



Mongolia: Forest Sector Development Program

Project Name	Forest Sector Development Program		
Project Number	52022-001		
Country	Mongolia		
Project Status	Proposed		
Project Type / Modality of Assistance	Loan		
Source of Funding / Amount	Loan: Forest Sector Development Program		
	Ordinary capital resources		US\$ 35.00 million
	concessional ordinary capital resources lending / Asian Development Fund		US\$ 5.00 million
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth		
Drivers of Change	Governance and capacity development Private sector development		
Sector / Subsector	Agriculture, natural resources and rural development - Forestry		
Gender Equity and Mainstreaming	Effective gender mainstreaming		
Description	<p>Project preparation will be supported through a transaction technical assistance (TA). The TA is estimated to cost \$800,000 which will be financed on a grant basis by the Japan Fund for Poverty Reduction. The project will be aligned with the following impact: forestry development for Mongolia economically and environmentally sustained (Mongolian Action Plan of State Policy on Forest, 2017).</p>		
Project Rationale and Linkage to Country/Regional Strategy	<p>Sector performance. Mongolia has about 18.5 million hectares of forest land which accounts for approximately 11.8% of the country's land area. There are two types of forest, the northern boreal forest accounting for about 85% of the national forest estate across fourteen aimags with 145 soums and about 154,000 households. The southern saxual forests are in the southern Gobi Desert and desert steppe regions. They consist of scattered trees and are limited in growth and biomass yet are important for stabilizing arid zone land and reducing desertification. All forest resources in Mongolia are state property. The Ministry for Environment and Tourism (MET) provides oversight for forest development and conservation, while aimag and soum administrations are responsible for forest management at the local level. Private forest enterprises (PFE) and community forest user groups (FUG) by law may have some contract forest management and use rights. Currently, only approximately 2.9 million hectares of boreal forest, less than 30% of the total area, is managed by about 100 PFEs and 900 FUGs.</p> <p>The forest sector is conventionally defined as commercial activities relating to the extraction, production, processing, sale, and consumption of wood products and sometimes non-timber forest products. In 2017, revenue generated from the forestry sector was around \$78 million, of which approximately 26% is captured by the government, and the rest is net profit for the private sector. This limited economic contribution can be attributed to the dominance of livestock and mining sectors, the lack of statistics on forestry, as well as the inclusion of only formal commercial activities and the exclusion of the informal activities where the value added by the forest sector takes place outside formal markets and is not reported. As a result, official statistics underestimate massively the actual value of the forest sector to the national and local economy. The net value-added from boreal forests may be in the range of \$310 million a year, from timber and fuelwood, non-timber forest products and hunting, pasture, tourism, carbon sequestration, disaster mitigation, water regulation, and public revenues of which only around 8% of this is accrued as public revenue while the remainder is received from key users of forest goods and services. Recent policy changes have indicated an interest to build a stronger forest industry and increase forest utilization, however this is currently constrained by lack of investment, unclear development pathway and low quality of forest resources and management.</p> <p>Core development problems. The institutional issues involve several interrelated areas such as policy, institutional structures, legislation, decentralization, research and extension, human resource development, and inter-sectoral coordination. Organizational structures that define the institutions and/or agencies required for translating policy directions into action on the one hand, and the authority for enforcing legislation on the other are constrained due to policy conflicts and gaps, limited qualified staff with technical capacity, institutional fragmentation and lack of clear mandates, and poor coordination. As a core function in sector management, this negatively influences on the operational quality and the sector development potential.</p> <p>The depleted forest resource base is due to limited management which increases the risk from forest fire, deforestation, and damage from insect pests. The constraints which inhibit proper management include: (i) shortage of financial sources to invest in forests for government, PFEs, cooperatives and FUG activities; (ii) limited technical knowledge and skills; (iii) unclear policy and regulatory framework for benefit sharing and livelihood opportunities; (iv) insufficient technical skills and capacities at the local level for forest management planning and forest mapping; (v) limited support from local governments to FUGs and PFEs in the implementation of forest management plans; (vi) weak cooperation between FUGs and local government organizations in forestry activities; and (vii) natural resources conflicts between pasture lands in forest areas for management and responsibilities. As a result, there is limited effective engagement across all levels for forest planning, management, application of good silviculture practices, law enforcement, and opportunities for improving livelihoods.</p> <p>Presently, the productivity, modernization, and commercialization of the Mongolian forest industry is limited, with the equipment and technology used being inefficient and outdated or obsolete due to lack of operation and maintenance and without investments during the past 10-15 years. The limited interest has been driven by industry insecurity due to unstable supply of raw materials due to unstable harvest quotas and unclear forest development strategy which has caused frequent interruptions in production. Mongolian forest products have limited market opportunities due to low quality products caused from bad equipment, lacking skilled tradespersons, and without having certified products are excluded from certain high-value markets. Furthermore, investment in the sector has been constrained due to two key external factors namely, (i) cheap and high-quality imports of timber and other wood based raw materials from Russia; and (ii) cheap imports of processed wood products.</p> <p>Opportunities. Sustainable forest management (SFM) is important to address several of Mongolia's development challenges, promote green development and deliver the Sustainable Development Goals as it aims to maintain the economic, social, and environmental value of all types of forests for the benefit of the present and future generations. At the social level, sustainable forest management contributes to livelihoods, income generation, and employment. At the environmental level, it contributes to important services such as carbon sequestration and water, and soil and biodiversity conservation. SFM requires a comprehensive approach covering inter-alia the following aspects: (i) forest land use and management; (ii) forest protection and land rehabilitation; (iii) forest resource and product utilization; (iv) socio-economic contributions from forestry; (v) adequate institutional arrangements including institutional restructuring; changes in laws, rules, and regulations; planning, monitoring, and evaluation; investment and financial matters; (vi) human resource development focusing on forestry; and (vii) forestry research. Against this context, the Mongolian forest sector development problem requires a comprehensive policy and fiscal response in the form of a properly sequenced institutional reform, as well as investment for improved forest management and protection and industry development actions.</p>		

Impact	Forestry development for Mongolia economically and environmentally sustained (Mongolian Action Plan of State Policy on Forest, 2017)
Outcome	Sustainability and productivity of forest industry in Mongolia increased
Outputs	Institutional, governance, management, and financial management enhanced Inclusive sustainable forest management implemented and services provided Forest industry business, value chain, and infrastructure improved
Geographical Location	Nation-wide

Safeguard Categories	
Environment	B
Involuntary Resettlement	C
Indigenous Peoples	B

Summary of Environmental and Social Aspects	
Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	
Stakeholder Communication, Participation, and Consultation	
During Project Design	
During Project Implementation	

Responsible ADB Officer	Suzanne Robertson
Responsible ADB Department	East Asia Department
Responsible ADB Division	Environment, Natural Resources & Agriculture Division, EARD
Executing Agencies	Ministry of Environment and Tourism Government Building II, United Nation's Street 5/2, Chingeltei District, Ulaanbaatar 15160, Mongolia

Timetable	
Concept Clearance	12 Dec 2019
Fact Finding	14 Sep 2020 to 23 Sep 2020
MRM	27 Nov 2020
Approval	-
Last Review Mission	-
Last PDS Update	12 Dec 2019

Project Page	https://www.adb.org/projects/52022-001/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=52022-001
Date Generated	14 December 2019

ADB provides the information contained in this project data sheet (PDS) solely as a resource for its users without any form of assurance. Whilst ADB tries to provide high quality content, the information are provided "as is" without warranty of any kind, either express or implied, including without limitation warranties of merchantability, fitness for a particular purpose, and non-infringement. ADB specifically does not make any warranties or representations as to the accuracy or completeness of any such information.