

CONCLUSIONS AND RECOMMENDATIONS

160. Mongolia's economy in 2004 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 attention of both technical and environmental authorities. Internal migration continues to be driven by economic opportunities rather than design. The economic dominance of Ulaanbaatar and its infrastructural 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, 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.

161. 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 towards further urbanization (or UB-anization, to be more accurate) and a more opportunistic clustering of population around any new economic activities (such as mining). The strategic challenge for GOVERNMENT OF MONGOLIA 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 the 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 donor community. That feedback is only now beginning to materialize (not least under ADB's own TA 3948 for Capacity Building for Integrated Regional Development) but much more is needed, in particular for the feedback to be coordinated.

⁸⁴ ADB-implemented and GEF-funded ALGAS Project contains a convenient list of GHG-reducing options with low policy barriers, applicable also to Mongolia:

<u>Options</u>	<u>Feasibility</u>	<u>GHG reduction potential</u>
1. Photovoltaics	High	Medium-low
2. Small wind generators	High	Medium-low
3. Mini-hydro	High-medium	High-medium
4. Industrial co-generation	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 (see Annex 6)

162. 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 MDGs ("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 instance, the work of UN ECE in Eastern Europe and Central Asia or the OECD practice of environmental performance reviews of its member states. As to the assessment of CAPE, its principal target was ADB's performance, not that of the Mongolian Government.

163. The gap between environmental commitments of GOVERNMENT OF MONGOLIA and donor-funded "upstream" work, on the one hand, and effectiveness of work in the field, on the other hand, has not been bridged. Under-funding of environment-related field activities continues, and application and enforcement of legislation is weak. Considerable work on tightening of environment-related legislation has been a positive factor. The quality of new legal and policy documents has varied but in some cases fallen short of expectations. Several steps taken in the last three years have improved environmental governance.

164. ADB needs to continue to approach environmental management in Mongolia as a cross-cutting 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 it should continue.

165. A corollary of the above 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 TA assistance for application of land use policies or agricultural development promise to have more far-reaching environmental repercussions than many possible alternatives more explicitly pursuing environmental goals.

166. ADB grant resources likely to be available for environmental management objectives in Mongolia are relatively modest compared with those of some of the bi-lateral agencies. The avenues for ADB to pursue are (1) to step up its technical and loan co-financing efforts involving bi-laterals but also GEF; (2) to shape the design of TAs and loan projects in ways that provides for a maximum overlap between the objectives of livelihood improvement and environment, such projects possibly formulated for GEF co-financing, and (3) continue to make a full use of the Mongolia Resident Mission, given the presence of an environmental economist on the MRM staff.

167. ADB should not finance any action or master plans related to the environment unless the preparation of such plans has a support of MFE (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.

168. With the important exception of the issues surrounding local environmental financing (see para. 101), ADB is probably not the one best placed to provide direct assistance for further strengthening of the capacity of MNE that role better suiting the donors more closely associated with conservation activities and the protected realm. However, ADB should engage MNE (and MOI and MOH) in policy-related work involving natural resources, in particular in the area of

water management, emerging as an important priority.

169. ADB should consistently seek ways of making environmental policy formulation and execution in Mongolia more informed by economics. This does not necessarily mean a support for an MBI-type ADTA 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 economic valuation of natural resource use.

170. There is a general support for the idea of environmental funds in Mongolia. The important debate surrounding such funds' pluses and minuses has not taken place in Mongolia yet⁸⁵. ADB should promote such debate, supported by the experience in other DMCs such as Thailand.

171. In para. 153, the text 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.

172. In terms of regional priorities, the preference here is for support for regional activities under the aegis of UNCCD designed to address the problems of land degradation and desertification and effective contact of Mongolia with emerging regional initiatives such as CACILM. PREGA and PREGA-like work remains an important area for Mongolia and one 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.

⁸⁵ Very briefly, "ideal" environmental funds of theory are capitalized through virtuous environmental taxes rather than through budget transfers in order 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 (Poland, Lithuania, and others) illustrates. The reader is referred to Appendix 5 of ADB's 2001 report *Promotion of Market-Based Instruments for Environmental Management in Thailand* for a discussion of these and related issues.