge pricing and make its further improvement a component of possible loan assistance. - Seek improvements in the pricing of natural resources and link this concern to that with local financing of environmental management (see Area 3)* |
| | | |

| ADB Environmental Policy Elements and Areas of Concern to be Given Prominence | Justification of the Selection and Emphasis | Recommended Approach to Implementation |
|---|---|---|
| *Element 3: Maintaining global and regional life support systems*<br><br>*Area 1: Responding to multilateral environmental agreements* | *Continued support is needed to bridge the gap between the obligations assumed by Government of Mongolia and capacity to meet them* | *- Consider, with Government of Mongolia and development partners, more cost-effective ways of matching support under international environmental conventions to conditions of low population density and high unit administrative cost. Question the need for distinct administrative structure for each global concern.*<br>*--Begin actively to develop a possible portfolio of projects for GEF co-financing, drawing on recent experience in Mongolia (e.g. GTZ activities in the Gobi) and also PRC and Central Asia.* |
| *Area 2: Supporting regional and sub-regional cooperation on environment* | *Because of its geo-political position, Mongolia needs a good balance of regional links and partnerships. Principal transboundary issues in Mongolia (Selenge and Irtysh rivers, desertification, illegal trade in fauna and flora) are real but not as central as, e.g., the management of surface waters in Central Asia.* | *- Keep Mongolia in mind whenever initiating new regional environmental initiatives involving PRC (and North-East Asia) and Central Asia.*<br>*- Ensure Mongolia can learn from CACILM and similar experience (as under Area 1)*<br>*- Remember that regional environmental cooperation must be driven by internal need.*<br>*- Study the experience of RETA 5969.*<br>*- Begin exploring possibilities that might arise if Russia were to join ADB (e.g. transboundary water management, phasing out of leaded gasoline, etc.)* |
| *Element 4: Building partnerships* | *As above* | *-Continue developing closer partnership with GEF for possible future co-financed activities in Mongolia under GEF's OP 12 and OP 15.*<br><br>*-Begin to think about environment-related repercussions of possible membership of Russia in ADB* |
| *Element 5: Integrating environmental considerations into ADB operations*<br><br>*Area 1: Country environmental analysis*<br><br>*Area 4: Implementation and monitoring, and evaluation* | *CEA should be more than a periodic document. It should serve as a background to continuous dialogue between ADB, Government of Mongolia and the wider society.* | *- Regardless of its final form, consider CEA a working document, an invitation to keep exploring the issues presented.*<br>*- CEA should not be the sole analytical effort in "environment". A separate assessment may be appropriate, for instance, for water management*<br><br>*- Effective exchange of views is needed on substantive questions of water management and land degradation among ECAE, ECOC and RSAN (and possibly also RSES)*<br>*- ECID more actively to link the work on climate change and CDM with activities of MOI and PREGA.* |

**Future Assistance**

152. 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 (renewable energy, environmental conditions in the peri-urban areas) even though the

manner of response may have departed from the concept submitted. Elsewhere, the suggestions made in 2001 are not re-submitted because similar activities have been started by GOVERNMENT OF MONGOLIA and other donors (forestry, to some extent). In the rest of the cases, the original proposals are reproduced alongside the updated ones in order to give the reader a more rounded description of the opportunities.

153. At this stage, the opportunities presented here have had the benefit of only informal consultations with government officials (as well as other individuals[81]) 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 MNRM staff acted as interlocutor and guide.

*Advisory and Institutional Support (AOTA) Opportunities:*

(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: Policies on eco-tourism and hunting are currently not supported by hard data about the revenues generated, subsequent use of the revenues and the economic costs and benefits of these activities. Choices involving grazing, mining, eco-tourism 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 eco-tourism and hunting-dependent economies.

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(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 (threat of the “Minamata disease”). Nevertheless, small-scale gold mining has become something of a savior of the rural economy and a poverty escape route recently. Its 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 re-directed towards placer areas. This process is likely to be gradual and health monitoring in needed in all areas affected. Rules and mechanisms of co-existence between the small-scale miners and industrial operators are needed as is development of environmental safeguards to 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 at both central and river basin level.

(iii.i) Water management, both in cities and in rural areas. (from the 2001 CEA)

[81] See Annex 5 for the composition of a first consultation meeting held in Mongolia to discuss the CEA.

Until the end of 1980s, Mongolia developed water resources with no consideration of scarcity. The continuing gross misallocation of water in Ulaanbaatar is disturbing. Large amount of useful work can be done starting with water pricing and including industrial and household water use audits, a variety of 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 CDN for national and international benefits (AOTA, GEF co-financing).

It would be possible to build on the substantial amount of work funded by ADB (ALGAS, PREGA) 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 MOI.

(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, mining, etc. 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 the limits to future uses. It is important to take the MAP-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*

(i) Implementation of wastewater management strategy in Ulaanbaatar City.

Considerable amount of preparatory work on wastewater management along the Tuul (the recipient of all discharges from Ulaanbaatar) has been completed with bi-lateral funding. 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 pre-treatment 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- 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 CWTP 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/disposal. Besides the day-to-day operations and the functioning of the truck fleet, the problem extends to unsafe, inappropriately located and inadequate principal disposal sites. New, environmentally safe,

disposal site(s) need to be created, together with a hazardous waste treatment facility. Construction of such facilities would be an opportunity for introducing improved mechanisms of waste disposal financing.

(iii) Environmental, health and social safeguards in small-scale mining.

See above. The assistance can be structured either as AOTA or PPTA plus loan with bilateral cofinancing and/or JFPR component. If structured for loan assistance, aspects such as improvement of social support to small-scale mining communities, expansion of environmentally safe mining by small-scale operators etc.

(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 about 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 MFA to approach irrigation rehabilitation in a pragmatic manner and in a way that would divide the cost between the government and the water users. ADB assistance could spearhead this process.

(v) Dry Ecosystem Land Management

A generalized class of projects aimed at lessening of 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 CACILM or the ADB/GEF Partnership in Land Degradation in PRC (Box 9 below). The projects can incorporate novel ways of managing peri-urban 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-enough 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 so far and they should not be. New low-cost opportunities to improve winter air quality in urban and peri-urban areas (including indoor air quality) should be identified to supplement ongoing projects focusing on the upgrading of household stoves.

**Linking ADB Program to Government and Other Donors' Environmental Activities**

154. The current ADB's Country Assistance Program (see Annex 2) indicates an annual lending level for Mongolia of between $30 and 55 million (all of which from ADF) and an annual TA program of about $4 million (the latter now depending on a performance-based allocation (PBA) of ADF resources). The 2001-2003 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.

155. ADB's TA resources, especially those available for direct support of environmental

objectives, are not particularly large compared to some of the bi-lateral sources[82], 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.

156. With little co-financing so far[83], the question of whether and how best to utilize this mechanism for environment-related assistance in Mongolia demands attention. The 2001CEA looked at the possibilities of developing project-level partnership with GEF and concluded that ……."while ADB TA funds and GEF funds …. are not substitutes (that can be easily blended), little stands in the way of the two complementing each other, the ADB TA funds addressing acute domestic needs while GEF financing related activities generating external (global) benefits. Indeed, such complementary is highly desirable since projects conceived solely to generate global benefits will likely be flawed in the absence of domestic components that safeguard the delivery of the global benefits. Livelihood promoting activities in areas adjacent to globally important biodiversity sites is a type of mixed setting that lends itself to ADB-GEF complementary financing. Complementary financing gives coherence to project design".

**Box 9: ADB-GEF co-financing to combat land degradation**

The ADB-GEF model favored in the 2001 CEA had emerged under the UN Convention to Combat Desertification (CCD), a subject of obvious importance to Mongolia. Under CCD, CCD's "Global Mechanism" has been created as the Convention's secretariat tasked with mobilizing resources for CCD implementation. ADB is one of the Global Mechanism's partners alongside with GEF, UNDP, World Bank, IFAD, UNEP and FAO. By now, the Global Mechanism (via OP 12 of GEF) has become a conduit for complementary funding for ADB-implemented projects targeting land degradation /desertification where the objective of land degradation control overlaps with the core GEF concerns (biodiversity, climate change and international waters). The GEFco-financing has already materialized in PRC (ADB/GEF Partnership on Land Degradation in Dry Ecosystems in PRC) and is being prepared for Central Asia (as CACILM, of Central Asian Countries' Initiative for Land Management).

157. Since 2001, GEF has further expanded its financing of Mongolia-based activities (see Annex 6). In the meantime, the opportunities for ADB-GEF co-financing had improved and continue to improve (See Box 9). 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 co-financing. Two broad categories come to mind immediately: (1) 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 donors (especially GTZ) have recognized the importance of improved management of these buffer zones. (2) Activities designed to lessen land degradation pressures on the Mongolian side of transboundary watersheds (e.g. parts of the Selenge river basin, upper reaches of the Yenisei, etc.)

158. The principal recommendation in this CEA if for ADB to ensure that Mongolia's land degradation concerns can benefit from ADB growing experience in partnership-based work in PRC and Central Asia (CACILM). Outside land degradation, promotion of renewable power among the dispersed and mobile rural population continues to fits in well with GEF's Operational Program 6 (Promoting the adoption of renewable energy by removing barriers and reducing

[82] The combined amount of technical assistance one way or another related to environmental management in Mongolia since 1992 has reached about $14.5 million. (See Annex 4)
[83] Mostly limited to regional technical assistance (ALGAS, PREGA projects)

implementation costs) and here too, coherence in project design favors a combination of domestic ("non-incremental cost") components with those designed to deliver global benefits. In view of many herding families' precarious existence, such a partnership could justifiably be described as jointly targeting poverty alleviation and climate change benefits.

159. Given several unresolved issues at the end of UNFCCC's COP6, it is premature to be specific about eligibility of energy-related projects for financing under Clean Development Mechanism (CDM). The delays in Mongolia's ratification of Kyoto Protocol and creation of the required institutional support for CDM implementation were mentioned earlier (para 67) Potentially, the number of suitable candidates is large [see Batima et al (2000)] [84].