

# Entry points and strategic options for mainstreaming financing for sustainable forest management into sectoral budgets

---

UN-REDD PROGRAMME

---

November 2013



# Table of Contents

STEP 1: Definition of the scope of the analysis.....	1
<i>Background and objectives</i> .....	1
<i>Methodology and limitations</i> .....	1
<i>Guiding questions and steps followed</i> .....	2
<i>Rationale, focus and boundaries</i> .....	3
STEP 2a: Analysis of actors, interactions, institutions and rules .....	5
<i>Which government agencies are tasked with governing and managing forests?</i> .....	5
<i>What mechanisms exist for different sectors and agencies to work together on SFM?</i> .....	7
<i>How are forest activities funded?</i> .....	9
<i>How are operational and budgetary priorities decided for the forest sector?</i> .....	10
<i>How are forest budgets actually formulated and approved?</i> .....	12
STEP 2b: Conclusions from the consultative workshop on stakeholder incentives, influence and engagement .....	14
<i>Which are the key stakeholders in SFM?</i> .....	14
<i>What incentives do they have to mainstream financing for SFM?</i> .....	14
<i>What is their power and interest to influence financing for SFM?</i> .....	17
<i>How can key stakeholders be engaged?</i> .....	17
STEP 3: Identification of entry points and risks .....	18
<i>What are the current barriers to mainstreaming financing for SFM?</i> .....	18
<i>What are the needs and opportunities for mainstreaming financing for SFM?</i> .....	19
<i>What is the most feasible entry point and what are the possible risks?</i> .....	20
STEP 4: Assessment of potential for change and next steps .....	22
<i>Is change possible and how can it be facilitated?</i> .....	22
<i>Which actions should be prioritised?</i> .....	22
References.....	24

## List of Figures

Figure 1: summary of the study framework and guiding questions .....	3
Figure 2: MEGD organisational structure .....	5
Figure 3: operational responsibilities for SFM implementation and delivery .....	5
Figure 4: key development strategies and action plans which influence forest workplans and budgets .....	10
Figure 5: hierarchy of budget formulation and approval .....	12
Figure 6: stakeholder power/interest grid.....	16
Figure 7: stakeholder engagement grid.....	17

## List of Tables

Table 1: types and examples of joint work between sectors on forest-related activities .....	8
Table 2: main stakeholders in sustainable forest management.....	14
Table 3: stakeholders incentives to mainstream financing for SFM.....	15
Table 4: consultative workshop identification of actions for mainstreaming financing for SFM .....	23

## List of Acronyms

AFB	Aimag Forest Bureau
DCFCR	Division of Coordination of Forest Conservation and Reforestation
DCLPI	Department of Coordination of Light Industrial Policy Implementation
DCPI	Department of Coordination of Policy Implementation
DGDPP	Department of Green Development Policy and Planning
DLPC	Department of Livestock Policy Coordination
DPAA	Department of Protected Areas Administration
DRBA	Department of River Basin Administrations
DSAM	Department of State Administration and Management
FRDC	Forest Research and Development Centre
FUG	Forest user group
ICA	Institutional and context analysis
MED	Ministry of Economic Development
MEGD	Ministry of Environment and Green Development
MIA	Ministry of Industry and Agriculture
MOF	Ministry of Finance
MOJ	Ministry of Justice
PFO	Professional forestry organisation
REDD+	Reducing Emissions from Deforestation and Forest Degradation in developing countries
SFM	Sustainable forest management
SFU	Soum Forest Unit
UN-REDD	United Nations collaborative initiative on Reducing Emissions from Deforestation and Forest Degradation in developing countries

## **STEP 1:**

### **Definition of the scope of the analysis**

#### ***Background and objectives***

This report documents the findings of a study carried out under the auspices of the United Nations collaborative initiative on Reducing Emissions from Deforestation and Forest Degradation in developing countries (UN-REDD). The study was implemented through the UNDP Mongolia Country Office.

The broader **context** of the study is to provide targeted support to the Government of Mongolia's REDD+ readiness efforts, especially to the establishment of national REDD+ management arrangements.

Its **overall goal** is to assist in identifying constraints, challenges and opportunities for successfully integrating REDD+ into the way in which forests are governed, managed and financed in Mongolia.

The study **builds on an earlier analysis of forest sector financing flows and economic values** (Emerton and Bat-Ochir 2013). This identified a number of instruments and mechanisms that could be used to mobilise financing for sustainable forest management in Mongolia in the context of REDD+, which would also increase forest sector funding effectiveness and impacts.

The current study investigates the institutional and policy context, constraints and opportunities for the successful implementation of two of the proposed instruments and mechanisms: integrating forests into the spending of other sectors and incorporating sectoral values into forest management budgets.

The **immediate objective** of the study is therefore to identify entry points and strategic options for mainstreaming financing for sustainable forest management into sectoral budgets.

#### ***Methodology and limitations***

The study is loosely based on UNDP's **Institutional and Context Analysis (ICA)** approach. According to UNDP documentation, ICA refers to "analyses that focus on political and institutional factors as well as processes concerning the use of national and external resources in a given setting, and how these have an impact on the implementation of UNDP programmes and policy advice", and is "envisioned as an input to programming, in which there is a focus on how different actors in society, who face different incentives and constraints, shape the likelihood of programme success" (UNDP 2011).

More recently, UNDP has taken up the use of ICA as a tool for informing REDD+ strategies and planning. ICA is seen as a way of uncovering different actors' incentive structures and power relations, so as to understand how these factors might affect the success of REDD+ (Sundberg 2013).

Due to the specific requirements of the UN-REDD programme in Mongolia, the study however differs in certain key ways from a conventional ICA as typically practised by UNDP. One important difference is the target audience. An ICA is usually intended to "help UNDP staff understand the political and institutional context in which they operate in a manner that is suited to the needs and mandate of the organization" and "is primarily an internal exercise in the sense that is intended to inform UNDP's planning and decision-making with a view to maximize effectiveness and minimize risks" (UNDP *op. cit.*).

The current study is not targeted at an internal UNDP audience. Rather, it is intended to provide guidance to UN-REDD partners (FAO, UNDP and UNEP) and the Ministry of Environment and Green Development (MEGD) of the Government of Mongolia about possible ways forward in strengthening financing for sustainable forest management and REDD+. The manner in which the study was carried out, and the sway in which the content and findings of the report are interpreted and presented, were therefore shaped and informed by the need to be acceptable to this wider audience.

The study took place at an early stage of Mongolia's REDD+ readiness process, as the National REDD+ Readiness Roadmap was being drafted. It was conducted as a rapid assessment, over a relatively short time period. The study utilised a variety of methods to gather and validate information (the steps followed in the study are described in more detail in the following section, and summarised in Figure 1):

- First, **one-to-one meetings with key stakeholders** in UN-REDD and the Mongolian government were conducted over a period of 5 days in September 2013, and a desk review of secondary information sources was also undertaken. This served to compile the information necessary to complete steps 1 and 2a of the study (definition of the scope of the analysis, and analysis of stakeholders, interactions, institutions, policies and rules);
- Then, in October 2013, a half-day **consultative workshop** was held. This served to validate the findings of the step 2a analysis, as well as to further elaborate them through step 2b (describing stakeholder incentives, influence and engagement), so as to provide inputs into step 3 (identification of entry points and risk);
- In November 2013, the findings of the desk review, expert interviews and consultative workshop were **synthesised and analysed** in order to finalise step 3 (identification of entry points and risk) and step 4 (assessment of potential for change and next steps).

It should be mentioned that while step 2a of the study involved a wide array of actors from different agencies and sectors, a much narrower range of stakeholders inputted into steps 2b and 3 than was originally envisaged. It was intended that most of the key forest-managing, dependent impacting sectors would be involved in analysing stakeholder incentives, interests and engagement and would contribute towards the identification of entry points and potential risks.

To these ends, UNDP Mongolia invited representatives from many different government agencies and private sector organisations to attend the workshop held in October 2013, including all of those that had been consulted during the course of step 2a of the analysis. In the event, only MEGD, UNDP and FAO staff attended this workshop.

### ***Guiding questions and steps followed***

The overarching question to be addressed by the current analysis was defined by the UN-REDD programme and the Government of Mongolia as: **how can financing in support of sustainable forest management (SFM) be better mainstreamed into sectoral budgets?**

UNDP defines a four-step process to be followed in ICA (Sundberg 2013, UNDP 2011): (1) defining the scope of the analysis; (2) stakeholder and engagement analysis; (3) identifying entry points and risks; and (4) potential for change and next steps.

These steps were adapted to the particular purposes and context of the current study, and elaborated into a number of guiding questions to be answered over the course of the analysis (Figure 1).

- The first step defines the scope of the analysis (this chapter);
- An overview of the main sectors and government agencies involve in managing and using forests, mechanisms for collaboration, and budget decision-making processes is then provided, so as to assess the actors rules and motivations that influence budgetary decisions relating to SFM (step 2b);
- The key stakeholders in forest management and use are then identified, their main incentives, interests and influence over mainstreaming financing for SFM are analysed, and stakeholder engagement strategies are suggested (step 2b);
- Potential opportunities and barriers to mainstreaming financing for SFM into sectoral budgets are identified in the light of the information gathered during step 2, so as to suggest the most feasible entry points and identify possible risks (step 3); and
- Finally, concrete actions and ways forward to achieve change are proposed and prioritised (step 4).

Figure 1: summary of the study framework and guiding questions



### ***Rationale, focus and boundaries***

Although the study is being carried out as part of REDD+ Readiness activities, its deals more broadly with financing in support of sustainable forest management (SFM<sup>1</sup>). The reason for this is that mobilising financing for SFM is seen as a key enabling condition for successful REDD+ in Mongolia:

- First, implementation of the National REDD+ Readiness Roadmap will require substantial resources, including **co-financing** from the Government of Mongolia. The public budget allocated to SFM will provide an important and much-needed source of funding for planning and implementing actions in support of REDD+;
- Second, it is not certain that either the amount or the distribution coverage of REDD+ finance – if and when they come on track – will prove to be **adequate rewards or incentives** to convince land and

<sup>1</sup> The analysis takes the broad definition of SFM adopted by the United Nations Forum on Forests as a concept or approach which: “aims to maintain the economic, social and environmental value of all types of forests, for the benefit of present and future generations. SFM is characterized by seven thematic elements, including: (i) extent of forest resources; (ii) forest biological diversity; (iii) forest health and vitality; (iv) productive functions of forest resources; (v) protective functions of forest resources; (vi) socio-economic functions; and (vii) legal, policy and institutional framework.” (ECOSOC General Assembly Resolution 62/98, 2008).

resource users and managers to modify or shift away from the activities that result in deforestation and forest degradation. The benefits, income and investment flows associated with SFM will likely be a necessary supplement to REDD+ incentives for sustainable land and resource management; and

- Third, increasing the level of funding that is flowing to SFM activities may in itself be a necessary prerequisite for **leveraging future REDD+** finance. It will help to demonstrate the commitment of both public and private sector actors to undertaking the activities that are required to reduce deforestation and forest degradation and to enhance productivity and ecological functions of forests.

The study is concerned with mainstreaming SFM in the **public budget**. It investigates the constraints and opportunities associated with increasing the funding priority and financing flows accorded to SFM by the Government of Mongolia. The study does not seek to identify entry points for mobilising private investments, donor funding and non-governmental contributions, or for setting in place market-based instruments. In line with the guidance provided by the UN-REDD programme in order to prioritise a focus area due to resource limitation at this time on the internal financing aspect as an initial step, the study is primarily located at the national or central government level, although makes some consideration of local government spending.

The study is concerned with mainstreaming SFM into sectoral budgets. Following the findings of the report on forest sector financing flows and economic values, it understands sectoral mainstreaming to involve two distinct elements (see Emerton and Bat-Ochir 2013 *op. cit.*):

- The first is **mainstreaming SFM into the spending of other sectors**. The earlier study on forest sector financing flows and economic values found that, while forest ecosystem services contribute extremely high economic values to other sectors, these other sectors make little or no contribution towards the costs of sustainable forest management. MEGD is, in effect, subsidising the output and production of other sectors of the economy. In the worst case, the policy and budgetary instruments used in other sectors actually present perverse incentives to SFM because they serve to encourage deforestation and forest degradation.

*Mainstreaming thus implies efforts to stimulate spending on SFM as part of the budgets of the sectors that depend on forest ecosystem services, in support of these other sectors' development goals and targets. The aim is to increase funding for SFM as a means of adding value to, and saving costs for, the broader economy. It has particular relevance to forest-dependent sectors such as water, tourism, energy, industry and agriculture.*

- The second is **mainstreaming sectoral values into forest management budgets**. The earlier study on forest sector financing flows and economic values found that MEGD spending on forest activities is focused on a narrow range of activities: mainly fire protection, pest control, reforestation and wood harvesting. Relatively little attention is paid to the socio-economic functions that form a part of SFM, or to supporting broader national and sectoral development goals.

*Mainstreaming thus implies efforts to better integrate the goals and policy objectives of other sectors into MEGD's forest management approaches and budgets, via SFM. This serves the important function of diversifying the purposes for which forests are managed, and thus increasing the value-added by the forest sector to the economy. It has particular relevance to cross-cutting development goals such as rural livelihood diversification, poverty reduction, food and energy production, infrastructure development, desertification control, disaster risk reduction and climate adaptation.*



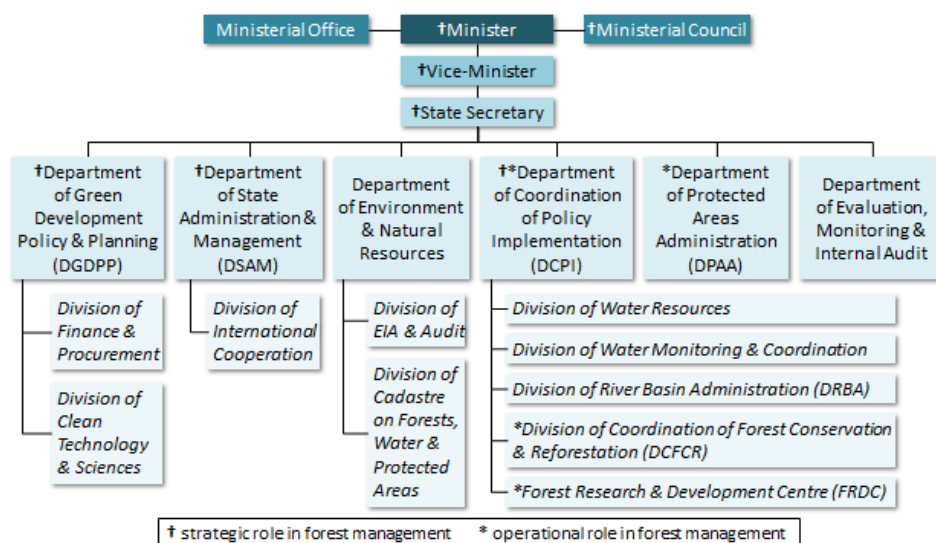
## STEP 2a: Analysis of actors, interactions, institutions and rules

### Which government agencies are tasked with governing and managing forests?

Three agencies have formal mandates which touch on forest management, development and conservation: the Ministry of Environment and Green Development (MEGD), Ministry of Industry and Agriculture (MIA) and local government (at Aimag and Soum levels as well as the Capital City administration). Each agency has a clear interest in, and influence over, the extent to which SFM principles are applied in the forest sector.

At the national level, MEGD has the primary responsibility for forest policy formulation and implementation and for overseeing forest protection, management, development, utilisation and research (Figure 2). It is also charged with setting national quotas for wood utilisation, approving Aimag-level forest plans, and issuing licences to Professional Forestry Organisations.

Figure 2: MEGD organisational structure



Within MEGD, the Departments of Green Development Policy and Planning (DGPPP), State Administration and Management (DSAM), and Coordination of Policy Implementation (DCPI) play key **strategic roles** in forest policy formulation and implementation. They also ensure the coordination of forest-related activities within the Ministry and with other sectors and government agencies. The State Secretary and Minister of MEGD, and ultimately Parliament, oversee and approve all strategic and policy-related matters.

At an **operational level**, various national and local agencies have spatial and functional responsibilities for guiding and administering different aspects of SFM implementation and delivery on the ground (Figure 3).

Figure 3: operational responsibilities for SFM implementation and delivery



At the national level:

- The Division of Coordination of Forest Conservation and Reforestation (DCFCR) of MEGD takes the operational lead in overseeing forest sector policy formulation and implementation (including REDD+);
- The Forest Research and Development Centre (FRDC) of MEGD is responsible for forest inventory, organising the implementation of reforestation, fire management and pest control activities, guiding the development of forest management plans, and advising on forest utilisation and harvesting;
- The Department of Coordination of Light Industrial Policy Implementation (DCLIPI) of MIA is responsible for coordinating and supporting the development of small and medium-sized forest industries, including those dealing with harvesting, processing and marketing;
- The Departments of Protected Areas Administration (DPAA) and River Basin Administrations (DRBA) of MEGD are charged with overseeing and coordinating protected areas and river basin management respectively, including the conservation of forests in these landscapes; and
- The Department of Livestock Policy Coordination (DLPC) of MIA is responsible for overseeing and guiding pasture management and promoting sustainable land and resource management practices among herders. This includes pasture in forests.

At the local and regional level:

- Much of the responsibility for on-the-ground implementation of SFM activities has been decentralised to the local government level. Aimag Environment & Green Development Agencies and Forest Bureaux have been established, and Forest Units operate within or across some Soums. Local government (under the overall authority of Aimag and Soum Governors) also now have some power to set quotas and issue licenses for forest utilisation.
- Working with and through Aimag Forest Bureaux (AFB) and Soum Forest Units (SFU) as well as with other relevant line agencies, Protected Area administrations and River Basin Administrations coordinate and support certain aspects of forest conservation and sustainable land management activities in Protected area buffer zones and watershed areas respectively.

The DCFCR, FRDC and DCLIPI, in particular, work with and through local government to coordinate, monitor, regulate, advise and support:

- Licensed Professional Forestry Organisations (PFOs) which carry out forest harvesting, cleaning and reforestation activities. This is undertaken under tenders put out by MEGD and local government, according to pre-determined cost norms. There are currently around 400 businesses and 200 individual/household entrepreneurs dealing with forest harvesting and processing in Mongolia.
- Registered Forest User Groups (FUG) which lease forest land from the State, with contracts extending up to 60 years. To date the main focus of these contracts has been on forest protection, although efforts are ongoing to develop FUG harvesting, processing and marketing activities as a means of income generation. Although there are currently more than 900 FUG, not all are actually operational or engaged in on-the-ground forest management activities. The most active FUG are apparently in locations which have received external support and funding, mainly through international projects.

- Extractive industries, particularly mining, which are legally responsible for developing and implementing environmental management plans in their concession area, including conserving, restoring and rehabilitating forest lands that are affected by operations.

### ***What mechanisms exist for different sectors and agencies to work together on SFM?***

**Intersectoral collaboration and coordination** on forest matters remains limited. Different agencies for the most part operate strictly within the bounds of their specific sectoral development mandate. These mandates are fairly circumscribed in spatial and thematic terms. It is the overarching Government Action Plan (discussed further below) that is seen as the main unifying programme of work that different sectors and ministries work together to deliver. This is largely organised on a sectoral basis, and does not allow for significant horizontal linkages across sectors.

The few formal mechanisms for intersectoral coordination that do exist are mainly concerned with fostering collaboration and communication at the policy and planning, rather than implementation, level. Most ministries have units or departments that are charged with monitoring the programmes of other sectors and ensuring that there is no duplication or conflict between their work programmes (DGPP and DSAM provide this function within MEGD, and appear to have somewhat similar roles and responsibilities). The Ministry of Economic Development (MED) and Ministry of Finance (MOF) also play a significant role in coordinating national development and financial planning across sectors – although this is accomplished more through a top-down process of vertical integration than through regular horizontal exchange. It is also commonplace for an intersectoral working group to be formed when a new strategy or policy is being developed (the current updating of the National Forestry Policy, discussed below, is one example of this). National Committees have also been formed to coordinate work between sectors on issues of national or cross-cutting concern. The National Forestry Committee was however disbanded at the end of 2012, and has not been replaced.

A recent development, which establishes a new mechanism for the mainstreaming of environmental (including, by implication, forest-related) issues and topics across sectors is the enactment in 2012 of the Law on Government Structure. This divides ministries into two categories: general and specific orientation (sometimes also referred to as “policy” and “line” ministries). While the former Ministry of Nature, Environment and Tourism was a line ministry, at its establishment in 2012 MEGD was given the status of a general orientation Ministry, together with the Ministries of Finance, Foreign Affairs and Justice<sup>2</sup>.

This means that, in principle, MEGD now has considerable authority to shape and influence national development policy and planning, including the strategies and actions of other sectors, based on the green development agenda. DGDPP and SAM are, in particular, charged with facilitating Intersectoral cooperation and communication. The national strategy for green development is however currently under development, and MEGD is still in the process of building the capacity to deliver on its more cross-cutting role. The emerging national REDD+ programme is also being posed as being cross-sectoral in scope, and will require action and participation from a number of different ministries and agencies in addition to MEGD.

At the operational level there are however currently only limited opportunities, and few systematic mechanisms, for different sectors and agencies to work together on forest-related issues. These range from

---

<sup>2</sup> Specific orientation ministries include: Construction and Urban Development; Culture, Sports and Tourism; Defence; Economic Development; Education and Science; Energy; Health; Industry and Agriculture; Labour; Mining; Population Development and Social Welfare; and Roads and Transportation.

informal collaboration at the departmental or divisional level (which is often initiated by individual staff members) to more formal joint activities (for which a memorandum of understanding is signed, and which are reflected in each ministry’s annual workplan and budget).

The small number of examples of inter-ministerial cooperation in forest-related activities that do exist take place on a fairly *ad hoc* basis. They mainly involve specific and time-bound tasks and activities, and are not carried out as a part of a broader cross-cutting programmes or towards stated common development goals. Most of the current examples seem to have been motivated by shared interests and complementary mandates, strategic or budgetary gaps on the part of one or both parties, or have been prompted by a national project or policy process (Table 1). It should also be noted that these also primarily relate to carrying out “traditional” forestry activities, and are not so much concerned with securing broader forest ecosystem services or socio-economic development goals.

Table 1: types and examples of joint work between sectors on forest-related activities

Type of joint work	Participants	Scope of activities
Ongoing or occasional collaboration based on shared interests, complementary mandates and capacities, or overlapping spatial jurisdictions	FRDC (MEGD) & DCLIPI (MIA)	<u>Support to PFOs in forest use and production.</u> Longstanding ongoing collaboration. FRDC provides capacity building, training and human resources for PFOs. DCLIPI provides production equipment and loans. Each works to their own budget and mandate.
	MEGD & National Emergency Agency	<u>Fire prevention and management.</u> Joint responses to specific fire emergencies in forests and surrounding areas.
Cooperation based on budgetary and strategic gaps	FRDC & Border Defence Agency, Ministry of Justice (MOJ)	<u>Establishment of fire protection lines in forested border areas.</u> The need for the joint work arose from MEGD budget limitations in relation to achieving transboundary fire protection targets in border areas. MEGD approached MOJ, which agreed to fund vehicles, equipment and maintenance. MEGD provides technical and implementation resources.
Work under an externally-funded project	MEGD & MIA	<u>Desertification control.</u> This work is facilitated by a Swiss-funded project on the prevention of land degradation.
Provision of inputs into national-level policy process	MEGD & DCLIPI (MIA)	<u>Updating of new forestry policy.</u> MIA is part of the working group that has been formed to input into the new policy and to advise on its goals.

**Within MEGD**, inter-departmental coordination and integration is overseen by DSAM and DGDPP. However, mirroring the clear separation of mandates that exists at the national level, the responsibilities and areas of work of different MEGD departments remain quite distinct. The main integration takes place at the policy level. The National Forest Policy and Programme provides the overall framework under which different units work on forest issues – although, in principle, working groups may be formed to deal with specific topics and issues that cross-cut different departments. Collaboration in planning and implementation takes place more within, than between departments. Thus, there is a close relationship between the activities of FRDC and DCFCR, although a clear separation between their workplans and budgets.

The mechanisms and procedures for coordination and cooperation **between MEGD and local government** on forestry matters are well-defined. Under current arrangements, MEGD continues to be accorded a relatively high level of managerial and technical oversight to the forest management activities that are carried out at the local level. Aimag level forest management plans and workplans must be approved by MEGD, and MEGD continues to play a role in issuing licences and contracts for forest harvesting, protection and reforestation.

A contract or memorandum of understanding is signed each year between MEGD and Aimag Governors for the implementation of forest protection, reforestation and harvesting activities. This is based on centrally-set targets and workplans, but is also informed to some extent by proposals made by local government.

Local government is responsible for ensuring that tasks and outputs are delivered as agreed, but is supported in this by MEGD. At an operational level, it is primarily FRDC and DCFCR (on behalf of MEGD) that work with AFB and SFU (on behalf of local government). DCFCR and FRDC provide technical and some material support, as well as developing and monitoring the various national-level procedures, guidelines and regulations that are applied at the local level.

### ***How are forest activities funded?***

A detailed analysis of public funding flows to forest activities has already been provided in the earlier report on forest sector financing flows and economic values. This found that forest activities are funded almost exclusively through the State Budget (and, at Aimag, Soum and Capital levels, the Local Budget<sup>3</sup>). International donor assistance plays a relatively minor role, and as yet little funding or investment originates from the private sector.

At the national level, almost all of the budget spent on forest activities comes through the MEGD budget to FRDC and DCFCR and to a lesser extent DPAA and DRBA, including resources channelled through the Nature (sometimes referred to as Environmental) Protection Fund. Other sectors make negligible expenditures on forest activities, and none have a dedicated budget line for such work – such funding that is forthcoming is mainly for one-off activities carried out with MEGD (as described above). The only exception to this is the budget that comes through MIA to DCLPI for support to the development of wood-based industry and enterprises. At the local level, funding for environmental and forest-related activities comes in principle from a combination of general allocations and retained natural resource use fees.

It is important to note that the Budget Law and Ministry of Finance procedures do not permit public funds to be transferred horizontally, only vertically. For the case of forest activities that are carried out jointly with other sectors or ministries, each partner therefore utilises funds from their own budget to cover their own costs and contributions. Expenditures must be accommodated within the scope of the budget that has been approved for the implementation of the annual workplan of that division, department or ministry. No separate funds are made available from the State budget for cross-sectoral or inter-ministerial programmes of work, and budget cannot be explicitly requested for joint work with other ministries. Similarly, Government Special Funds<sup>4</sup> primarily serve the purpose of earmarking revenues for one particular sector or ministry: they do not normally act as a mechanism for sharing or distributing funds between sectors.

Forest activities carried out at the local level are funded from a combination of MEGD and local government budgets. As is the case with activities that involve collaboration between sectors, there is no joint programme of work or shared budget – although some vertical transfer of funds is possible. MEGD budget is used to cover the costs of national-level staff and material inputs, and can also be used to resource the forestry activities which are tendered to PFO or carried out by FUG. Local government will also utilise its own funds to cover the costs of agreed activities.

---

<sup>3</sup> As of 2013, the public budget differentiates between State and Local budgets. The new Budget Law of 2011 also adjusts the ways in which public revenues are collected, allocated and retained, allowing for a considerable decentralisation of financial powers and accountability to local government. Formerly, the Ministry of Nature, Environment and Tourism was responsible for the distribution of environmental budgets, including retained natural resource fees, to the local level.

<sup>4</sup> Government Special Funds are funds which have been established with the purpose of supporting the implementation of particular functions and objectives of the government. They are usually resourced from a combination of earmarked revenues, other public budget sources, donations and overseas development assistance. Examples include the Nature/Environmental Protection Fund, the Renewable Energy Fund and the Clean Air Fund.

## ***How are operational and budgetary priorities decided for the forest sector?***

In principle, the allocation of the public budget is based on stated national development goals. Each division, department and ministry plans and prioritises its activities and expenditures based on a cascading hierarchy of strategies and plans which set out the policy directions and development goals that it is committed to deliver. The Action Plan of the Government for 2012-16 is located at the top of this hierarchy. It sets out the platform and agenda to be implemented over the government's four-year term of office, and each year is rolled out through an Annual Government Action Plan. The Government Action Plan is repeatedly stated to exert the greatest influence over how budget is allocated between and within sectors, including the extent to which forest spending is prioritised.

A large number of other long, medium and short-term national and sectoral development policies, strategies and plans however also have a bearing on ministries' workplans and budgets. The Ministry of Economic Development, which is responsible for ensuring national-level planning coordination, estimates that there are currently more than 450 such documents in existence. These are not always consistent with each other – or with the Government Action Plan – either in content and goals, or in terms of timing and specified delivery periods.

Development, budgetary and operational priorities as regards the forest sector are thus reflected in, and guided by, a variety of strategic, policy and planning documents (Figure 4). All of these documents have some influence over the priority which is accorded to activities and spending related to forests generally, and SFM specifically.

In addition to the Government Action Plan, MEGD prioritisation is guided by the Comprehensive National Development Strategy (currently covering the period 2007-21), which sets out the country's long-term development goals. This is prepared by MED, and updated on a rolling basis via the publication of 5-year investment plans. For the environment sector as a whole, a concept for green development and a mid-term green development programme to 2020 are currently under preparation. Specifically in relation to the forest sector, the current National Forest Policy and Programme covers the period 2001-15. It is currently being updated for the first time since 2011.

All of these policy, strategic and planning documents make various references to goals and strategies for the forest sector. For example, the Government Action Plan contains direct mention of fire and pest control, rational use, reforestation and biodiversity conservation. The National Security Concept stresses expansion of the national forest estate, and an enhanced role for non-government actors in forest management. The Comprehensive National Development Strategy includes a strategic objective dedicated to creating "conditions for sustainable use and protection of forest reserves, reforestation and maintaining ecological balance" which focuses on forest mapping, regeneration, reforestation, protection and climate mitigation.

Figure 4: key development strategies and action plans which influence forest workplans and budgets



It is largely up to MEGD how to interpret and operationalize these broad statements and goals, and how to prioritise the concrete activities, approaches and budgets that are required to deliver them. Within MEGD, DGDPP, DSAM and SCPI are seen as playing particularly prominent roles in determining operational and budgetary priorities. These units all have direct access to the State Secretary, and can advise the decisions of the Ministerial Council. In general, forest activities are perceived to have been accorded a fairly high priority within MEGD's overall programme of work and budget. The earlier report on forest sector financing flows and economic values found that direct funding to forest activities accounted for between 10-20% of MEGD's spending over the last 5 years. However, in the light of the recently-expanded mandate and changed role of the MEGD as a general-orientation ministry, the dismantling of the Forest Agency and creation of DCFCR and FRDC as divisions within DCPI, and the progressively greater level of decentralisation of management and fiscal responsibilities to Aimag and Soum levels, it is not clear whether this prioritisation may change in the future.

In line with the Government Action Plan, National Security Concept and Comprehensive National Development Strategy and draft Green Development Concept and Programme, the main goal of the 2001 National Forest Policy concerns forest protection, rational utilisation and rehabilitation. These topics currently dominate MEGD's programme of work on forests. It is consistently stated that forest protection (pest control and fire management) and reforestation are considered to be the highest priority activities for the forest sector, followed by forest harvesting. This is confirmed by the earlier report on forest sector financing flows and economic values, which found that forest budgets are focused on this fairly narrow range of "traditional" forest production and protection activities: pest control activities currently account for a third of operational spending on forestry activities, reforestation a quarter, and nurseries and seedling preparation a sixth.

The National Forest Policy and Programme is currently in the process of being updated. There are indications that something of a shift in management approaches and focus may be taking place, towards securing the broader socio-economic development objectives which form a part of the stated goals for the forest sector. It is stated that, although reforestation and forest regeneration will continue to be a high priority, support to the participation of local communities and businesses in forest management and utilisation may be accorded a much higher importance in the new policy. This is undoubtedly prompted at least in part by the ongoing decentralisation process, and the growing role of local government, AFB and SFU in shaping and delivering on land and resource management goals. It is not clear how much this possible shift may be influenced by REDD+.

The Green Development Concept and Mid-Term Green Development Programme to 2020 are also currently under development. While remaining broadly consistent with earlier strategic, policy and planning documents as far as the forest sector is concerned, the degree to which forest management is aligned and integrated with other sectoral objectives is increased considerably. The scope and intended goals of forest management are also expanded to be much in line with SFM approaches. The Green Development and Mid-Term Programme thus encompass "traditional" forest sector activities such as pest control and fire management, afforestation, control of illegal logging, reduction in wood demand, forest biodiversity conservation, expansion of forest area and incorporation of forests into the national protected area network<sup>5</sup>. Emphasis is however also given to the role of forests in helping to fulfil basic socio-economic functions and development goals, particularly through enhanced private and community participation and

---

<sup>5</sup> The Mid-Term Green Development Programme envisages a 2020 target of forest area covering 11% of the national territory and incorporation of at least 60% of forests and watershed areas into the national PA network.





financed. The aggregated budget is then sanctioned by the State Secretary and Minister (in consultation with the Ministerial Council). After submission to MOF and MED<sup>7</sup> further changes may be made before the MEGD budget is put forward to Parliament for approval.

While this hierarchy of decision-making determines how MEGD budgets are formulated and approved, and the processes described in the section above exert an important influence on how forest activities and spending are prioritised, the actual amount of funds that is made available in any given year is also driven by a number of other important factors. In reality, financial planning remains somewhat delinked from real management needs: the amount of budget requested and approved is largely pre-determined by practical and administrative considerations which leave little room for flexibility or change.

The actual situation is that there is usually little change in the budget ceilings that are set each year for MEGD<sup>8</sup>. The previous year's budget is frequently adjusted only according to the inflation factor that is set by the Ministry of Finance for the upcoming period. The major proportion of core forest sector budget is spent on staff and basic running costs, and the bulk of the operational budget is allocated to pest control, reforestation and seedling production<sup>9</sup>. Staffing, protection, reforestation and harvesting activities, as well as conservation management in protected areas, are all associated with fixed cost norms which specify expenditures per person, unit of area or harvest volume. This means that, in practical terms, the amount of budget allocated to the forest sector is largely driven by the number of staff working on forest activities, the scope and quantity of targets for pest control and reforestation, and the level at which cost norms are set. Although they are currently undergoing revision, cost norms are updated only periodically, and often do not reflect the real costs and management needs of forest activities.

---

<sup>7</sup> Capital budget proposals are submitted and administered via the Ministry of Economic Development, while the Ministry of Finance deals with recurrent budgets.

<sup>8</sup> The earlier report on forest sector financing flows and economic values found that, over the last five years, the MEGD budget for forest activities has remained fairly constant in real terms, at between MNT 5-6 billion.

<sup>9</sup> The earlier report on forest sector financing flows and economic values found that, over the last five years, salaries, wages and other employment benefits accounted for between 70-80% of the Forest Agency's core budget. In 2013, pest control activities accounted for a third of operational spending on forestry activities, reforestation a quarter, and nurseries and seedling preparation 16% (Emerton and Bat-Ochir 2013).

## STEP 2b: Conclusions from the consultative workshop on stakeholder incentives, influence and engagement

### *Which are the key stakeholders in SFM?*

Participants at the workshop identified four categories of actors with an interest in and/or an influence on sustainable forest management: departments and divisions within MEGD; other sectoral agencies; local government; and private sector, local communities & civil society. Almost thirty groups or agencies were listed as key stakeholders, spread across these four categories (Table 2). Workshop participants explained that each of these actors should be defined as stakeholders because their actions, decisions and interests influence, affect or are otherwise linked to forest ecosystems in one or more of three ways: either they are responsible for managing forests; depend on forest goods and services for their raw materials, inputs, basic productivity or life support; and/or exploit, modify or convert forest lands and resources in the course of their production and consumption activities.

Table 2: main stakeholders in sustainable forest management

Ministry of Environment & Green Development	Other sectoral agencies	Local government	Private sector, local communities & civil society
Climate Change Coordination Office Department of Green Development Policy & Planning Department of Protected Areas Administration Division of Coordination of Forest Conservation & Reforestation Division of Finance & Investment Forest Research & Development Centre	Border Protection Agency Department of Tourism Ministry of Agriculture (Departments of Light Industry & Livestock Policy Coordination) Ministry of Construction & Urban Development Ministry of Defence Ministry of Economic Development (Division of Sector Development Policy & Regulation) Ministry of Education & Science Ministry of Energy Ministry of Finance Ministry of Mining Ministry of Roads & Transportation National Emergency Management Agency National Security Council	Aimag Environment & Green Development Agency Aimag Government Soum & Inter-Soum Forest Units Ulaanbaatar Department of Environment & Green Development Ulaanbaatar Department of Urban Planning	Forest User Groups Non-Governmental Organisations Professional Forestry Organisations

### *What incentives do they have to mainstream financing for SFM?*

Having identified the key stakeholders in SFM, workshop participants formed breakout groups to analyse in more detail the likely interests and incentives of these different actors as regards SFM financing.

Negative aspects (i.e. possible sources of opposition and constraints) as well as positive aspects (i.e. possible sources of support and opportunities) were listed (Table 3). This is because both incentives and disincentives have a bearing on the opportunities, entry points and risks associated with mainstreaming financing for SFM into sectoral budgets, as well as determining the ways in which it will be necessary to engage different stakeholder groups in these processes.

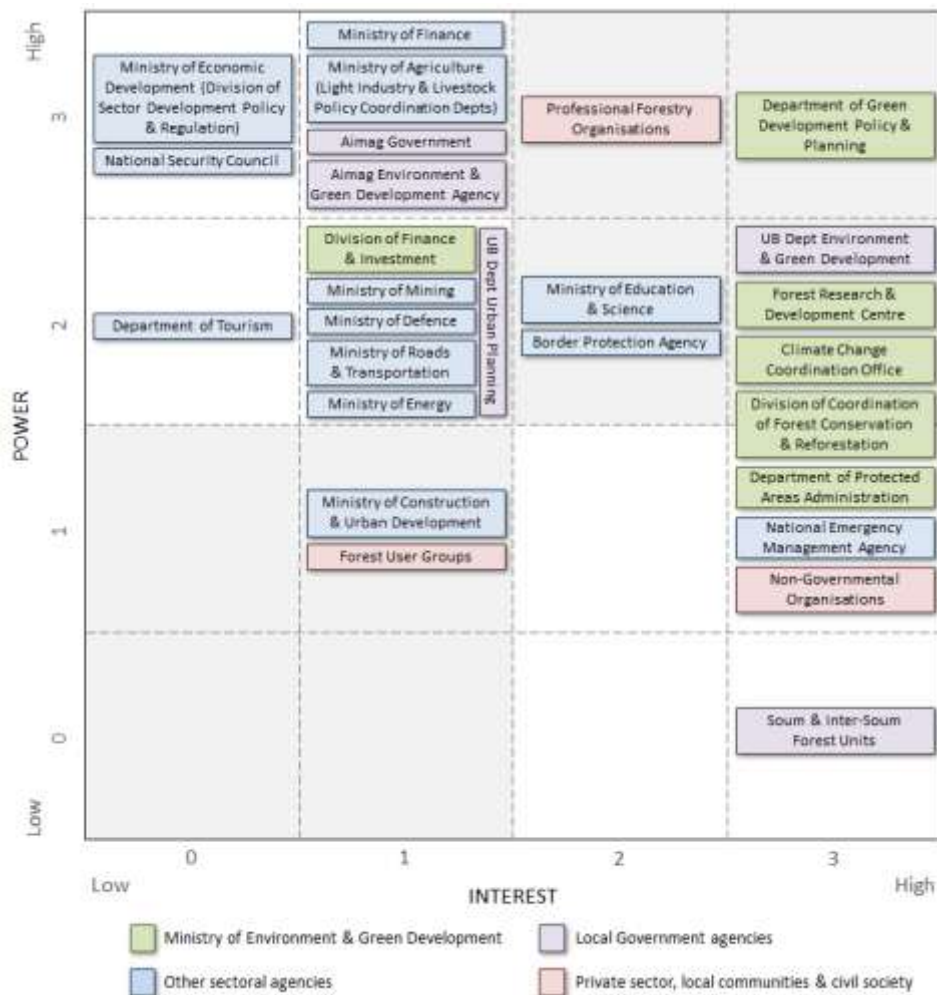
Table 3: stakeholders incentives to mainstream financing for SFM

Key stakeholder	Opportunities, incentives and possible sources of support	Constraints, disincentives and possible sources of opposition	
Climate Change Coordination Office	SFM activities and REDD+ are an important and cost-effective means of mitigating climate change.	Possible competition for funding and human resources with existing activities and work programmes	
Department of Green Development Policy & Planning	Is responsible for inter-sectoral coordination and for the implementation of sustainable development policy, SFM is a key part of this.		
Department of Protected Areas Administration	Mainstreaming SFM could help to generate additional funds for their work, and enhance biodiversity and ecosystem conservation		
Division of Coordination of Forest Conservation & Reforestation	Mainstreaming SFM could help to generate additional funds for their work, and enhance forest policy implementation.		
Division of Finance & Investment	Is responsible for effective and efficient budget formulation and spending,	Pressures to save budget and consolidate spending on fewer action areas,	
Forest Research & Development Centre	Mainstreaming SFM could help to generate additional funds for their work.	Possible competition for funding with existing activities and work programmes	
Border Protection Agency	SFM can is a way of effectively managing forests in border areas, including control of illegal cross-border logging	Possible competition for funding with existing activities and work programmes. Perception that forests not part of agency mandate or responsibility. Low awareness of value of forest services. Lack of mechanisms for budget allocation to SFM.	
Department of Tourism	SFM offers opportunities for strengthening nature-based, community-led and eco-tourism		Limited power to determine access
Ministry of Agriculture (Department of Light Industry)	SFM a way of enhancing the supply of raw materials and stimulating enterprise development		No power to define or influence timber utilisation quotas
Ministry of Agriculture (Department of Livestock Policy Coordination)	SFM a cost-effective way of improving and sustaining the supply of pasture land		Trade-offs between forest conservation and utilisation
Ministry of Construction & Urban Development	SFM a way of enhancing the supply of raw materials		
Ministry of Defence	SFM can is a way of effectively managing forests in security zones		
Ministry of Economic Development (Division of Sector Development Policy & Regulation)	SFM is a way of enhancing economic growth, value-added and tackling rural poverty reduction and livelihood strengthening.		SFM not considered “profitable” activity or high budget priority
Ministry of Education Science	SFM a source of support and “learning ground” for research and study		
Ministry of Energy	SFM can help to secure woodfuel as well as watershed protection for hydropower		
Ministry of Finance	SFM a potential source of new revenues and fiscal income		SFM not considered “profitable” activity or high budget priority
Ministry of Mining	Participation in and funding of SFM can provide reputational and image gains for mining industry, as well as compliance with environmental management and restoration requirements		Reforestation considered to be responsibility of private sector mining companies, not Ministry
Ministry of Roads & Transportation	SFM can provide forest belts for road protection/ demarcation		
National Emergency Management Agency	SFM a key mechanism for fire protection, drought control and disaster risk reduction		
National Security Council	SFM can is a way of effectively managing forests in security zones		
Aimag Environment & Green Development Agency	SFM is a way of generating additional budgetary revenues		Lack of budget for to new areas of work. Weak human and technical capacity to plan and implement SFM
Soum & Inter-Soum Forest Units			
Ulaanbaatar Department of Environment & Green Development			
Ulaanbaatar Department of Urban Planning	SFM is a way of increasing recreational areas and maintaining green zone of UB City	Possible competition for funding with existing activities and work programmes. Perception that forests are not part of agency mandate or responsibility. Low awareness of value of forest services. Lack of mechanisms for budget allocation/ sharing for SFM activities.	
Forest User Groups	SFM a way of increasing local/community participation in, and gain from, forest management.	No obvious sources of opposition or disincentives	
Non-Governmental Organisations	Can be a marketing point for raising new funds	increasing local/community participation in, and gain from, forest management.	
Professional Forestry Organisations	SFM a way of increasing private sector participation in, and gain from, forest management.	No obvious sources of opposition or disincentives	

Although perceptions and motivations as regards SFM were seen to vary widely between different stakeholders, and in some cases are quite specific to the situation or interests of a particular group, it was also possible to discern some common threads. The main incentive for mainstreaming financing for SFM is the high level of dependency that other sectors have on forest ecosystem services, meaning that it is clearly in their economic and development interests to ensure that forests are managed sustainably. Alongside this, the main constraint to other sectors allocating funds or other resources to SFM is that there is currently little awareness or recognition of these dependencies. Linked to these disincentives and potential sources of opposition, most agencies and groups (aside from DCFCR and FRDC) are thought to perceive that it is neither their mandate nor their responsibility to manage forests or to fund SFM, and that to do so would lead to conflicts and competition for funding with existing activities and work programmes.

The breakout group discussions therefore made it clear that the mandates and development goals of many different sectors, agencies, groups and individuals depend or impact in some way on forests (and thus have some bearing on SFM). The policies and plans of the agencies responsible for these sectors however for the most part contain little or no explicit mention of the need to sustainably manage the forest resource base, beyond a general concern with the principles of environmental sustainability. Thus, whereas many stakeholders have considerable power to influence the extent to which SFM principles are applied, and stand to benefit from ensuring that SFM activities are better funded, these interests are implicit rather than forming a stated part of their goals and mandates.

Figure 6: stakeholder power/interest grid



### ***What is their power and interest to influence financing for SFM?***

The breakout groups then discussed in detail the power and interest of each of these main stakeholder groups to influence SFM financing (either positively or negatively), and to mainstream SFM into their budgets. The power and interest of each group as regards SFM financing was assigned a rank from 0-3.

The results of the power/interest ranking showed that those groups with the most interest in mainstreaming SFM into their budgets do not necessarily have the greatest power to ensure that this actually happens, and *vice versa* (Figure 6). It is notable that most MEGD stakeholders are considered to have relatively high power to influence, as well as a high interest in, the mainstreaming of SFM financing.

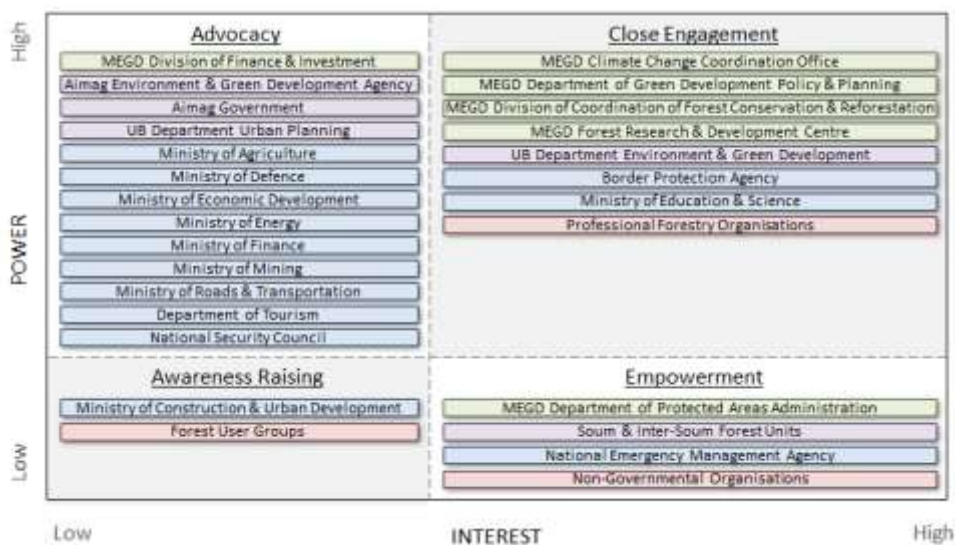
Meanwhile, many of the sectoral and local government agencies that depend or impact most on forest services display less interest in mainstreaming SFM into their budgets, although – in principle – have some power to influence budget allocations towards or away from SFM. The key challenge is how to shift these sectoral stakeholders towards the upper right hand corner of the grid: in other words to develop a higher degree of interest in mainstreaming SFM into their budgets, and to use their power over budget allocation to channel financing flows towards SFM.

### ***How can key stakeholders be engaged?***

Following UNDP guidance (see UNDP 2011), the stakeholder power/interest grid was used to show the type of engagement that may be required to ensure that different stakeholders are “on board” as regards mainstreaming financing for SFM into their budgets (Figure 7).

This analysis indicates that those stakeholders with high interest and power are potential champions for mainstreaming SFM financing (this includes most MEGD stakeholders, as well as professional forestry organisations) and will require close engagement from UN-REDD. Meanwhile those with less power but high interest (such as Soum Forest Units and NGOs) are potential allies, and may be able to be empowered to foster coalitions and support the mainstreaming of SFM into sectoral budgets. In contrast, those with high power to influence SFM financing but less overt interest (including many sectoral and local government agencies as well as MEGD’s Division of Finance & Investment) have the power to block or slow down the mainstreaming of SFM into sectoral budgets, meaning that advocacy may be required.

Figure 7: stakeholder engagement grid



## STEP 3:

### Identification of entry points and risks

#### *What are the current barriers to mainstreaming financing for SFM?*

The preceding analysis (based on the findings of the literature review, one-to-one meetings and consultative workshop) suggests that the main factors which currently act as constraints to SFM being mainstreamed into sectoral budgets are:

- The **weak awareness, capacity and information on the socio-economic importance of forest ecosystem services**. Most planners, managers and decision-makers in forest-dependent sectors remain largely unaware of the value of forest ecosystem services, or of the development gains to them from SFM;
- The **absence of SFM from sectoral mandates and policy statements**. Forest-related activities in general, and SFM specifically, are not part of the stated mandate of other sectors. At the same time, the programmatic focus of the units in MEGD that deal with forest activities is fairly narrow, with the main emphasis on pest control, fire management and reforestation and not so much on delivering the broader socio-economic functions that are associated with SFM;
- The **tradition of working in sectoral “silos”**. Different sectors – and even different departments within the same ministry – tend to operate strictly within the bounds of their specific development mandate. These mandates are fairly circumscribed in spatial and thematic terms, and have not conventionally involved integrating with the work of other sectors. With the exception of the draft Green Development Concept and Mid-Term Programme, the separation between sectors is reinforced in most national-level policies, strategies and action plans;
- The **lack of formal structures for joint programming and collaboration between sectors**. The small number of examples of inter-ministerial cooperation in forest-related activities that do exist take place on a fairly *ad hoc* basis. There is not a strong tradition of integration between ministries (or even of joint work between departments within the same ministry), or of jointly-programmed work;
- The **lack of mechanisms for cross-sectoral funding**. The Budget Law and Ministry of Finance procedures do not permit public funds to be transferred horizontally, only vertically. No separate funds are made available from the State budget for cross-sectoral or inter-ministerial programmes of work, and funds cannot be explicitly requested for joint work with other ministries. At the same time, the prohibition on budgetary duplication means that most government agencies are wary of allocating funding to activities that might be perceived to be the responsibility of another sector;
- The **multiple and sometimes competing demands and responsibilities within different sectoral agencies**. Each sector is responsible for delivering on a multiplicity of goals and targets, all of which have importance in development terms. Introducing or prioritising a new topic or area of work (such as SFM) may not receive the support of all units or departments – especially when the link between forests and the goals they are charged with delivering is not immediately apparent. This may especially be the case if it is felt that there is a risk of threatening the achievement of, or diverting attention and funds away from, core activities and targets. It also cannot be guaranteed that forest activities will continue to be accorded a high priority within the expanded general orientation role and green development focus of MEGD; and

- The **limited and inflexible budget that is available to most government agencies**. Most divisions, departments and ministries find it difficult to accommodate changes in the way in which budgets are planned and allocated. The bulk of funds are used to cover salaries and running costs, according to fixed cost norms. As well as the obvious constraint posed by the limited availability of funds, there is in general little flexibility to introduce budget lines for new activities.

### ***What are the needs and opportunities for mainstreaming financing for SFM?***

The main challenge is to overcome the sectoral silos, budgetary and planning separation, and weak awareness of the economic value of forest ecosystem services that currently characterise interactions within MEGD, and between MEGD and the other agencies that depend or impact on forests. Better mainstreaming financing for SFM into sectoral budgets requires that other sectors acknowledge their dependence on forest ecosystem services, and accept a shared interest and responsibility in ensuring that SFM is adequately funded.

Various strategies can be used to help to bring about these changes. One approach is to demand or require that other sectors mainstream SFM into their budgets. Another possibility is to directly reward them for doing so and/or penalise them for not doing so. A third option is to convince them that it is in their best interests to do so.

The most effective and sustainable course of action is likely to be one that combines these approaches: in other words, a suasive strategy which brings together efforts to strengthen communication, awareness and capacity among the different sectors that depend or impact on forest services with the provision of positive incentives to encourage coordination and cooperation in SFM financing. These efforts need also to be backed up by appropriate policy, institutional and administrative structures which authorise, enable and direct this kind of integration and coordination. In relation to this last aspect, recent changes in the institutional arrangements that govern how MEGD and other sectors work together provide important opportunities which encourage, lend support to and to some extent demand these processes:

- The **expanded role and responsibilities of MEGD as a general-orientation ministry**. MEGD is now charged with working to integrate environmental and green development approaches across the economy. This requires engagement with other sectors, and efforts to coordinate with their goals and approaches. At the same time, other sectors will need to respond and conform to this cross-cutting green development approach. In principle, MEGD now has considerable authority to shape and influence national development policy and planning, including the strategies and actions of other sectors, based on the green development agenda. In order to better utilise this opportunity effectively, MEGD might want to strengthen its ability to confidently integrate economic arguments of green development rather than just focusing on green issues.;
- The **development of new policy documents which accord a much greater role to socio-economic goals and sectoral cooperation in forest management**. The draft Green Development Concept and Mid-Term Programme and, apparently, the process of updating of the National Forest Policy and Programme involve a rethinking of the scope of forest sector goals and approaches. They seem to represent a shift away from more “traditional” approaches and activity areas towards the alignment of forest sector activities with broader socio-economic development goals and with the principles of SFM;



- The **responsibilities of DSAM, DGDPP and DCPI to foster integration within MEGD and with other sectors**. The existence of a number of departments that are already charged with coordinating the work that is carried out by different units within MEGD, and harmonising the activities of MEGD and other sectoral agencies, provides a strong institutional foundation for fostering the mainstreaming of SFM approaches and financing;
- The **precedent that has already been set within MEGD for working with other sectoral agencies on forest management**. Both formal and informal arrangements for joint work on forest issues already exist, and are functioning well. There are considerable opportunities to build on, systematise and institutionalise these relationships and activities;
- Ongoing **decentralisation of forest management and financing functions to Aimag and Soum levels**. A significant degree of integration already exists between different units of local government, and it may be far easier for AFB and SFU to work on a day-to-day basis to mainstream SFM and forest issues into general development planning, as well as to respond to the needs and socio-economic goals of other sectors; and
- Moves towards **devolving forest use and management rights**. Increasing the participation of the private sector and local communities forms a strong theme in the draft Green Development Concept and Mid-Term Programme and has reportedly been a major topic of discussion during the process of updating of the National Forest Policy and Programme. Enhancing the degree to which the ultimate beneficiaries of SFM are involved in forest management, and increasing their stake over the benefits arising from forests, is a key prerequisite for sectoral mainstreaming.

### ***What is the most feasible entry point and what are the possible risks?***

In the light of these barriers, needs and opportunities, the most feasible and effective entry point is to focus on **interventions which facilitate the exchange, communication and information-sharing that is required to foster an awareness, capacity and sense of shared interest in SFM across different sectors and agencies, and to raise its priority in sectoral budgets.**

The **new role of MEGD as a general orientation ministry and the government's focus on operationalizing a green development approach across the economy (as well as ongoing REDD+ processes)**, provide the institutional, political and policy "space" within which this can be accomplished.

A number of risks should also be borne in mind. Perhaps most important is the bigger picture status of green development as a guiding principle and cross-cutting theme in sectoral planning and implementation, and of MEGD as an agency that is authorised and mandated to coordinate these processes.

Both the new forest policy and the draft Green Development Concept and Mid-Term Programme are still under development by MEGD. The outcomes of these policy processes will be an important determinant of whether efforts to mainstream SFM into sectoral budgets will be successful. It remains a possibility that SFM will not be adopted in the forest policy as the most appropriate model to guide forest management in Mongolia. There is also a risk that the forest sector will not be prioritised as a key component of green development. Either of these eventualities would undermine the success (and relevance) of efforts to mainstream SFM into sectoral budgets.

Another set of risks revolves around whether other sectors will be willing to internalise green development principles and approaches (including SFM). Linked to this is the possibility that they will be unable to accept



the advice, influence and authority of MEGD. These risks can only be avoided if green development continues to remain a high-level political priority and stated goal of the current government, and if MEGD is able to convince other sectors of the benefits and gains from integrating green development approaches into their workplans and budgets. In order to do this, MEGD would need to be able to speak to others in both environmental and economic terms.

While mainstreaming financing for SFM into sectoral budgets does not challenge powerful interests or touch on highly sensitive political issues, it does require a change from “business as usual” as far as forest management and funding are concerned. Some actors may be reluctant to make these changes, and remain unconvinced of the wisdom of adopting a more integrated approach to planning, implementing and funding SFM. It is however unlikely that efforts to promote the mainstreaming of SFM into sectoral budgets will provoke major opposition or blocking. Establishing a platform for dialogue can provide a powerful tool for negotiating and establishing a common ground as regards potentially competing or conflicting demands and interests on forest lands and resources. Meanwhile, information-sharing and awareness-raising can be an effective means of convincing stakeholders of the gains and benefits to them of investing in SFM.

## **STEP 4:**

### **Assessment of potential for change and next steps**

#### ***Is change possible and how can it be facilitated?***

The Government of Mongolia has already committed to “greening” development at national and local levels, and has assigned to MEGD the power to facilitate and coordinate these efforts across different sectors of the economy. These circumstances allow for (and to a certain extent require) the possibility of change as regards awareness of the importance to them of SFM, the coordination and integration of SFM efforts, and the mainstreaming of SFM into the budget of MEGD and other sectoral agencies.

The likelihood of change happening remains less certain. As described in the preceding chapter, progress is likely to depend more broadly on whether green development materialises as a dominant influence driving sectoral planning, budgeting and implementation and whether MEGD is able to fulfil its role and exert its authority as a general orientation ministry. While the emerging forest policy appears to have a strong grounding in SFM principles, the forest sector does not so far seem to be a high priority in the draft green development concept and programme. MEGD is also still in the process of building the capacity, authority and influence that is required to fulfil its new role and responsibilities as regards working with other sectors. Change is therefore likely to be gradual and incremental, and will undoubtedly take time: these processes cannot be completed overnight.

Despite these uncertainties, there is considered to be sufficient potential for change to make it worthwhile investing in interventions to facilitate the exchange, communication and information-sharing that is required to foster an awareness, capacity and sense of shared interest in SFM across different sectors and agencies, and to raise its priority in sectoral budgets. UN-REDD inputs can help to facilitate these processes. The main comparative advantage and value-added of UN-REDD (and of the REDD+ process more generally) would be as a convenor, working together with MEGD to construct a platform for bringing together different sectors, actors and interests under the common goal of measures to avoid deforestation and forest degradation and to increase forest benefits.

There are also limits to what UN-REDD can influence and achieve. UN-REDD partners (FAO, UNDP and UNEP) have neither the authority nor the resources to ensure that budgetary mainstreaming actually takes place, or to implement concrete instruments that can be used to capture funding from other sectors and allocate it to SFM (other than the REDD+ mechanism itself, which deals with mainstreaming SFM into international, rather than domestic/sectoral, financing flows). Rather, UN-REDD can usefully contribute towards creating the enabling conditions and buy-in that are required for this to happen. The ultimate impact of UN-REDD’s work to facilitate the mainstreaming of SFM into sectoral budgets is thus highly dependent on follow-through by MEGD within the broader context of green development and others as regards the development and implementation of concrete measures, instruments and mechanisms to operationalize budgetary mainstreaming.

#### ***Which actions should be prioritised?***

Interventions which facilitate the dialogue, communication and information-sharing that is required to foster an awareness, capacity and sense of shared interest in SFM across different sectors and agencies, and to raise its priority in sectoral budgets, have already been proposed as an entry point. A role for UN-REDD has

been suggested which would involve working together with MEGD to offer a platform for awareness-raising, capacity-building and communication among the various sectors that depend and impact on forests. These types of interventions could play a key role in preparing the ground for further actions by MEGD and others to further formalise mechanisms for joint planning, budgeting and implementation of SFM activities, and to develop the policy incentives and other instruments that are required to encourage, capture, administer and allocate sectoral financing in support of SFM.

It should be noted that this selection and sequencing of actions to enhance the mainstreaming of SFM into sectoral budgets also reflects that which was identified at the consultative workshop (Table 4).

Based on the considerations outlined above, and in view of the limited resources available to UN-REDD, it is recommended that the establishment of a platform for multi-stakeholder dialogue should be prioritised. This action would focus on fostering awareness, exchange and communication among sectors on the role of SFM in a green economy, and of the value-added and costs avoided that forest services add to sectoral output and production. It would also serve as a forum for different sectors to share their perspectives and viewpoints as regards SFM and forest-related aspects of green development, including REDD+. Such dialogue is also a prerequisite for the eventual development of policy instruments and incentives with which to encourage and capture financing for SFM from other sectors.

Table 4: consultative workshop identification of actions for mainstreaming financing for SFM

<b>Awareness, capacity and communication</b>
Awareness-raising and communication with other sectors on the role and importance of forest services and SFM
Provision of training and advocacy
<b>Joint planning and implementation</b>
Establishment of mechanism for joint planning
Implementation of forest activities based on scientific proposals
<b>Information generation and sharing</b>
Generation of science-based forest data and information and communication to other sectors
Establish open and transparent forest monitoring system
<b>Financial incentives and funding mechanisms</b>
Development of mechanisms to improve financial effectiveness
Development and implementation of long-term and sustainable policy on forest financing
Support and encourage forest financing with tax incentives
Establish enabling legal environment to encourage private sector investment

## References

Emerton, L. and E. Bat-Ochir. 2013. Forest sector financing flows and economic values in Mongolia. United Nations Development Programme, Ulaanbaatar.

Sundberg, B. 2013. Institutional and Context Analysis for REDD+. United Nations Development Programme Asia Pacific Regional Centre, Bangkok.

UNDP. 2011. Institutional and Context Analysis Guidance Note. Oslo Governance Centre for United Nations Development Programme Bureau for Development Policy, Democratic Governance Group, New York.