

# POLICY BRIEF - MECHANISMS FOR SUSTAINABLE FOREST MANAGEMENT (SFM) IN MONGOLIA

## Forest Financial Flows Statistics at a glance

<b>0.5%</b>	Mongolia's GDP from the forest sector (2017) [IMF 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%</b>	MET's forest budget spent on pest control (2013-2017)
<b>5%</b>	MET's /forest budget spent on forest fire (2013-2017)
<b>85%</b>	Percentage of payments for forest resources usage which should be reinvested in forest protection activities, <i>Natural Resource Use Fee Law</i> .
<b>&lt; 30%</b>	Percentage of payments for forest resources usage which are being reinvested in forest protection activities

Sustainable Forest Management (SFM) could play an important role in Mongolia. It can support delivery of the Sustainable Development Goals (SDGs) and address many priority challenges such as adaptation to climate change, air pollution reduction, employment generation and the development of the private sector. Mongolia's forest ecosystem services include timber and non-timber forest products, water regulation and carbon sequestration. These forest services support livelihoods and benefit key economic sectors such as agriculture, industry and tourism. Unfortunately, Mongolia's forest sector is suffering from insufficient funding, which is compounded by the fact that revenue from forest related taxes and charges that should be reinvested in sustainable forest management, is spent elsewhere.

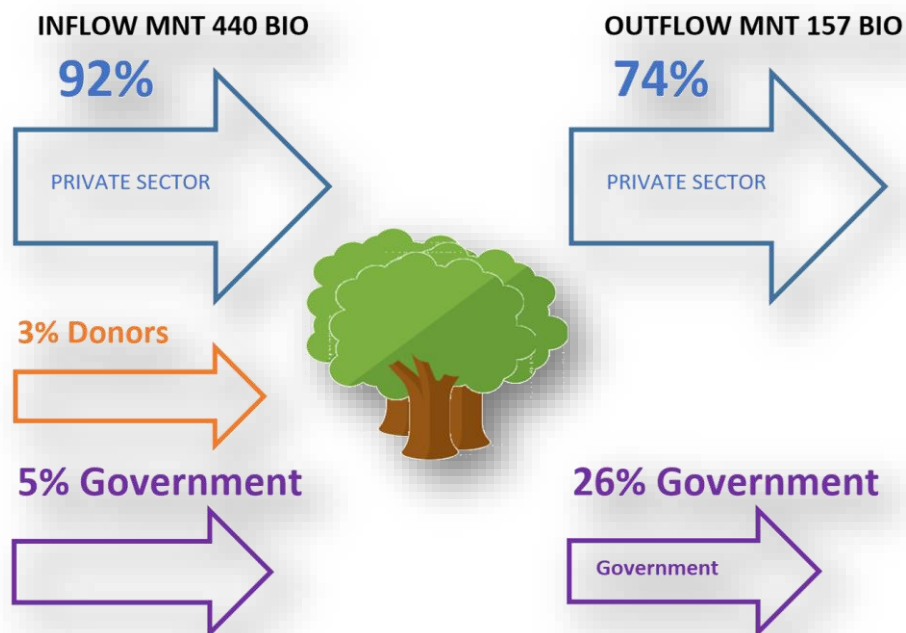
## FOREST FINANCIAL FLOWS

From 2013 to 2017, 92% of the total financial inflow to the forest sector originated from the private sector, with the Mongolian Government contributing 4%, and donors 3%.

The State's forest budget undergoes significant annual variations ranging from 5.9 billion in 2016 to 29 billion in 2014, because of annual differences in pest and fire. 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, an important amount of funding was provided by the Ministry of Food, Agriculture and Light Industry (MOFALI) supporting the wood processing sector with cheap loans.

Donors spent MNT 12.5 billion on Sustainable Forest Management in 2017. Most of the current donor projects will end by 2020. Therefore, the continuity of this source of funding is uncertain.

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



Forest related revenue is generated by the government and the private sector through a range of mechanisms as summarized in Figure 1. The revenue has been increasing yearly, largely due to the development of the wood processing sector, reaching MNT 156 billion in 2017. 26% of the revenue was captured by the government.

Boreal forests ecosystem services also play an important financial role in Mongolia. Indeed, according to (Peters-Stanley and Hamilton, 2012) the total annual value of the forest carbon sequestration services amount to MNT 77.29 billion. Furthermore, the Upper Tuul catchment provides Ulaanbaatar with groundwater supplies with a value of MNT 58.8 billion of which MNT 31.5 billion are government revenue, via the regulation of water flow and quality from forests.

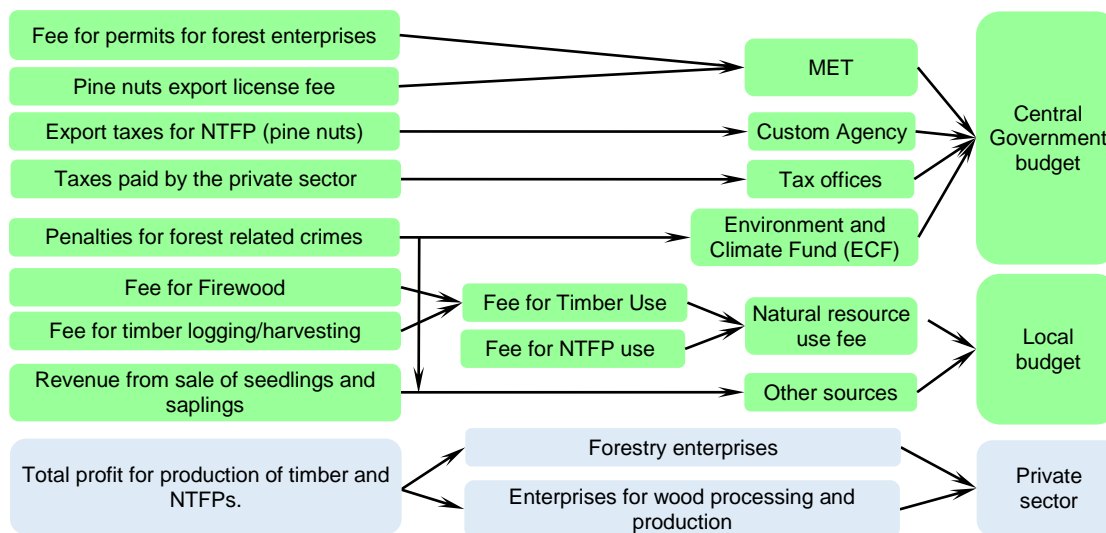


Figure 1: Financial outflows from the forest utilization

## Slowdowns and challenges

Due to Mongolia's tight economic situation it is unlikely that the State's SFM budget will 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%) and only little to fire control (5%) also one of the major contributors to forest degradation in Mongolia. Forest management measures should be assessed and their results monitored to ensure that funds are utilized in a cost-effective manner. The Governments' revenue from forestry through taxes, fees and penalties is four times greater than the amount it spends on forestry, showing another source of potential available funding. According to the *Natural Resource Use Fee Law*, minimum 85% of collected forest resource use fees should be reinvested in forest protection activities. This law is currently being neglected as only ~28% were reinvested in 2017. The increase of pine nuts export license fees increased the Government's share of total forestry revenue from 10% in 2010 to 33% in 2017. However, pine nuts cannot be harvested every year and are listed as endangered. It is thus important to find multiple sources of revenue.

Donors are important financial contributors for SFM but their financing is not guaranteed in the future. As an upper-middle income country, Mongolia is often seen as a development partner, best suited to loan financing. Unfortunately, because of the lack of monitoring, the forest sector is considered too risky by the banks. Measurement, reporting and verification (MRV) methodologies are essential to assess the country's improvements, 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 SFM, sees its activities limited by the current forest policy centered on conservation. The low Annual Allowable Cut (AAC) and the absence of VAT and taxes on imported timber and wood products makes local wood less attractive compared to imported wood. The National Forest Inventory has challenged this conservation policy suggesting that an increased utilization of forests would be compatible with SFM. Indeed, using the country's own timber and non-timber resources would provide opportunities to develop income streams from SFM. A strengthened private sector would support the local economy and the development of a sustainable self-financing forest

sector.

### UN-REDD recommendations

There are three main barriers to investments in SFM:



1. **Improved Forest Sector** – Figure 2.0 shows roles and responsibilities for actors in the forest sector which should be undertaken to improve organization, investments and opportunities.
2. **Improved Fee Spending** - Improving the implementation of existing mechanism such as the forest use fees and a better use of the Government forest revenue are seen as easy wins for increasing the flow of finance to SFM.
3. **Capacity Building** - FUGs and Enterprises need financial and professional support to better plan and implement their activities.
4. **Access to Finance** - Green credit is a rapidly developing area in Mongolia and could be an option but currently the forest sector is viewed as too risky by commercial banks due to the lack of monitoring and reporting. Risk avoidance mechanisms and improved business strategies are needed.
5. **Monitoring** - The UN-REDD national program will establish a National Forest Monitoring System which could be used to link the forest performance with finance, and hence facilitate commercial lending. This could also monitor the revenues and spending to ensure that the Law on Natural Resource Tax is implemented properly.

The following features have to be incorporated in Mongolia's SFM financing strategy:

- Diversified financing base
- Strong private sector engagement to enhance financial inflows into SFM
- Increased budget allocations at aimag and soum levels to increase (re)investment into SFM
- Strong forest planning and management at central, aimag and soum level potentially supported through increased budget tracking/coding
- Emphasis on co-benefits and value added of SFM.

In conclusion a more efficient forestry sector will have a greater impact on climate change and sustainable development, and increase the generation of income and revenues for the private sector and Government.

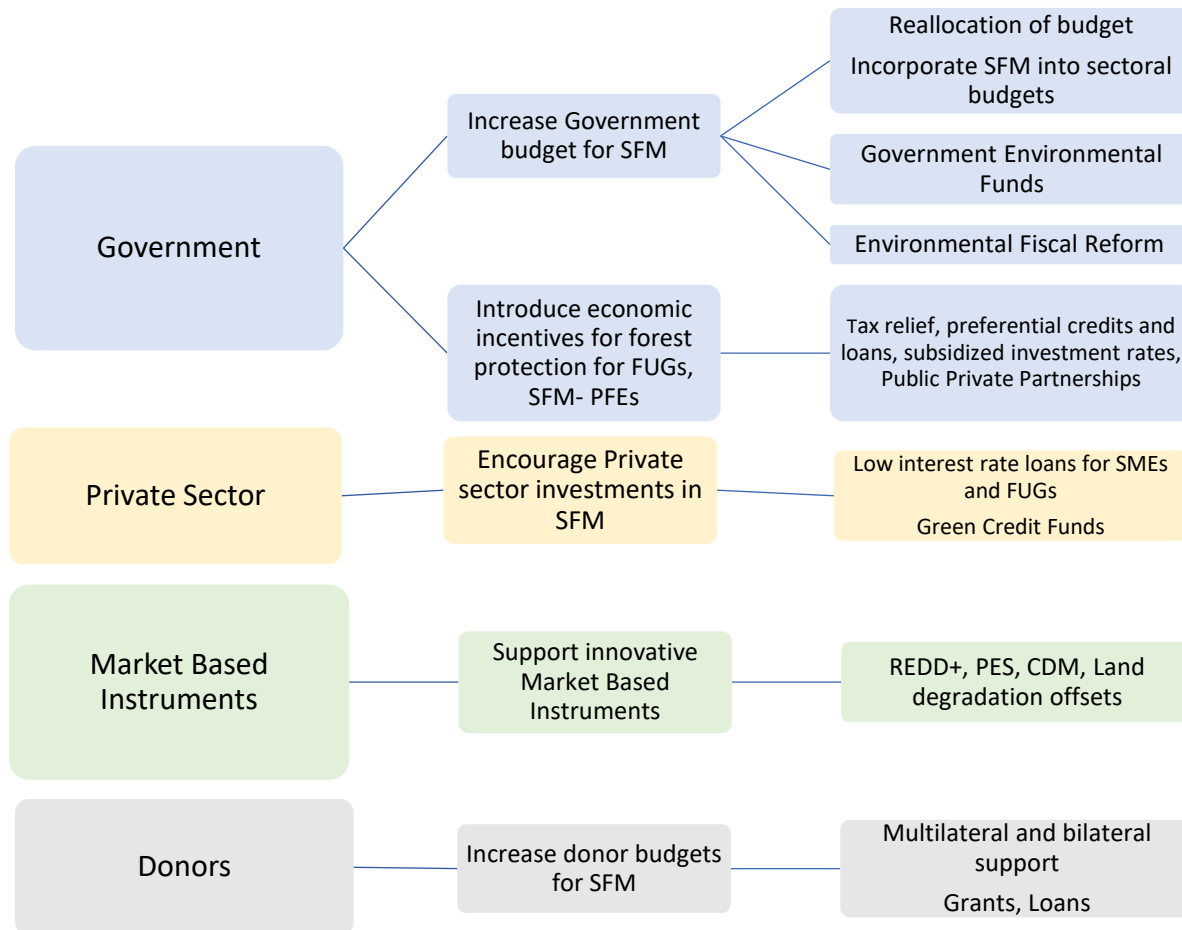


Figure 2: Overview of opportunities to increase funding for SFM and potential financial mechanisms



MINISTRY OF ENVIRONMENT  
AND TOURISM



UN-REDD  
PROGRAMME



Food and Agriculture  
Organization of the  
United Nations



UN  
environment

---

*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)*