



REDUCING CORRUPTION RISKS IN MONGOLIA'S FOREST SECTOR

The Government of Mongolia is committed to follow a green development path, notably through the creation of the Ministry of Environment and Tourism (MET), and the preparation and approval of the Green Development Policy and Mid-Term Programme. REDD+¹ has the potential to contribute to green development by protecting global environmental resources (e.g. forest carbon stocks and biodiversity), reversing land degradation, improving rural livelihoods and supporting adaptation to climate change.

Corruption is viewed as a serious obstacle in REDD+ implementation. Consequently, in the 2010 United Nations Framework Convention on Climate Change (UNFCCC) Cancun Agreements, developing country Parties were requested to address land tenure and forest governance issues while developing and implementing their National Strategies, or Action Plans. Supported by the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD Programme) in Mongolia, a 2018 study reviewed corruption in the forestry sector to identify policies and measures for reducing corruption risks².

This brief presents the key findings of the study under the following four interrelated thematic areas:

- Forest tenure: Rights to forest resources
- Law enforcement: Public authorities' compliance with laws
- Public administration: Management of service delivery
- Public revenue management: Authorities collecting and using revenue

Forest tenure: Rights to forest resources

Poor transparency and accountability are undermining forest tenure arrangements. Major concerns include the payment of bribes by companies to obtain forest access contracts. Nepotism in allocating forest rights can result in family and political party affiliates of government authorities benefitting from preferential access to short-term contracts for forest use. Conflicts of interest are also an issue as companies receiving

¹ Reducing Emissions from Deforestation and Forest Degradation and the role of conservation of forests carbon stocks, sustainable management of forest, and enhancement of forest carbon stocks.

² UN-REDD Mongolia National Programme, 2018. Analysis of corruption risks and development of policies and measures for Mongolia's National REDD+ Strategy. Ulaanbaatar, Ministry of Environment and Tourism, Mongolia. ([link](#)).

forest concessions are sometimes owned by public authorities. This impedes impartial conflict resolution and the establishment of a Grievance Redress Mechanism (GRM) for rural people.

Forest contracts may also be issued without consulting concerned Forest User Groups (FUG), and the provisions under the law on the payment of compensation to FUGs are not always implemented. FUGs also face the risk of ‘elite capture’ by wealthy and influential community members.

Law enforcement: Public authorities’ compliance with laws

Despite uncertainty about the scale of illegality, multiple sources allege that illegal timber harvesting and trade is occurring with the collusion of public authorities. Experts have criticized that local authorities are failing to follow forest management plans, and authorize timber harvesting exceeding the annual harvest quotas. Aimag³ environmental inspectors have limited capacity to supervise and monitor the work of forest companies⁴, and it is believed that bribery and the issuance of fraudulent certificates of origin for timber are occurring. Timber transport from rural areas to urban markets is facilitated by bribes paid by transporters to police at road check points⁵. In addition, previous studies have raised concerns that the sale of illegal timber in urban markets was conducted with impunity and controlled by political elites.

Although difficult to substantiate, there is concern that the government policy on timber trade has been unduly influenced by private sector interests. A key concern lies with the government’s decision to remove taxes on imported timber, ostensibly justified to reduce demand for unsustainably harvested timber from Mongolia’s forests.

Public administration: Management of service delivery

The study established that kick-backs in the awarding of government tenders for forestry-related work are common, with companies paying on average 5 percent of the contract value to officials. Although it was not the objective of the study to further investigate such incidents, it certainly indicates that there are corruption risks in the awarding of government tenders. This loss of income may reduce effectiveness in service delivery and diminish opportunities for reinvestments. Low levels of monitoring result in companies not delivering the services they are contracted and paid for. There is also a flaw in the procedures for issuing or renewing licenses. Several interviewees claimed that some license holding companies lacking basic professional qualifications are eligible for tenders. Nepotism also applies to staff of the forest department who are underqualified and suffer from high turnover, and NGOs lacking credibility who receive disproportionate opportunities to participate in government-sponsored programs and projects at the expense of legitimate organizations. In this context, the risks of conflicts of interest in

³ An Aimag is an administrative unit comparable to a province or state in other countries.

⁴ In 2011, there were only about 400 forest rangers employed to patrol the country’s vast forest estate.

⁵ Reliable figures on the volume of illegally cut, transported and traded wood are not available. A 2004 World Bank *Mongolia Forestry Sector Review* points out that estimated annual wood consumption exceeds the logging quota by a factor of nine. Since then, construction has started to rely more on steel and concrete and wood products imports satisfy some of the demand for wood products. MET figures of confiscated timber shipments between 2009 and 2016 show a significant decline over the years from up to 12,000 cubic meters to around 3,000 cubic meters in 2016. However, it is notoriously difficult to judge whether this is just the tip of the iceberg there is a general understanding that illegal logging has declined.

the procurement of goods and services are high, such as senior government officials having commercial interests in companies receiving government contracts.

Public revenue management: Authorities collecting and using revenue

User fees are complex, with a range of fees applicable to forest users depending on location, tree species and harvesting method. Eighty-five percent of collected fees from timber harvesting, and 15 percent for the use of non-timber forest products (Table 1), must be reinvested by local authorities in forest protection, according to the Natural Resources Use Fee Law. It is unknown whether fees are subject to theft by local authorities or allocated to other social services, but substantial evidence shows representatives at the local level of government failing to respect the law and allocating less than the specified rate for forest protection. In addition, the National Audit Authority showed that in some provinces, actual spending on forest protection is less than what is planned for in the annual budgets. An undercover investigation by the General Agency for Specialized Inspection revealed that government officials were demanding bribes for providing export licenses for pine nuts, which may also account for missing revenues.

Table 1: Percentage of fees to be used for natural resource restoration and environmental protection⁶

Fee	Percentage of fees
Natural plant use fee	15
Wildlife resource use fee	50
Land-use fee	30
Timber and fuelwood harvesting fee	85
Water and spring use fee	35

Policies and measure to reduce corruption risks

In developing policies and measures to reduce corruption and strengthen governance in the forestry sector, the study recognizes the importance of building on the MET's existing efforts and following the "Principles for governance for sustainable development" of the Mongolia Sustainable Development Vision 2030 (2016).⁷

1. Due to the weak understanding of the effectiveness of the existing GRM, a participatory assessment on grievance related to forest tenure should be conducted in at least three Aimags. Based on the results, an independent GRM should be established as part of the REDD+ National Program.

⁶ Source: Government Decree on Environmental Protection and Rehabilitation Revenue Generation, its Spending and Reporting Procedures.

⁷ See: http://www.un-page.org/files/public/20160205_mongolia_sdv_2030.pdf

Democratic accountability and accessibility must be strengthened in FUGs and conflicts of interest avoided. Rural people who are not part of FUGs must still be able to access forests for their livelihoods. Indeed, rules for FUGs should strengthen democratic accountability, accessibility and prohibit conflicts of interests.

2. The MET must ensure compliance with the National Law on Transparency of Information. It needs to publish timely and complete information on fees and public revenues, including information that should be collated on production and revenues at the sub-national level. A more ambitious measure would be to produce a comprehensive annual forestry sector report, which would include ecological information on forests, policies and measures, budgets, financial statements, fees and public revenues at the national and sub-national levels. Beyond transparency, there is a need to better understand local decision making on the use of resource fees, which may suggest the need to review the Natural Resources Use Fee Law.
3. Some stakeholders in Mongolia believe that corruption in regulating timber production and trade requires re-centralizing aspects of forest management. This is potentially controversial and may be resisted by sub-national governments and FUGs. It is therefore suggested to conduct a detailed investigation of and multi-stakeholder discussion about the nature and scale of the illegal timber trade and the effectiveness of law enforcement, as well as prosecution. A better understanding of commercial interests behind the timber trade and imports should also be considered, given persistent rumors that political elites may have direct interests in this sector.
4. As an initial measure for REDD+, it is suggested to undertake an assessment on revenues and benefit sharing from export permits. Furthermore, considerations should be given to move the mandate for collecting export fees from MET to the Central Treasury. In addition, more ambitious policies could consider the feasibility and benefits of supporting local groups to derive a greater share of revenue from the trade of forest products.
5. There appears to be limited involvement by the Civil Service Council in monitoring compliance by the MET on the Civil Service Law, which would help reducing corruption in the forest administration. Short-term efforts should be made to support the Civil Service Council in engaging with the forestry sector in order to strengthen REDD+. A more ambitious proposal is to support multi-stakeholder discussions for institutional reforms that would establish the forest department as a semi-autonomous agency better protected from the politicization of staff appointments.
6. The Government of Mongolia has enacted strong laws and policies to improve accountability in government procurement of goods and services across all ministries. However, additional measures are needed as corruption in procurement appears to be an ongoing problem. There may be limited prospects of addressing kick-backs between government agencies and private companies. Additional work should be undertaken by the MET, the Ministry of Finance, and General Agency for Specialized Inspection to implement more thorough monitoring and evaluation of service delivery, and to put forward recommendations for records of service delivery to be included in the assessment of tenders. A more ambitious proposal would be to facilitate a multi-stakeholder review of the state's policy towards outsourcing forestry sector work.

Summary of potential policies and measures

Corruption area	Short-term measures	Long-term policy considerations
Forest tenure	<ul style="list-style-type: none"> - Conduct participatory assessment of existing formal and informal grievance redress mechanisms (GRM) in at least three Aimags - Maintain digitized records of all tenure agreements and user-right contracts - Clarify and strengthen rules for FUGs to enhance democratic accountability and minimize conflicts of interests 	<ul style="list-style-type: none"> - Establish an independent GRM - Build capacity for managing existing mechanisms
Public revenue transparency	<ul style="list-style-type: none"> - Ensure compliance with the Law on Transparency of Information - Publish reported revenues and production data at the local level - Make a qualitative assessment of decision making on resource user fee allocations at the local level 	<ul style="list-style-type: none"> - Produce a comprehensive annual report on the forestry sector - Ensure technical and capacity support to Aimag authorities for the collection of comprehensive production and revenue data - Possibly revise the Natural Resources Use Fee Law, allowing for greater decentralization
Illegal timber trade	<ul style="list-style-type: none"> - Conduct detailed investigation of extent and nature of illegal timber trade, as well as the perceptions on state policy regarding quota allocations <i>[potential to link survey on perceptions with assessment of GRMs]</i> 	<ul style="list-style-type: none"> - Review decentralization of environmental inspectors and forest units - Increase timber production from sustainably managed forests - Invest in electronic tracking of timber trade and move towards digitized certificate of origins
Pine nut trade	<ul style="list-style-type: none"> - Conduct detailed investigation of revenues and benefit-sharing arrangements - Publish fees, quota allocations and revenues 	<ul style="list-style-type: none"> - Transfer revenue collection to central treasury - Introduce transformative policies that support increased benefit sharing at the local level
Civil service reforms	<ul style="list-style-type: none"> - Publish internal review as requested by existing MET anti-corruption strategy - Support external review by Civil Service Council 	<ul style="list-style-type: none"> - Establish a semi-independent forest agency, with its management appointed by a multi-stakeholder committee
Government procurement	<ul style="list-style-type: none"> - Comply with the government procurement laws, including publishing the names of companies that were awarded contracts 	<ul style="list-style-type: none"> - Compile past vendor information scores - Review criteria used to assess tenders, including social and environmental criteria - Increase funding and responsibilities for monitoring services delivery to the General Agency for Specialized Inspection - Review policy on outsourcing towards increasing state capacity to deliver key goods and services in the forestry sector



UN-REDD PROGRAMME



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