



Report and Recommendation of the President to the Board of Directors

Project Number: 48216-001
November 2015

Proposed Administration of Grant Mongolia: Integrated Livelihoods Improvement and Sustainable Tourism in Khuvsgul Lake National Park Project

This is the version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 13 November 2015)

| | | |
|---------------|---|--------------|
| Currency unit | – | togrog (MNT) |
| MNT1.00 | = | \$0.000502 |
| \$1.00 | = | MNT1,991.00 |

ABBREVIATIONS

| | | |
|-------|---|--|
| ADB | – | Asian Development Bank |
| CSO | – | civil society organization |
| EARF | – | environmental assessment and review framework |
| GRM | – | grievance redress mechanism |
| JFPR | – | Japan Fund for Poverty Reduction |
| JICA | – | Japan International Cooperation Agency |
| KLNP | – | Khuvsgul Lake National Park |
| MEGDT | – | Ministry of Environment, Green Development and Tourism |
| O&M | – | operation and maintenance |
| PAM | – | project administration manual |
| PIU | – | project implementation unit |
| PMU | – | project management unit |

NOTE

In this report, “\$” refers to US dollars.

| | |
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PROJECT AT A GLANCE

| | | | |
|---|---|--|--|
| 1. Basic Data | | Project Number: 48216-001 | |
| Project Name | Integrated Livelihoods Improvement and Sustainable Tourism at Khuvsgul Lake National Park Project | Department /Division | EARD/EAER |
| Country Borrower | Mongolia Government of Mongolia | Executing Agency | Ministry of Environment, Green Development and Tourism |
| 2. Sector | Subsector(s) | ADB Financing (\$ million) | |
| ✓ Agriculture, natural resources and rural development | Land-based natural resources management | | 0.00 |
| | Water-based natural resources management | | 0.00 |
| Industry and trade | Small and medium enterprise development | | 0.00 |
| | Trade and services | | 0.00 |
| | | Total | 0.00 |
| 3. Strategic Agenda | Subcomponents | Climate Change Information | |
| Inclusive economic growth (IEG) | Pillar 2: Access to economic opportunities, including jobs, made more inclusive | Climate Change impact on the Project | Low |
| Environmentally sustainable growth (ESG) | Natural resources conservation | | |
| 4. Drivers of Change | Components | Gender Equity and Mainstreaming | |
| Governance and capacity development (GCD) | Civil society participation | Effective gender mainstreaming (EGM) | ✓ |
| Partnerships (PAR) | Civil society organizations Implementation | | |
| 5. Poverty Targeting | | Location Impact | |
| Project directly targets poverty | Yes | | |
| Geographic targeting (TI-G) | Yes | | |
| 6. Risk Categorization: | Low | | |
| 7. Safeguard Categorization | Environment: C Involuntary Resettlement: C Indigenous Peoples: C | | |
| 8. Financing | | | |
| Modality and Sources | | Amount (\$ million) | |
| ADB | | 0.00 | |
| Cofinancing | | 3.00 | |
| Japan Fund for Poverty Reduction | | 3.00 | |
| Counterpart | | 0.18 | |
| Government | | 0.18 | |
| Total | | 3.18 | |
| 9. Effective Development Cooperation | | | |
| Use of country procurement systems | | No | |
| Use of country public financial management systems | | Yes | |

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on the proposed administration of a grant to be provided by the Japan Fund for Poverty Reduction (JFPR) to Mongolia for the Integrated Livelihoods Improvement and Sustainable Tourism in Khuvsgul Lake National Park Project.¹

2. Khuvsgul Lake National Park (KLNP) in Khuvsgul *aimag* (province) supports a rapidly expanding but uncontrolled tourism industry and a small local population that is poor, receives few benefits from tourism, and is dependent on subsistence use of natural resources. The grant will support local livelihoods through improved capacity for sustainable tourism and subsistence activities, in participation with the park administration and other key stakeholders. The project design adopts an integrated approach for livelihoods, tourism, waste management, and land use planning, and will serve as a model for other protected areas in Mongolia.

II. THE PROJECT

A. Rationale

3. The KLNP was established in 1992. It encompasses 1.2 million hectares of forests and mountains that surround Khuvsgul Lake, which is one of the world's most important reservoirs of freshwater. The lake has a volume of 380.7 cubic kilometers, and is the largest freshwater lake in Mongolia. It contains 70% of Mongolia's freshwater and 1% of global freshwater.² The water quality is high, and there are no dams. Khuvsgul Lake is also of transboundary importance as it drains via the country's largest river, the Selenge, into Baikal Lake in the Russian Federation. Most of the park's population is located in two settlements, Khatgal (at the southern end of the lake) and Khankh (at the northern end). Khatgal is the main entry point to the park. Khankh and the park's northern area can be accessed only via an unsealed road from Khatgal, or from the Russian Federation. The park borders the Russian Federation and a highway extends from the nearest Russian City, Irkutsk, to Khankh.

4. Khuvsgul *aimag* is the second-poorest of Mongolia's 21 *aimags*. In 2014, (i) gross domestic product per capita was \$2,008, versus a national mean of \$3,920; (ii) the mean annual salary was \$2,940 per employee, versus a national mean of \$5,363; and (iii) unemployment was 15.1%, versus a national rate of 7.9%.³ The KLNP is located within five *soums* (districts), four of which have the highest poverty rates in Mongolia. In 2014, the total population of the five *soums* was 16,000 people, including 3,093 (943 households) in Khatgal and 2,648 (819 households) in Khankh. Human population densities in the park are low. Poverty-stricken households account for 43.4% (410) of households in Khatgal, and 81.5% (668) of those in Khankh,⁴ while herding households make up 30.2% (285) of households in Khatgal, and 44.5% (365) of those in Khankh (footnote 3).

5. The KLNP is becoming one of the most popular tourism destinations in Mongolia. Tourist numbers and facilities are expanding rapidly: between 2010 and 2014, annual tourist visits to the KLNP rose from 11,000 to 60,000 as a result of improved road access and reduced visa

¹ The design and monitoring framework is in Appendix 1.

² C. Goulden et al. 2006. *The Geology, Biodiversity and Ecology of Lake Hövsgöl (Mongolia)*. Leiden: Backhuys Publishers.

³ National Statistical Office of Mongolia. 2014. *Mongolian Statistical Yearbook 2014*. Ulaanbaatar.

⁴ Defined by the 2013 *National Poverty Guidelines* based on a range of socioeconomic variables.

restrictions.⁵ No growth projections are available, but Khuvsgul *aimag* and the KLNP are targeted as a key region for the development of tourism and associated infrastructure.⁶ This expansion is occurring in the absence of planning. There is no framework for coordination among the key KLNP stakeholders—the KLNP Administration, communities, and tour operators—nor a shared vision, targets, or codes of conduct for tourism. Vehicle access and camping are uncontrolled and some camps are unlicensed. Enforcement of park regulations by the KLNP Administration is an important but only partial solution to these issues, which requires the active support of other stakeholders.⁷ Tourism presents a major opportunity to support local livelihoods, yet few residents are benefiting because of limited capacity and resources to develop tourism goods and services. Constraints include a lack of technical and marketing skills and capital to produce quality goods (e.g., handicrafts) and provide reliable supplies and services (e.g., food supplies and guiding).

6. Grazing of livestock in the area of the park has occurred for centuries and provides meat, wool, and dairy products for residents. Livestock grazing will continue to be a principal livelihood for many residents in the KLNP and buffer zone, especially those that graze their livestock in remote areas far from tourism-related opportunities.⁸ These benefits are declining because of overgrazing, caused by increasing human and livestock populations, and limited grazing lands. In 2014, there were about 62,160 livestock in the KLNP, including 21,502 (35%) goats and 15,161 (24%) sheep.⁹ There is no organized management of herding in the area, and herding families have limited capacity and resources to improve the sustainability of their practices and diversify their income. Overgrazing is also contributing to soil exposure, permafrost melt, tree dieback, and conversion of forest to steppe, in a continuous cycle that also increases fire risk.

7. Khuvsgul Lake's largely pristine state is the foundation for livelihoods and tourism, but uncontrolled sewage and litter from tourism threaten lake water quality.¹⁰ There is no organized waste management system in the KLNP. Toilet facilities are mostly unlined pits, and sewage seeps into soil and the lake. Resources for litter collection are inadequate and the lake already contains plastic litter.¹¹ Traditional solutions involving large-scale waste management infrastructure are not appropriate for the KLNP, because of the fragile and very cold environment, limited value of flushing systems (water is frozen from November to June), and location in a protected area. Waste management at the KLNP requires innovative and small-scale methods that are simple and cost-effective, involve communities, can be replicated locally, and minimize or avoid the use of water. Baseline data on pollution sources are required to guide waste management, but no waste assessment or extended monitoring have been conducted.

8. The internal zoning of a protected area is a critical policy tool to support livelihoods.¹² At the KLNP, the current zones exhibit inconsistencies with land use. Given the rapid increase of tourism and likely expansion of associated infrastructure, a best-practice approach to strengthen the park zoning would provide a strong basis to support communities, tourism, and conservation. Improved zoning could (i) support the residents of Khankh, an isolated enclave in the KLNP; (ii)

⁵ KLNP Visitor Logbook.

⁶ Tsedendamba. 2012. *Study On Opportunities To Develop Four Clusters (Meat, Wool-Cashmere, Sea Buckthorn and Tourism) Aimed at Improving National Competitiveness of Mongolia*. Ulaanbaatar: MED, MDI, ADB.

⁷ Support to the KLNP Administration for ranger training is being given by the Mongol Ecology Center.

⁸ Mongolia's Law on Buffer Zones broadly defines a buffer zone as the entirety of all *soum* lands surrounding a protected area. The current project will focus on communities within and immediately adjacent to the KLNP.

⁹ KLNP Administration unpublished data 15 June 2015.

¹⁰ Khuvsgul Lake is ultra-oligotrophic (very low nutrient levels): sewage presents a high risk for eutrophication.

¹¹ C. Free et al. 2014. High-levels of microplastic pollution in a large, remote, mountain lake. *Marine Pollution Bulletin* 85: 156–163.

¹² Mongolia's Law on Special Protected Areas prescribes three zones: strict protection, and limited- and multiple-use.

support herding livelihoods; (iii) identify strategic areas for tourism and future investment; (iv) help secure the water quality of the lake; and (v) improve the sustainability of actions undertaken by the current project through long-term planning.

9. Government and donor initiatives are addressing some of these issues. The park's first management plan was approved in 2014 and mentions tourism and waste management, but provides no targets or actions. Between 2013 and 2014, a river basin authority and buffer zone councils were established, yet these have limited training and funds. A small community marketplace for tourist products was constructed in 2015 in Khatgal. Research on natural resources has been conducted in the KLNP since the 1950s. Civil society organizations (CSOs) have provided support for park management, ranger training, sanitation, and green education programs. The need to support community-based tourism and waste management in the KLNP is widely acknowledged by the government, communities, and tour operators.

10. At the national level, an integrated approach that balances livelihoods, tourism, waste management, and biodiversity conservation within protected areas is urgently needed. Government efforts to expand tourism are centered on Mongolia's unique wilderness values and large network of protected areas, which cover 18% of the country.¹³ These are generally located in poor regions with limited infrastructure, which presents challenges for maintaining ecological values, providing benefits to communities, and ensuring sustainable tourism. Few such models are available, although previous projects have confirmed the benefits of tourism for communities in protected areas.¹⁴ For improving the livelihoods of herding families, previous JFPR projects in Mongolia present strong models for the current project,¹⁵ provided they are tailored to local conditions.¹⁶

11. The project will be among the first in Mongolia to address the linked issues of livelihoods, tourism, and waste management in a protected area. New participatory mechanisms for the KLNP will be piloted, including co-management approaches for tourism and waste management, and community-led revolving funds for livelihood improvement.¹⁷ Measures have been designed to promote community ownership and entrepreneurship. For waste management, toilet systems that are suitable for the cold and fragile environment of the KLNP will be piloted. The project is strongly oriented toward stakeholder participation. Two CSOs active in the park will be members of the project steering committee, and the project will coordinate with another protected area program.¹⁸ The potential use of donor skills and resources under the project includes (i) an ecotourism training program, (ii) collaboration with Japan tourism associations, and (iii)

¹³ United Nations Development Programme. Strengthening the Protected Area Network in Mongolia. http://www.mn.undp.org/content/mongolia/en/home/operations/projects/environment_and_energy/SPAN.html

¹⁴ Japan International Cooperation Agency (JICA). 2008. *River Basin Management Model for the Conservation of Wetland and Ecosystem and Its Sustainable Use in Mongolia*.

<http://www.jica.go.jp/mongolia/english/activities/activity12.html>; and Thompson, A. et al. 2014. *Tourism Concessions in Protected Natural Areas: Guidelines for Managers*. United Nations Development Programme.

¹⁵ ADB. 2008. *Proposed Grant Assistance to Mongolia for Poverty Reduction Through Community-Based Natural Resource Management*. Manila; and ADB. 2012. *Proposed Grant Assistance to Mongolia for Establishment of Climate-Resilient Rural Livelihoods*. Manila.

¹⁶ Lessons include the importance of (i) integrated approaches for livelihoods and conservation in protected areas, (ii) the role of women in household-scale tourism, and (iii) community-led establishment of herding groups.

¹⁷ Previous similar JFPR projects in Mongolia (footnote 15) disbursed grant proceeds directly to communities and/or via external agencies, rather than through community-led revolving funds.

¹⁸ Mongol Ecology Center and National University of Mongolia; and German development cooperation through KfW's Biodiversity Program, 2015–2019.

participation by Japan International Cooperation Agency (JICA) volunteers.¹⁹ The project complements a new JFPR community forestry initiative elsewhere in Khuvsgul *aimag*.²⁰

12. By integrating poverty reduction, income generation, and the sustainable use of natural resources, the project will directly contribute to Mongolia's Action Program, 2012–2016,²¹ Green Development Policy 2014,²² and Khuvsgul *aimag* Socio-Economic Development Action Plan, 2008–2015.²³ The project supports the interim country partnership strategy, 2014–2016 for Mongolia,²⁴ and Environment Operational Directions, 2013–2020 of the Asian Development Bank (ADB),²⁵ for inclusive and sustainable growth; and the government of Japan's Country Assistance Policy and Midterm Strategic Action Plan for Mongolia,²⁶ through income diversification for herders and the protection of water resources. The project provides an opportunity to facilitate future ADB assistance to Khuvsgul *aimag*, especially for the sustainable development of regional tourism. ADB is well placed to support the project through its institutional experience and work with multiple stakeholders in Mongolia.

B. Impacts and Outcome

13. The impacts will be (i) per capita income in five *soums* of Khuvsgul *aimag* increased, and (ii) management of natural resources in the KLNP improved. The outcome will be livelihoods and sustainable tourism in five *soums* of the KLNP improved and integrated.

C. Outputs

14. The project will have three outputs: (i) community-based tourism in Khatgal and Khankh settlements promoted, (ii) capacity for sustainable livestock and pasture management in the KLNP and buffer zone improved, and (iii) waste management around Khuvsgul Lake strengthened.

15. **Output 1: Community-based tourism in Khatgal and Khankh settlements promoted.** Output 1 will (i) establish the first pilot comanagement tourism group for the KLNP, comprising the KLNP Administration, communities, tour operators, and *soum* governments; (ii) develop a stakeholder vision, targets, and codes of practice for tourism; and (iii) promote and strengthen community-based tourism, including household-scale enterprises such as guiding, handicrafts, and the provision of food supplies to guest houses.

16. **Output 2: Capacity for sustainable livestock and pasture management in the Khuvsgul Lake National Park and buffer zone improved.** Output 2 will (i) establish herder groups among the herding families in the KLNP and buffer zone; (ii) establish herder management plans for each herder group that are tailored to local conditions, including optimal stocking densities and pasture management; and (iii) support income diversification for herder families, especially those with limited opportunities for tourism-based income. Output 2 will use

¹⁹ From 2016 to 2017, there will be four JICA volunteers stationed in Khuvsgul *aimag*.

²⁰ ADB. 2014. *Technical Assistance to Mongolia for Sustainable Forest Management to Improve Livelihood of Local Communities*. Manila.

²¹ Government of Mongolia. 2012. *Action Programme of the Reform Government through the Years, 2012–2016*. Ulaanbaatar.

²² Government of Mongolia. 2014. *Green Development Policy, 2014–2030*. Ulaanbaatar.

²³ Khuvsgul *Aimag* Government. 2007. *Khuvsgul Aimag Socio-Economic Development Action Plan, 2008–2015*. Murun.

²⁴ ADB. 2014. *Interim Country Partnership Strategy: Mongolia, 2014–2016*. Manila.

²⁵ ADB. 2013. *Environment Operational Directions, 2013–2020*. Manila.

²⁶ Japan Ministry of Foreign Affairs. 2012. *Country Assistance Policy for Mongolia*. Tokyo.

scientific and traditional knowledge available for the KLNP to support the herder management plans and improved grazing practices.

17. Outputs 1 and 2 will be supported through a combination of specialist support, training, and the establishment of five community revolving funds (one per project *soum*). The funds will be community-managed and support household-scale enterprises, with 17% of the grant proceeds (an average of \$100,000 or 4% per *soum*) channeled into the funds.²⁷ Funds will be held in one bank account per *soum*. The project will provide financing expertise, training, and initial capital for the first 4 years for the communities to develop and manage the funds, including the establishment of fund committees, operating procedures, and repayment terms and conditions. Loans will be limited to activities compatible with outputs 1 and 2, the KLNP Management Plan, and domestic and ADB policies and regulations. The interest rate applied to loans will be low and reviewed regularly.²⁸ Interest repayments over the 4-year project duration will replenish the funds. The activity is aligned with Mongolia's Law on Buffer Zones, which provides a legal framework to support communities in protected areas and buffer zones.

18. **Output 3: Waste management around Khuvsgul Lake strengthened.** Output 3 will (i) implement a water quality monitoring program tailored to the project activities, including a rapid assessment of threats to the water quality of Khuvsgul Lake; (ii) establish a pilot community-led waste management program, including waste management teams, the installation of low environmental impact toilet facilities and litter bins, and the phasing in of public campsite fees to fund team salaries and facility operation and maintenance (O&M); and (iii) conduct a best-practice review on the internal zoning of the KLNP, including scientific and traditional knowledge and stakeholder consultation, to identify zones that maximize benefits to livelihoods, tourism, and conservation.

19. **Project management.** The executing and implementing agencies lack the personnel and resources needed to fully implement the project. The grant proceeds will also (i) establish the administrative framework for the project, including a steering committee, project management unit (PMU), and project implementation unit (PIU); and (ii) finance the specialist support and PMU and PIU operational costs required to implement outputs 1–3. The PMU and PIU will implement the project on behalf of the executing and implementing agencies, including accounting, procurement, training, preparation and dissemination of knowledge products, monitoring, and reporting.

20. **Sustainability, replication, and expansion.** The activities under outputs 1–3 will support the project's sustainability after project completion. Design measures for sustainability include the revolving fund approach, long-term land use planning through the herding groups and review of park internal zoning, use of campsite fees to support team salaries and O&M of facilities, simple and replicable designs for facilities, and the participatory approach to be adopted for all activities. Opportunities to promote the integrated project approach for livelihoods and sustainable tourism, and to develop new initiatives in Khuvsgul *aimag* and/or elsewhere in Mongolia, will be identified through (i) the review of KLNP internal zoning, which will include multistakeholder discussions on land-use planning and sustainable development of regional tourism; (ii) the development of new partnerships during the project, including between the Khuvsgul *aimag* government, the Ministry of Environment, Green Development and Tourism (MEGDT), and ADB; and (iii) the preparation of a scale-up strategy and investment plan. This

²⁷ A range of grant disbursement mechanisms were assessed, including the use of bank loans and/or credit unions.

²⁸ The rate will be slightly lower than the government's policy lending rate.

will describe post project financing for O&M of the project facilities, replication of the project goods and services, and specific follow-up opportunities.

21. **Stakeholder communication and dissemination of project results.** Khuvsgul Lake is revered in Mongolia and is a high-profile area subject to frequent media coverage. A project stakeholder communication strategy has been prepared and is in the project administration manual (PAM).²⁹ The strategy describes target audiences and media approaches, including public events and workshops. These activities will also serve to promote the project approach and distribute relevant lessons.

D. Investment and Financing Plans

22. The project is estimated to cost \$3.18 million (Table 1).

Table 1: Project Investment Plan
(\$ million)

| Item | Amount ^a |
|--|---------------------|
| A. Base Cost^b | |
| 1. Community-based tourism in Khatgal and Khankh settlements promoted | 0.72 |
| 2. Capacity for sustainable livestock and pasture management in the Khuvsgul Lake National Park and buffer zone improved | 0.56 |
| 3. Waste management around Khuvsgul Lake strengthened | 0.57 |
| Project management | 0.85 |
| Subtotal (A) | 2.70 |
| B. Contingencies^c | 0.48 |
| Total (A+B) | 3.18 |

^a Includes taxes and duties of \$300,000 to be financed by the Japan Fund for Poverty Reduction on a grant basis and administered by the Asian Development Bank. The amount of taxes and duties is determined on the basis that (i) the amount will not represent an excessive share of the project investment plan, (ii) the taxes and duties apply only to the grant-financed expenditures, and (iii) the financing of taxes and duties is relevant to the success of the project.

^b In mid-2015 prices as of 15 June 2015.

^c Physical contingencies computed at 5% for ecotoilet units and litter bins. Price contingencies computed based on cost escalation factors of 9.0% for 2016, 7.7% for 2017, 7.0% for 2018–2019 for local currency costs; 1.5% for 2016, 1.4% for 2017, and 1.5% for 2018–2019 on foreign exchange costs; and at 50% for national consultant fee rates.

Source: Asian Development Bank estimates.

23. The government has requested a grant of \$3 million, provided by the JFPR and administered by ADB, to finance the project. The grant covers equipment and materials and project management consulting services and training. Taxes and duties are included in the base cost.

24. The financing plan is in Table 2.

Table 2: Financing Plan

| Source | Amount (\$ million) | Share of total (%) |
|---|---------------------|--------------------|
| Japan Fund for Poverty Reduction ^a | 3.00 | 94.0 |
| Government | 0.18 | 6.0 |
| Total | 3.18 | 100.0 |

^a Administered by the Asian Development Bank.

Source: Asian Development Bank estimates.

²⁹ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

E. Implementation Arrangements

25. The implementation arrangements are summarized in Table 3 and described in the PAM (footnote 29).

26. The project will be implemented over a period of 4 years, tentatively from 1 January 2016 to 31 December 2019.³⁰ The MEGDT, acting through the Department of Protected Areas Management, will be the executing agency responsible for overall project implementation. The KLNP Administration, under the Department of Protected Areas Management, will be the implementing agency. The executing and implementing agencies will be supported by a team of full-time and temporary consultants that will staff the PMU (based in the offices of the executing agency in Ulaanbaatar) and PIU (based at the KLNP headquarters in Khatgal). All ADB-financed procurement for the project will be conducted in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). An accountant and a procurement specialist will be recruited under the PMU to provide administrative support in project operation, and procure project goods and works.

27. The steering committee will provide oversight and policy guidance for the project and meet at least semiannually. The committee will be chaired by the executing agency and include representatives from the Khuvsgul *aimag* and *soum* governments, project communities, and CSOs. ADB and the Embassy of Japan in Mongolia will be invited to participate as observers. The five project *soum* governments will each assign a counterpart officer to the project.

Table 3: Implementation Arrangements

| Aspects | Arrangements | | |
|--|--|-------------------|-----------|
| Implementation period | January 2016–December 2019 | | |
| Estimated completion date and grant closing date | 31 December 2019 and 30 June 2020 | | |
| Management | | | |
| (i) Oversight body | Project steering committee | | |
| (ii) Executing agency | Ministry of Environment, Green Development and Tourism, acting through the Department of Protected Areas Management | | |
| (iii) Implementing agency | Khuvsgul Lake National Park Administration of the Department of Protected Areas Management | | |
| Procurement | Shopping for goods | 7 contracts | \$290,000 |
| | Community participation | 3 contracts | \$70,000 |
| Consulting services | Individual consultant selection | 490 person-months | \$862,016 |
| | Consultants' qualifications selection | 2 contracts | \$202,000 |
| | Least-cost selection | 1 contract | \$40,000 |
| Advance contracting | The government requested advance contracting for consulting services. The details and justification will be set out in a written request to ADB. | | |
| Disbursement | The grant proceeds will be disbursed in accordance with the <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) of the Asian Development Bank (ADB) and detailed arrangements agreed upon between the government and ADB. | | |

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

28. The project technical design was prepared by the government, project consultants, and ADB project team, based on site visits, stakeholder consultations, and desktop review. The

³⁰ The project is included in ADB's 2015 grant pipeline as firm.

project consulting services will provide the necessary technical support to ensure that best practices are integrated into the detailed designs and implementation. Climate risk to the project was initially assessed as “medium” but was downgraded to “low” with clarification of the limited scale of project works.

B. Economic and Financial

29. The proposed community revolving funds will have a substantial financial impact on community livelihoods through multiplier effects. The economic viability of the project and six community business models was assessed based on the economic cost of capital of 12% through testing of “with” and “without” project scenarios. The analysis confirmed that the models are economically viable, with economic internal rates of return of 16.3% for the project and 13.9% to 18.0% for the models. The other substantial economic benefits of the project comprise the long-term protection of ecosystem services at the KLNP due to improved environmental management, especially pollution and pasture management and the protection of lake water quality for local and downstream residents. These services were not quantified, but will support the natural resources upon which livelihoods are based, as well as economic opportunities from tourism and income diversification from traditional herding activities. Given the high poverty incidence in the project area, the project is expected to have substantial poverty impact.

C. Governance

30. Financial management and procurement risk assessments were conducted for the executing and implementing agencies. The premitigation financial risks for the project are “medium” and the procurement management risks “high.” The executing agency lacks in-house qualified financial and procurement personnel but is supported by the MEGDT’s Economic, Financial and Planning Division, which provides financial and auditing oversight and is experienced in the implementation of donor-funded projects. A financial management action plan has been prepared and includes the following risk mitigation measures: (i) a qualified accountant and a procurement specialist will be recruited under the PMU; (ii) accountant software acceptable to ADB will be used, supported by hard copy records; and (iii) the Economic, Financial and Planning Division will provide financial and auditing support to the executing and implementing agencies. The Ministry of Finance and the MEGDT will establish a procurement committee for the project to review and approve the work of the PMU procurement specialist, and ADB will provide training and intermittent mentorship on procurement and consultant recruitment.

31. ADB’s Anticorruption Policy (1998, as amended to date) and Public Communications Policy 2011 were explained to and discussed with the executing and implementing agencies, which are aware of ADB’s disclosure requirements for project reports and auditing. The specific policy requirements and supplementary measures are described in the PAM (footnote 29).

D. Poverty and Social

32. The project is designed for livelihood improvement and income diversification and is classified effective gender mainstreaming under ADB’s project gender classification system. Outputs 1 and 2 will establish or strengthen at least 110 household enterprises in tourism and/or sustainable use of natural resources in up to five *soums* of the KLNP, which will benefit at least 330 households (over 900 residents). Output 3 will generate at least 45 new jobs through the establishment of the community waste management teams. Around 1,500 residents (10% of the population of the five *soums*) will receive capacity development and specialist support in income

generation, ecotourism development, rural financing, livestock management, agricultural processing, and/or waste management. A gender action plan was prepared and includes minimum targets of 30%–40% involvement of women in the community-based enterprises and training. Many guest houses and other household enterprises (e.g., handicrafts) in the project area are led by women and these will be further promoted through the gender action plan. Project activities are designed to be participatory and inclusive, and will support the involvement of poor households, especially in Khankh settlement, which has high poverty rates.

E. Safeguards

33. **Environment (category C).** An environmental assessment and review framework (EARF)³¹ has been prepared and complies with ADB's Safeguard Policy Statement (2009).³² The EARF includes an environmental management plan (EMP) and describes the environmental safeguard screening, management and reporting procedures to be applied to all activities supported by the project.³³ The implementing agency, supported by the PIU, will be responsible for EMP implementation. The screening procedures will exclude any category A or B activities. No significant adverse environmental impacts are expected. The project contributes environmental benefits by supporting improved tourism and waste management, lake protection, and improved livestock and pasture management practices. All activities will be compatible with the KLNP Management Plan and Mongolia's Law on Special Protected Areas and Law on Buffer Zones.

34. **Involuntary resettlement (category C) and indigenous peoples (category C).** The project does not involve involuntary resettlement or land acquisition. Khuvsgul *aimag* supports Mongolia's only population of the Dukha ("reindeer people"), a vulnerable ethnic group. Their settlements are located over 50 kilometers west of the KLNP. A few families occasionally visit Khuvsgul Lake to sell locally made or imported handicrafts (souvenirs) to tourists. They camp on access roads and do not stay long, partly because of the grazing feed requirements of their reindeer, which cannot be met in the lake area. The Dukha have no seasonal settlements (permanent or regular) or traditional migration routes in the KLNP, and do not practice livestock herding. The project will not result in impacts to the Dukha. Nonetheless, the design of ecotourism activities will include culturally sensitive approaches.

35. **Grievance redress mechanism.** The grievance redress mechanism (GRM) comprises steps with time-based actions to ensure that any public concerns are quickly identified and addressed. The PIU and implementing agency will implement the GRM. The GRM is described in the PAM and EARF.

F. Risks and Mitigating Measures

36. The project has potential governance, financial, and procurement risks. The project provides adequate measures to mitigate these risks, and the integrated benefits and impacts are expected to outweigh the costs. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.³⁴

³¹ Environmental Assessment and Review Framework (accessible from the list of linked documents in Appendix 2).

³² Disclosed on the ADB website in accordance with the disclosure requirements of ADB's Safeguard Policy Statement. ADB's Safeguard Policy Statement is available in English and Mongolian language at: <http://www.adb.org/documents/safeguard-policy-statement>; and <http://www.adb.org/mn/documents/safeguard-policy-statement>

³³ To serve as a template for contractors to prepare site-specific EMPs as needed.

³⁴ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

| Risks | Mitigating Measures |
|--|--|
| Limited support from commercial operators for tourism codes of practice | Participatory design of the project, including the pilot comanagement group, comprehensive stakeholder consultations, and subcomponent on park internal zoning, will promote inclusive decision making. |
| Personnel of the executing and implementing agencies have limited experience in financial management and procurement | The project team will include an accountant and a procurement specialist, a procurement review team will be established by the Ministry of Finance and executing agency to support the project, and Asian Development Bank training in procurement and consultant recruitment will be provided to the executing and implementing agencies. |

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

37. The Government of Mongolia and the MEGDT have assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and grant documents.

38. The government and the MEGDT have agreed with ADB on certain covenants for the project, which are set forth in the draft grant agreement. These include the condition that no withdrawals shall be made from the grant account until the executing agency has certified to ADB that the PMU has engaged a qualified accountant meeting the requirements set out in the PAM.

V. RECOMMENDATION

39. I am satisfied that the proposed grant would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the administration by ADB of the grant not exceeding the equivalent of \$3,000,000 to Mongolia for the Integrated Livelihoods Improvement and Sustainable Tourism in Khuvsgul Lake National Park Project, to be provided by the Japan Fund for Poverty Reduction.

Takehiko Nakao
President

13 November 2015

DESIGN AND MONITORING FRAMEWORK

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|--|
| <p>Impacts the Project is Aligned with</p> <p>Per capita income in five <i>soums</i> of Khuvsgul <i>aimag</i> increased (Khuvsgul <i>Aimag</i> Socio-Economic Development Action Plan)^a</p> <p>Management of natural resources in the KLNP improved (KLNP Management Plan)^b</p> |
|--|

| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting Mechanisms | Risks |
|---|--|--|---|
| <p>Outcome</p> <p>Livelihoods and sustainable tourism in five <i>soums</i> of the KLNP improved and integrated</p> | <p>By 2020:</p> <p>a. At least 330 households in up to five <i>soums</i> in the KLNP and buffer zone derive at least part of their income from over 100 project-supported initiatives in community-based tourism and the sustainable use of natural resources (2015 baseline: 0)</p> <p>b. The five community revolving funds established by the project continue to operate and have a capital base equivalent to at least 105% of the total amount allocated per fund (2015 baseline: 0 community revolving funds)</p> <p>c. At least three time-based and/or quantitative targets to integrate livelihoods, tourism, and waste management are incorporated in the KLNP Management Plan (2015 baseline: 0 targets)</p> | <p>a–c. KLNP annual report; project reports</p> <p>c. KLNP Management Plan</p> | <p>Tourism declines due to slowing economy</p> <p>Severe winters impact tourism and livelihoods</p> |
| <p>Outputs</p> <p>1. Community-based tourism in Khatgal and Khankh settlements promoted</p> | <p>By 2019:</p> <p>1a. Pilot tourism codes of practice are signed by community representatives, KLNP Administration and at least 50% of guesthouse owners (~40) (2015 baseline: 0 codes of practice)</p> <p>1b. About 400 residents trained in community-based tourism goods and services, of which at least 30% are women (2015 baseline: 0 training)</p> <p>1c. About 40 community-based tourism initiatives established, which benefit at least 120 households (including at least 40 of the poorest and most vulnerable households); at least 40% of these are led by women (2015 baseline: 0)</p> | <p>a–c. KLNP annual report; project reports</p> <p>b. Workshop and/or training attendance forms</p> <p>c. Approved loan applications</p> | <p>Limited support from commercial operators for tourism codes of practice</p> <p>KLNP rangers not sufficiently empowered to enforce lake-protection measures</p> |
| <p>2. Capacity for sustainable livestock and pasture management in the KLNP and buffer zone improved</p> | <p>By 2019:</p> <p>2a. About 1,125 adult residents in KLNP and buffer zone (i.e., about 50% of adult herders in 2014) trained in sustainable livestock and pasture management and/or nontourism livelihoods, of which at least 40% are women (2015 baseline: 0 training)^c</p> <p>2b. About 400 households in up to five <i>soums</i> in the KLNP and buffer zone have adopted</p> | <p>a–c. KLNP annual report, project reports, and <i>soum</i> government annual reports</p> <p>b. Training attendance forms</p> | <p>Slower uptake of loans or rates of loan approval than anticipated</p> |

| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting Mechanisms | Risks |
|---|--|--|---|
| | <p>sustainable herding management practices (2015 baseline: 0)</p> <p>2c. About 70 livelihood activities initiated (e.g., household wood products in buffer zone, community dairy processing), which benefit at least 210 households; at least 40% are led by women (2015 baseline: 0)</p> | c. Approved loan applications | |
| 3. Waste management around Khuvsgul Lake strengthened | <p>By 2019:</p> <p>3a. Water quality monitoring program conducted since 2016 at the designed sampling locations, timing, and frequency (2015 baseline: 0 programs)</p> <p>3b. About three community-based teams (of about 45 members) established and trained to operate and maintain pilot waste management systems; at least 30% of members are women (2015 baseline: 0 groups)</p> <p>3c. About 50 pilot waste management systems designed and installed (2015 baseline: 0 systems)^d</p> <p>3d. Final review of KLNP zoning with recommendations submitted to the Ministry of Environment, Green Development and Tourism and park stakeholders (2015 baseline: 1 KLNP management plan with preliminary zoning)</p> | a–d. KLNP annual report; project reports | Limited consensus between stakeholders on internal zoning of KLNP |

Key Activities with Milestones

- 1. Community-based tourism in Khatgal and Khankh settlements promoted**
 - 1.1 Establish pilot tourism comanagement group (at least 30% of members are female) (Q2 2016) [GCD, GE].
 - 1.2 Develop stakeholder vision, objectives, and codes of practice for tourism (Q2–Q4 2016) [GCD, GE].
 - 1.3 Identify training and resource needs for community-based tourism (Q2–Q4 2016) [GCD, GE].
 - 1.4 Establish five community revolving funds (Q2–Q4 2016) [GCD, GE].
 - 1.5 Implement training for community management of funds (Q2–Q4 2016) [GCD, GE].
 - 1.6 Develop and implement community tourism activities and pilot group comanagement tourism initiatives, tailored to gender (Q4 2016–Q4 2019) [GCD, GE].^e
- 2. Capacity for sustainable livestock and pasture management in the KLNP and buffer zone improved**
 - 2.1 Document and map existing herding and pasture management (Q2–Q4 2016).
 - 2.2 Establish herding groups (at least 30% of members are female) (Q3–Q4 2016) [GCD, GE].
 - 2.3 Identify training and resource needs for pasture management and income diversification (Q3–Q4 2016) [GCD, GE].
 - 2.4 Build capacity and provide equipment (Q3 2016–Q4 2018) [GCD, GE].
 - 2.5 Prepare and implement herder group management plans (Q4 2016–Q4 2019) [GCD, GE].
 - 2.6 Develop and implement pilot natural resource management-livelihood initiatives and diversification (Q4 2016–Q4 2019) [GCD, GE].
- 3. Waste management around Khuvsgul Lake strengthened**
 - 3.1 Design and implement water quality monitoring program (Q2 2016–Q4 2019) [GE].
 - 3.2 Establish and train community waste management teams (at least 30% of members are female) (Q3–Q4

| |
|--|
| <p>Key Activities with Milestones</p> <p>2016) [GE, GCD].</p> <p>3.3 Design and implement pilot waste management program (Q3 2016–Q4 2019) [GE].</p> <p>3.4 Review KLNP zoning and stakeholder consultations (Q3 2016–Q4 2017) [GCD, GE].</p> <p>3.5 Submit final draft zoning report with recommendations (Q4 2017) [GCD].</p> <p>3.6 Facilitate follow-up actions, e.g., revision of KLNP zoning (Q1–Q4 2019) [GCD, GE].</p> <p>3.7 Prepare scale-up strategy and investment plan (Q2 2019).</p> <p>Project management activities</p> <p>Establish steering committee, project management unit, and project implementation unit (Q1 2016). Assign <i>soum</i> government and community counterparts (Q1 2016) [GCD, GE]. Prepare four annual work plans and ensure 100% of milestones are met (Q1 2016–Q4 2019). Implement and monitor project activities, including the design and monitoring framework, gender action plan, and environmental assessment review framework (Q1 2016–Q4 2019). Prepare semiannual progress reports, including inception, midterm, and final reports (Q1 2016–Q4 2019). Prepare and disseminate project materials and knowledge products (Q1–Q3 2019).</p> <p>Inputs</p> <p>Japan Fund for Poverty Reduction: \$3,000,000 Government of Mongolia: \$180,000</p> <p>Assumptions for Partner Financing</p> <p>Not applicable.</p> |
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ADB = Asian Development Bank, GCD = governance and capacity development, GE = gender equity, KLNP = Khuvsgul Lake National Park, Q = quarter.

^a Khuvsgul Aimag Citizens Representative Council. 2008. *Khuvsgul Aimag Socio-Economic Development Action Plan*. Murun.

^b Ministry of Environment, Green Development and Tourism. 2014. *Khuvsgul Lake National Park Management Plan*. Ulaanbaatar.

^c In 2014, there were about 3,343 adults (persons aged 18–60) in the KLNP, comprising 1,697 men (51%) and 1,646 women (49%) (National Statistical Office data), with a male:female ratio of about 1:1. About 750 households in the KLNP are herding families. Assuming three adults per household, this is 2,250 adult herders. A training target of 50% is about 1,125 residents. The explanation of gender targets is in Section VIII Gender Action Plan of the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

^d The waste management systems comprise 50 environmentally friendly toilet units and litter bins; community waste management teams; and associated team training, payment systems, and operational and maintenance procedures.

^e These initiatives will be led by the comanagement group and funded directly by the project grant, subject to review and approval by ADB. Examples are public open-day events on the tourism codes of practice, education materials on litter, and a community-led pilot to maintain tour boats to avoid water pollution.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://adb.org/Documents/RRPs/?id=48216-001-2>

1. Grant Agreement
2. Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Economic and Financial Analysis
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Gender Action Plan
10. Environmental Assessment and Review Framework
11. Risk Assessment and Risk Management Plan

Supplementary Documents

12. Financial Management Assessment
13. Procurement Risk Assessment