

# FINANCING MECHANISMS AND OPTIONS FOR IMPLEMENTING REDD+ IN MONGOLIA

Forest Financial Flows Statistics at a Glance	
<b>0.5 percent</b>	Mongolia's GDP from the forest sector (2017)
<b>MNT 440 billion</b>	Total financial inflow into forest conservation and utilization (2017)
<b>MNT 157 billion</b>	Total revenue generated from forestry (2017)
<b>MNT 51.3 billion</b>	Government forest-related revenue (2017)
<b>MNT 15.8 billion</b>	Government (central and local) funding for Sustainable Forest Management (SFM) (2017)
<b>43 percent</b>	Percentage of MET's forest budget spent on pest control (Average of 2013-2017)
<b>5 percent</b>	Percentage of MET's forest budget spent on forest fire control (Average of 2013-2017)
<b>85 percent</b>	Minimum percentage of payments for forest resources usage which must be reinvested in forest protection and management activities, according to the <i>Natural Resource Use Fee Law</i> .
<b>&lt; 30 percent</b>	Percentage of payments for forest resources usage, which are being reinvested in forest protection activities

Sustainable Forest Management (SFM) needs to play a more important role in Mongolia. It can support the achievement of several Sustainable Development Goals (SDGs) and address priority challenges such as climate change adaptation, air pollution reduction, employment generation and the development of the private sector. Last but not least, Mongolia has significant potential to reduce its forest carbon emissions and sustainably manage its forest carbon stocks. The proposed REDD+ National Program foresees the implementation of twelve policies and measures (PAM) to address drivers of deforestation and forest degradation and barriers to the implementation of SFM, and to provide for climate-resilient livelihoods and non-carbon ecosystem services. Several PAMs are expected to contribute to SFM, especially to reduce emissions from forest degradation.

Mongolia's forest ecosystem goods and services include timber and non-timber forest products, water regulation and carbon sequestration. These services support livelihoods and benefit key economic sectors such as agriculture, industry and tourism. However, the forest sector is suffering from inadequate funding, which is compounded by the fact that revenue from forest-related taxes, use fees and charges that should be reinvested in SFM, is spent elsewhere.

## Forest financial flows

Between 2013 and 2017, the private sector contributed 92 percent of the total financial inflow (or expenditures) to the forest sector. The share of the Government of Mongolia (GoM) was only 4 percent; donors provided 3 percent (Figure 1). The State's annual forest budget significantly fluctuates, ranging from MNT 5.9 billion (US\$ 2.9 million<sup>1</sup>) in 2016 to MNT 29 billion (US\$ 14.4 million) in 2014, because of

<sup>1</sup> For currency conversions, the January 2016 exchange rate of US\$ 1 to MNT 2,003 has been applied.

annual differences in expenditures for the management of insect infestations and fires<sup>2</sup>. Compared to the agriculture and transportation sectors, the budget allocated to forests is low. Most of it is funded by the Ministry of Environment and Tourism (MET), with contributions from the National Emergency Management Agency (NEMA) focusing on fire fighting. Until 2016, the Ministry of Food, Agriculture and Light Industry (MOFALI) supported the wood-processing sector with inexpensive loans.

Donors spent MNT 12.5 billion (US\$ 6.2 million) on SFM in 2017<sup>3</sup>. Most of the current donor projects, will end between 2018 and 2020. Therefore, the continuity of this source of funding is uncertain.

The private sector is active in two sub-sectors: forestry and wood processing. Expenditure for forestry alone are about 10 times the MET’s budget and over 30 times for wood processing. The private sector is therefore essential for the implementation of SFM.

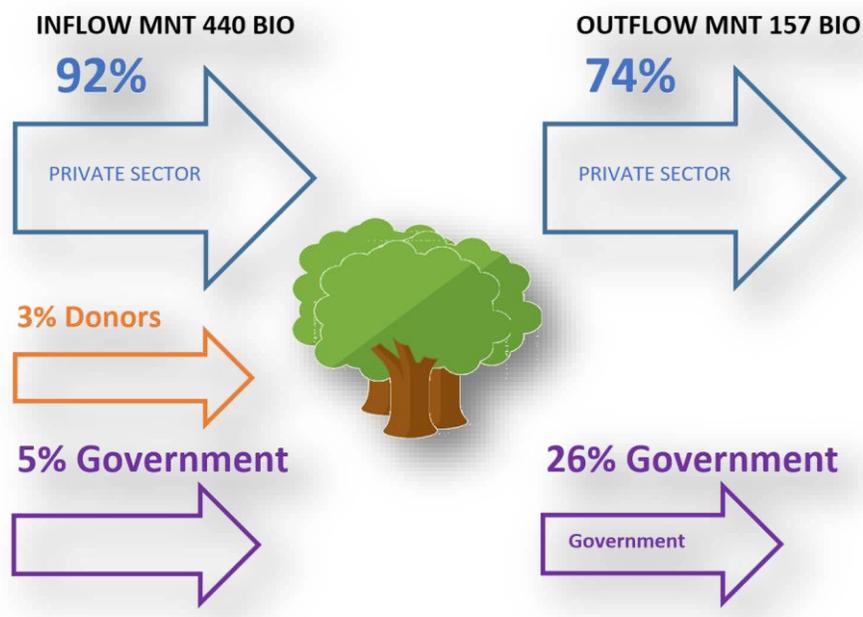


Figure 1: Forest financial flows (average for 2013-2017)

Forest related-revenue (or outflows) is generated by the government and the private sector through a range of mechanisms (Figure 2). The revenue has been increasing annually, largely due to the development of the wood-processing sector, reaching MNT 156 billion (US\$ 77 million) in 2017. Twenty-six percent of the total forest revenue was captured by the government.

Boreal forests ecosystem services also play an important financial role in Mongolia. The total annual value of forest carbon sequestration amounts to MNT 77.29 billion (US\$ 38.3 million). Furthermore, the Upper Tuul catchment provides Ulaanbaatar with groundwater supplies with a value of MNT 58.8 billion

<sup>2</sup> Fires and insect infestations are both key drivers of deforestation and forest degradation.

<sup>3</sup> More detailed information is available in: UN-REDD Programme, 2018. Assessment of Financing Mechanisms and Options for Mongolia’s REDD + Action Plan. Ulaanbaatar, Ministry of Environment and Tourism, Mongolia ([Link](#)).

(US\$ 21.2 million), of which MNT 31.5 billion (US\$ 15.6 million) are government revenue, via the regulation of water flow and quality from forests.

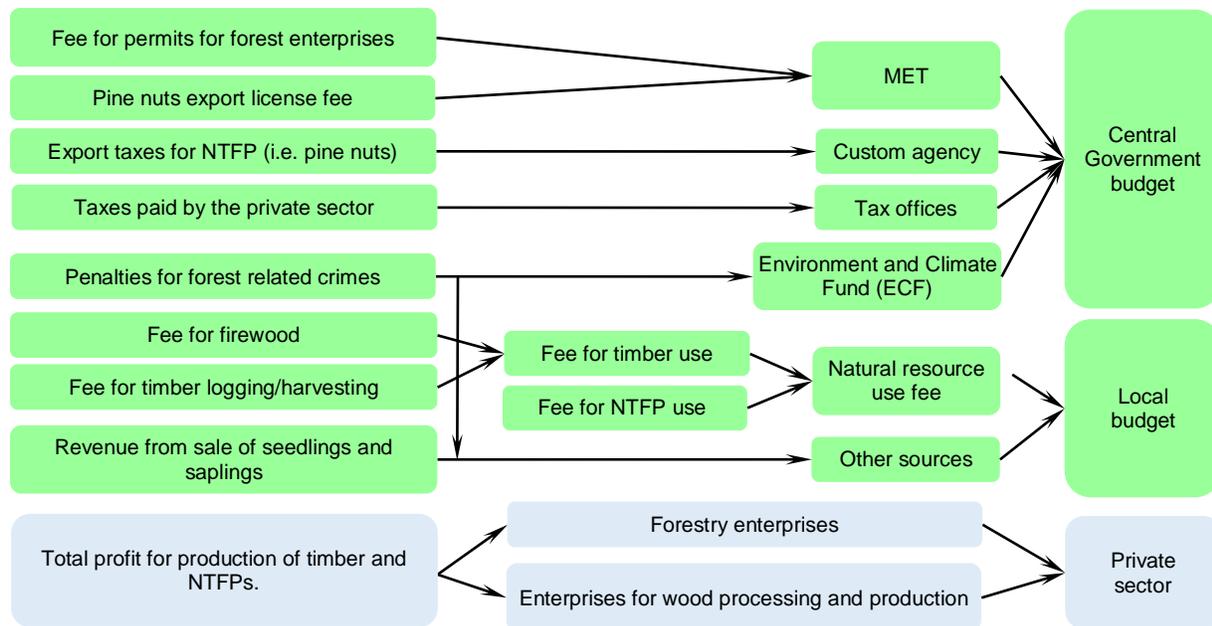


Figure 2: Financial outflows from forest utilization

## Current challenges

Due to Mongolia’s current economic situation the State’s forestry budget will unlikely increase in the coming years. However, a better distribution of the budget could lead to improvements. Indeed, most of the MET budget is spent on pest control activities (40 to 79 percent) and only 5 percent on fire management. Forest management measures should be assessed and their results monitored to ensure that funds are utilized in a cost-effective manner. The GoM’s revenue from forestry through taxes, fees and penalties is four times greater than the amount spent on forestry, showing another source of potentially available funding. According to the Natural Resource Use Fee (NRUF) Law, at least 85 percent of collected forest resource use fees must be reinvested in forest protection and management<sup>4</sup>. As the law is not enforced, only about 28 percent were reinvested in 2017. The increase of pine nuts export license fees raised the GoM’s share of total forestry revenue from 10 percent in 2010 to 33 percent in 2017. However, pine nuts cannot be harvested every year and are listed as endangered. It is thus crucial to diversify revenue sources.

Future donor financing is not guaranteed. As a middle-income country, Mongolia is often viewed as a development partner, better suited to loan financing. Unfortunately, because of weak monitoring, the forest sector is considered too risky by the banks. A National Forest Monitoring System, currently being

<sup>4</sup> In fact, the NRUF Law, approved in 2012, stated that 85 percent of the revenue must be spent on environmental protection activities. In 2014, Government of Mongolia stated in resolution No. 43 that the 85 percent had to be spent on forest protection activities only (<http://www.legalinfo.mn/annex/details/6215?lawid=9794>).

developed, is essential to assess progress towards SFM and the impacts of REDD+ PAMs, enhance transparency, secure bank loans and provide quality control on activities such as pest control.

The private sector, which is the main source of funding for forest management, sees its activities constrained by the current policy focus on protection. The low annual allowable cut and the absence of value-added tax and other taxes on imported timber and wood products makes local wood less attractive compared to imported wood and wood products. The National Forest Inventory has challenged the protection focus suggesting that an increased utilization of forests would be compatible with SFM<sup>5</sup>. Indeed, using the country’s timber and non-timber forest resources better would provide opportunities to generate employment and develop income streams from SFM. A strengthened private sector would support the local economy and the development of a sustainable self-financing forestry sector.

### Recommendations to overcome current barriers

The key barriers to SFM, and adequate financing and enabling reforms are depicted in Figure 3.

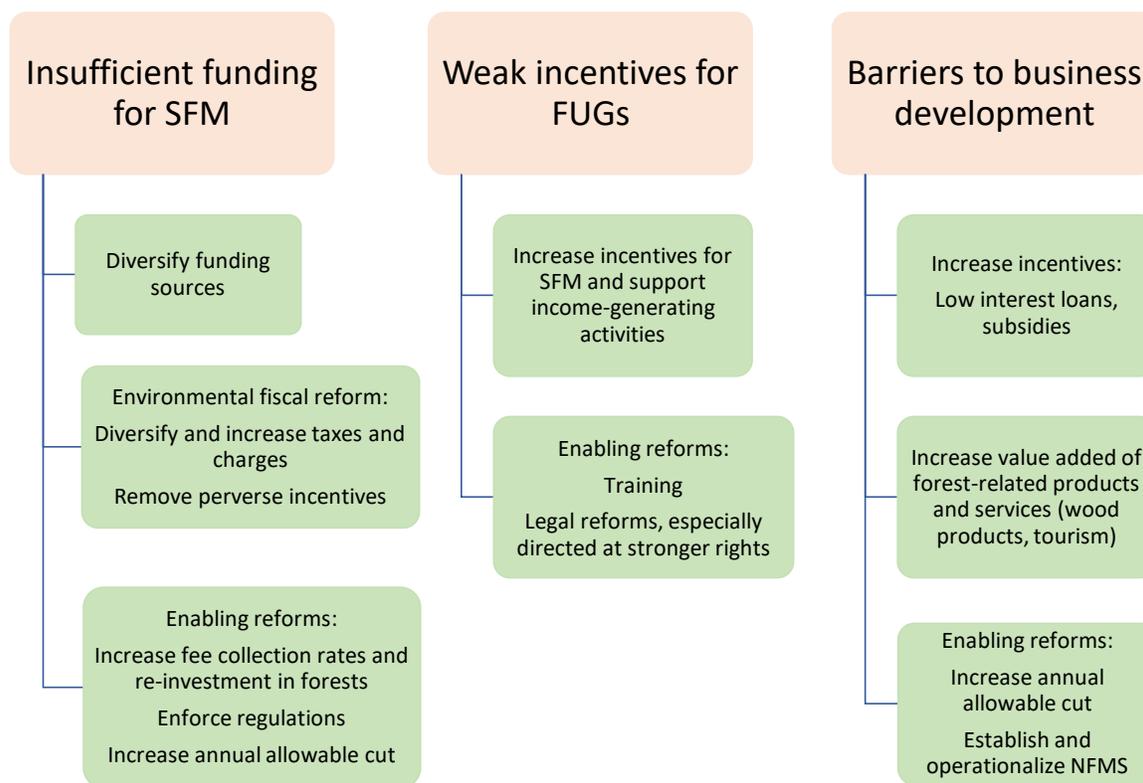


Figure 3: Barriers and options for addressing them

<sup>5</sup> See also: UN-REDD Mongolia National Programme, 2018. Assessment of wood product value chains and recommendations for the Mongolian wood-processing industry. Ulaanbaatar, Ministry of Environment and Tourism, Mongolia ([Link](#)).

A strategic and coordinated approach to financing SFM and the implementation of REDD+ would also incorporate the following features:

- A diversified financing base that blends financial sources and considers coherence among funding mechanisms.
- Strong private sector engagement to enhance financial flows into SFM.
- Increased budget allocations at aimag and soum levels to boost (re)investment in SFM.
- Strong forest planning and management at central, aimag and soum levels potentially supported through increased budget tracking and coding.
- Emphasis on co-benefits and value added of SFM.

In the short term, efforts should be placed on mechanisms that have the highest chance of success. It makes sense to start with strengthening existing fiscal mechanisms and improving the implementation of mechanisms that are already in place (notable natural resource use fees or penalties) rather than introducing new, and perhaps more complex, mechanisms such as payments for environmental services, for which there are currently no laws or regulations. It is just as important in the short term to build the foundation of a self-financing forest sector through policy and fiscal reforms, and to undertake necessary feasibility studies, stakeholder awareness raising and capacity development to better understand the suitability and effects of mechanisms that may have application in the medium to long term. Finally, forest user groups need to be seen as partners in forest management and receive rights and incentives to encourage their active involvement in Mongolia's forest sector.

The precise activities to be undertaken in the medium to long term will depend on the progress and outcomes achieved in the next several years, but are likely to include:

- Further environmental fiscal reform – for example increasing natural resource use fees (once collection rates have improved), broadening the range of services for which fees are charged and developing spatially sensitive revenue collection system (assuming there is political support for this).
- Further supporting and developing a self-financing forestry sector. It is hoped that the sector can work towards securing loans from the Green Credit Fund. The Fund is aiming to incorporate public and private management strategies to support activities that have positive effects on the environment and society, and associated government initiatives, for forest-harvesting and wood-processing activities.

In conclusion, a more efficient forest sector will have a greater positive impact on climate change and sustainable development, and increase revenues for the private sector and the GoM. SFM and a thriving wood-processing industry could contribute substantially to covering the cost of forest management and protection. SFM would also provide investments in infrastructural development to tackle the main drivers of forest degradation, i.e. forest fires and insect infestations, and reduce illegal logging<sup>6</sup>. But to succeed requires the courage to shift the focus from conservation and protection towards the sustainable use and management of forest resources. As some people have said, "Use it or lose it". No doubt, losing Mongolia's boreal forests cannot be in anyone's interest.

---

<sup>6</sup> Essentially, these are policies and measures under the proposed REDD+ National Program.



# UN-REDD PROGRAMME



Food and Agriculture  
Organization of the  
United Nations



UN  
environment

Empowering people.  
Recovering nations.

The UN-REDD Programme / Mongolia  
Address: Government Building II, United Nations Street 5/2,  
Chingeltei District, Ulaanbaatar 15160, Mongolia  
Tel: +976-7711-7750  
Email: [info@unredd.mn](mailto:info@unredd.mn)  
Web site: [www.reddplus.mn](http://www.reddplus.mn)