

SUMMARY OF FINDINGS

BIODIVERSITY FINANCE INITIATIVE (BIOFIN) PROJECT - MONGOLIA

A. THE FEATURES OF THE MONGOLIAN BIODIVERSITY AND ITS CURRENT STATE

1. The terminology “biodiversity” is widely misunderstood as only the diversity of fauna and flora species.

The terminology “biodiversity” was first introduced when Mongolia ratified the Convention on Biodiversity (1992), and it has been mainstreamed in policy and planning documents as a synonymous term for the umbrella environmental issues including environmental protection¹, preserving ecological balance, conservation of protected areas, protection of endangered flora and fauna species. Biodiversity is a complex system consists of all aquatic and terrestrial living organisms, their genetic diversity, habitats in biosphere and ecosystem diversity. **In this sense the National Biodiversity Programme (NBP) is an umbrella programme covering environmental protection, biodiversity conservation, sustainable use of natural resources and restoring of depleted resources.**

2. Mongolian territory located in the transition from the Siberian taiga forest into Central Asian dry steppes and the deserts. Due to the transitional ecosystems and harsh continental climatic conditions, the biodiversity in Mongolia is unique.

The uniqueness of Mongolia’s biodiversity is the relative pristine natural ecosystems kept until 20th century. The pastoral livestock husbandry, well adapted to seasonal climatic and geographical conditions was a part of those ecosystems. Such unique formation was the peak of biodiversity development at the given geographical and climatic conditions.

3. New hazards and pressures such as destruction and shrinkage of wildlife habitat and fragmentation that commenced in the second half of the 20th century is being intensified.

Clear examples are the disappearance of the dhole (1968), Przewalski's horse (1950s) and a sub species of saiga antelope (1950s) in the second half of the XX century.

4. Most of the Mongolian territory (98.4%)² is dominated by natural ecosystems with the healthy indicator species and species composition; thus, the potential expenses of biodiversity conservation can be reduced.

However, the initiatives to restore natural resources and conserve biodiversity by the major economic sectors dependent on natural resources (**livestock husbandry**) as well as the sectors based on natural resources (**mining**) is almost negligible; thus, the **opportunities to reduce the potential expenses of biodiversity conservation might be omitted.**

¹ “Environmental protection” is to prevent from environmental pollution, use of natural resources responsibly within the limits of the capacity of the environment without disturbing its natural restoration potentials, its restoration and monitoring”, Law on Environmental Preservation, 3.2.7

² General National Land Resource Report 2014, 2015, Administration of Land Affairs, Geodesy and Cartography

5. Current institutional structure and management frameworks contribute to the increase of biodiversity pressures.

Factors that imposes both direct and indirect adverse impacts on biodiversity is the **poor institutional structure and management framework**. It proves that right policy and appropriate measures are crucial for sustainable biodiversity in Mongolia. Considering the current economic and financial downturn in Mongolia, following are the **key solutions** for a successful biodiversity conservation and sustainable use of natural resources:

- Right policy and proactive measures;
- Appropriate options for institutional and management framework;
- Community participation based on citizens' initiatives;
- Private sector involvement based on the right balance of profitability and social responsibility.

B. CURRENT STATUS AND FUTURE TREND OF BIODIVERSITY FINANCE

1. Total biodiversity expenditure during 2008-2015 was USD 136.1 million³, which amounts to 0.32%-0.77% of the annual state budget and 0.13%-0.30% of the GDP.

During this period, the average annual expenditure was USD 12.9-21.6 million. Comparatively, the increase of annual biodiversity expenditure was the lowest in 2011 or 3.3% and the highest in 2010 or 21.1%. When the total expenses on protected areas management, state and local forestation is excluded from the total biodiversity expenditure, the contribution by the government is very low.

2. 50.1% of the total expenditure was made by national and local budget, whereas the remaining 49.9% are made by international organisations, which indicates the strong dependency on donor funding.

67.8% of the total national expenditure was made by the Ministry of Environment and Tourism (MET) and its 6 affiliated organizations, whereas 5.8% by Ministry of Education, Culture and Science (MECS) and its 7 agencies, 17.2% by MFALI and 1 of its units, 1.5% by the General Agency for Specialised Investigation, 0.2% by the National Statistical Office, and the remaining 7.4% was made by the local governments⁴. As for the total donor expenditure, 35.5% was made by SDC, while 28.8% by UNDP, 13.7% by WWF, 7.9% by FAO and the remaining 3.9%-6.1% was made by ADB, TNC and WCS. The figure shows that the major donors are SDC, GIZ and UNDP, which the expenditure amount to 22%-27% of the total donor support, while the contribution by other organisations are below 10.5%.

3. There is an extremely low probability of increase in the direct investment in biodiversity for the next 4 years, especially by the national budget.

³ Expenditure for each year was converted by the exchange rate controlled by the Mongol Bank on the 31st of December of the given year.

⁴ It was difficult to estimate the total expenditure of the aimags and soums, thus it local expenditure was estimated based on collection of natural resource use fee and its expenditure percentage according to the law.

C. FINANCE NEEDS ASSESSMENT OF THE NATIONAL BIODIVERSITY PROGRAMME

Preliminary estimation suggests that USD 123,9 million⁵ is required for the implementation of the NBP in 2017-2021. It can be estimated that a total of USD 40.4 million or 32.6% of the total finance needs can be provided by the national budget, based on the biodiversity activities conducted in relation to the NBSAP objectives and its budget expenditure for 2008-2015. During 2017-2021, approximately 26 projects are planned to be implemented by 7 organizations, and their total budget is estimated to be USD 38.4 million. Therefore, the total finance gap for the implementation of the NBSAP is USD 45.2 million or 36.4% of the total finance needs. The finance needs is estimated to be the least in year 2017 (USD 1.4 million), with rapid increase starting 2018 amounting to USD 9.8 – 13.4 million annually. Majority of the finance needs (64.1%) are related to the three main objectives including the increase of forest cover, expanding the protected areas network, and protection of soil and water resources from pollution, which amounts to 20.2%-23% of the total finance gaps for each of these objectives.

D. FILLING THE FINANCE GAPS

1. **By improving the enforcement of the Law on Natural Resource Use Fee, it is feasible to increase the funds for environmental protection and rehabilitation approximately MNT 15 – 16 billion per annum.** For instance, the minimum expenditure percentage of revenue from the water and mineral water resource use fees⁶ would be sufficient to fund one of the main three objectives mentioned above, namely, “Protect soil and water resources from chemical and nutrient pollution”; thus, reducing the total finance gap by 21%.

“... The total revenue from the natural resource use fee at the aimag level was estimated to be MNT 3358736.7 thousand, and MNT 722800.0 thousand of the total revenue was planned for environmental protection and rehabilitation in 2013, which is two times lower than the minimum stipulated amount as per the law. However, the actual revenue was estimated as MNT 3132056.4 thousand, and MNT 1379649.5 thousand was supposed to be spent on environmental protection and rehabilitation, while 2.1 times lower amount, which is MNT 668700.0 thousand was spent. In 2014, 2.2 times lower than the actual revenue was planned and 3.8 times lower amount (equal to 26.4% of the natural resource use fee) was spent on environmental protection and rehabilitation...” **From compliance audit report on implementation of the law on Natural Resource Fee in Selenge aimag**

2. **Reintroduction of the pasture fee could mobilize at least MNT 5.6 billion in the local budget fund. If 30% of the revenue is used for pasture management as per the Law on Natural Resource Use Fee, a minimum of MNT 1.7 billion would be available annually.**

One of the priorities of Mongolian Livestock National Programme is “To develop livestock production, well adaptable to climate and ecological changes with ability to withstand risks”. Within the framework of this priority, two main objectives were defined:

“Link livestock number and herd composition with pasture carrying capacity and limit the number of livestock in areas where pasture capacity is already exceeded through introducing economic

⁵ Converted by the exchange rate of the Mongol Bank of the 31st of December 2016.

⁶ Source: According to the report of the Ministry of Environment and Tourism on implementation of the Law on Natural Resource Use Fee in 2014, a total of MNT 30.6 billion was collected as revenue from water and mineral water use. As per the law, minimum of MNT 16,8 billion could be available for the protection of water resources.



mechanism (3.4.1.3)” and “Create a legal framework on pasture use fees collected from herders and people with livestock, based on regional characteristics and type of herd and use some portion of it for protecting rangeland or improve its condition (3.4.1.4)”. A flexible taxation policy is a classical economic mechanism of the state and sound implementation of an improved taxation policy will make it feasible to achieve the goals of the Livestock Husbandry Policy reflected in the Sustainable Development Framework - 2030.

3. There is an opportunity to attract domestic and foreign private investment by establishing an Environmental Trust Fund of Mongolia based on the private sector.

Significant changes have been implemented in the economic, legal and banking sectors in Mongolia, since 1997 when the first Environmental Trust Fund of Mongolia was established. For instance, the GDP per capita was USD 329.78 in 1997 and it is increased to over USD 4000 in 2015, with the private sector contribution of almost 80% of the GDP. Moreover, investment made by the private sector through their corporate social responsibility (CSR) increased significantly. According to the best “Entrepreneur” award database, Mongolian National Chamber of Commerce and Industry estimates that a total of MNT 93 billion was spent on CSR by 15 private companies in 2015. Although, it was not spent on biodiversity related initiatives, the figure proves that the private sector in Mongolia has the potential to participate as a key partner in establishing the Environmental Trust Fund.

4. By implementing the “enterprise based sustainable financing” (and/or impact investment) the operational cost of specially protected areas administration can be covered.

The main purpose of this finance solution is to mobilize resources for a viable business based on the sustainable use of natural resources. There are several domestic and international examples of successful implementation of this concept, e.g. the Khustai Nuruu National Park. The national park was established to reintroduce the Przewalski’s Horse to the Khustai Nuruu. By implementing this project, tourism infrastructure was built and currently the environmental protection and biodiversity conservation initiatives are financed by the revenue from the tourism activities.

