

**Mongolian-German Financial Cooperation
Biodiversity and Adaptation to Climate Change
- Phases I, II and III -
KfW Monitoring Mission**

May 2nd to 10th, 2022

Minutes of Meeting

In May 2022, a KfW Mission, comprising Ms Nina Otto (Sr. Project Manager) and Mr. Matthias Bechtolsheim (Senior NRM Expert) visited Mongolia to hold discussions on phases I - III of the **“Biodiversity and Adaptation to Climate Change Programme”** (BACCP). The meetings and site visits were accompanied by MET’s State Secretary, Mr. E. Battulga, the Director of the Department of Regional Protected Area Management, Mr. D. Batmunkh, the Director of the KfW Office in UB, Mr. Michael Sumser, KfW’s Project Coordinator, Ms. Enkhzul, the head of the BACCP PIU, Ms. G. Erdenebayasgalan, the IC CTA, Mr. Hartmut Abberger as well as other key IC and PIU staff. The Mission also met with Ch. Chimidsuren from MoF, representatives of GIZ, CPR Consultants, as well as the consultants who developed the Cluster Management Plan for Cluster 2. Parts of the mission visited Khovd aimag, Khar-Us Lake NP, Khyargas Lake NP, Tarvagatai Nuruu NP, Terkhin Tsagaan Nuur NP and Khangai Mountain NP (all in Western and Central Mongolia). The other part of the mission visited Khan Khentii SPA, Zed Khantai NP as well as Khustai NP (Northern and Central Mongolia).

The Mission expresses its sincere appreciation of the excellent, highly efficient, and productive working atmosphere during the discussions and field visits as well as for the outstanding hospitality and support received by all officials and all other persons met.

The Mission pointed out that all statements and remarks given represent the Mission's position only. All understandings reached are subject to approval by KfW management and by the German Government. Likewise, those understandings are also subject to approval by the Minister for Environment and Tourism.

The following sections contain the Mission’s discussion points and results on the review of Phase I (section 1) as well the further preparation of Phases II/III (section 2).

1. Review of BACCP I

1.1. Overall/summary assessment

The Mission congratulates MET, the PIU and the IC for having near to completed BACCP I. The wrap-up of a series of tenders initially planned for BACCP I were transferred to the management of BACCP II/III. All tenders and related payments pertaining to Phase I are expected to be finalized by the end of 2022. The final payment to the IC, ECO Consultant, is currently being processed.

The Mission urges MET and MoF that payments to the Consultant relating to BACCP I and II/III are processed at their earliest convenience and without delays upon the receipt of these invoices.

As of May 10th, 2022, an amount of 10.95 million EUR (out of a total of 11.5 million EUR) has been transferred from KfW to the Disposition Fund account or directly to the Consultants, which leaves 550.000 EUR still to be withdrawn by the PIU and the Consultant, respectively, in 2022.

In terms of the counterpart contribution, an amount of approx. 8.6 billion MNT was made available by the Mongolian partners throughout BACCP I (2015-2021). According to the Sep. Agreement for BACCP I, 6.65 billion MNT in terms of the Mongolian contribution were foreseen. The amount provided therefore exceeds the planned contribution by about 2 billion MNT. Mongolian funds were made available for covering the costs of the PIU and for operation and maintenance (O&M) purpose within the country's protected areas. The Mission congratulates MET/MoF for this accomplishment.

The IC is currently writing up the final report on Phase I which will be submitted to KfW and MET in May 2022. This report will also contain an analysis of BACCP I's achievements as per the programme's indicators. KfW may also conduct an additional ex-post evaluation of BACCP I as part of its annual, random sample of evaluation of completed projects. Such evaluations are funded out of KfW funds.

Funds currently remaining under Phase I shall be transferred to the Buffer Zone Fund (BZF) for expenditure before the end of 2022.

In summary, the Mission concurred that investments in support of the PAs subject to Phase I well served its purpose of improving the management capacity of the PAAs and thereby, in the longer term, contributing to enhanced biodiversity protection. Investments in support of community livelihoods started late into the programme and were additionally hampered by pandemic-related delays. Nonetheless, they have addressed urgent socio-eco. needs (e.g. ambulances, environmental education, BZF and income generating activities).

1.2. Field visits and delivered goods, works and services

During the field trip, the Mission held discussions with PA employees, Buffer Zone Council Members, hospital and school staff and members of the local communities of the abovementioned PA, all of which have benefitted from the funding of goods, infrastructure and services. Spot-wise inspections during the field visits, e.g. of green houses and irrigation pumps (BACCP II/III), Regional Training Centres, PAA buildings, ranger posts, ranger uniforms, office furniture, vehicles, eco-cabinets and ambulances indicate that the provided goods are being put to proper use and have provided important means for PAA staff to effectively carry out PA management tasks. High speed internet connection was installed under BACCP I. Apparently, it has not been put to use e.g. in some of the more remotely located PAAs, where higher connection fees could not be sufficiently covered from available budgets. In one case the Uninterruptable Power Supply (UPS) device was not connected. The Mission urgently advised for MET to ensure that such devices are connected in order to protect IT equipment from voltage fluctuation damages.

For BACCP II/III, equipment and infrastructure investments that cause additional expenditure to the PAAs shall only be covered upon prior confirmation by MET that such costs will be covered by the state budget, i.e. once such structures and goods are put into use.

As during their previous monitoring visits, the KfW Mission stressed that all delivered goods will continue to require regular maintenance in order to ensure the sustainability of their use and that securing such funds lies within the responsibility of MET. The Mission highly welcomes the budget that has been made available by MET to the country's PA system for operation and maintenance purposes and strongly recommends that equivalent funds are provided by MET for BACCP II/III from 2023 on.

1.3. Auditing

Auditing: For the fiscal year 2021 the auditors noted no material misstatement regarding the use of the FC funds (cf. Independent Auditors' Reasonable Insurance Report). This finding was confirmed by KfW.

1.4. Specific Aspects of Programme Implementation

Buffer Zone Fund (BZF): Towards the third quarter of 2021, an amount of 430,000 EUR was transferred to the State Bank of Mongolia (SBM) for the establishment of a revolving BZF. That fund is to allow local communities/herders to take out micro-loans at a reduced interest rate in return for their commitment to reduce their herd sizes. The BZF is conceived as a means to tackle the pressing issues of overgrazing and land degradation in the country. Demand for the BZF has proven extremely high: amounts provided to the participating soums have been released within a short period of time, and the first loans are already being paid back to the SBM. A first assessment of the BZF, submitted by CPR in March 2022, reveals herders' interest and commitment to reduce their herd sizes. A further review will be necessary after the next pasture season and the completion of the annual livestock censuses in Dec. 2022. The Mission suggests the BZF to be scaled up as part of BACCP II/III. In this regard, the Mission recommends that the PIU prepares an NCB tender for consultancy services that entails two to three annual M&E assessments of the BZF (covering a representative sample of the soums targeted in both BACCP I as well as BACCP II/III) starting early 2023; that assignment should comprise necessary training events for scaling up the BZF in selected BACCP II/III soums. A separate BZF impact evaluation with particular focus on results in terms of sustainable herd size reductions, improved pasture quality as well as higher quality breeds shall be conducted towards the end of the programme.

Sustainable livelihood activities (hay making, irrigation systems, green houses and green fodder planting etc.) have provided the ground for additional income generation by the buffer zone communities. However, there does not appear to be a link between these benefits and reduced pressure on the PAs – a factor to consider in the design of further livelihood measures under BACCP II/III, see below.

Additional works at Khustai PAA: A structural assessment of the building's deficiencies has recently been completed. On the basis of this assessment, repair works will be funded through the initial constructor's contract.

2. BACCP II/III

2.1. Current status of implementation and context

The first 18 months of programme implementation took place during the outbreak of the Corona pandemic plus sub-sequent lockdowns, travel bans as well as restrictions to in-country travel and to meetings and trainings in presence. Since late 2021/early 2022, restrictions have been lifted considerably, allowing the implementation of project activities to now come off to proper speed. Apart from initial livelihood support measures (green houses and irrigation equipment), no equipment has been made available to the PAs and surrounding buffer zones which poses the risk that stakeholders will lose trust in the programme. Also, given the lack of progress, activities detrimental to the protection of the PAs continue in an uninterrupted manner (waste disposal, poaching, PAs being used as pastureland for livestock etc.)

In the meantime, the German government has decided to phase out its bilateral cooperation with Mongolia as part of a revised strategy of German Development Cooperation. This means that no further funding will be provided in support of Mongolia's PA system following the termination of BACCP II/III at the end of 2026. Taking into account those circumstances, all project partners (i.e. MET, PIU/IC and KfW) are confronted with a double challenge: on the one hand, BACCP II/III measures need to be implemented in an as efficient manner as possible; on the other quality and sustainability standards are not to be compromised upon. The Mission pointed out that FC funds not spent by December 2026 will no longer be available.

In the lead-up to this mission, KfW and PIU/MET have jointly prepared and/or agreed on a series of steps in support of an enhanced programme efficiency (signing of an agency contract, preparation of an amendment to the IC contract and raising the threshold for NCB goods to 1 million EUR, additional country-wide deliveries). Further, given the expected extensive coordination and technical assistance required, the signatories of these MoMs have mutually agreed that the cluster approach (cluster management plan and Cluster Management Committee) initially foreseen will no longer be followed. Likewise, the creation of eco-corridors will no longer be actively supported. Instead, BACCP II/III is to provide support to Mongolia's PA systems by a) offering basic goods, works and services on a country wide basis and b) providing additional support and investments into the PAs of the former Western clusters plus to the seven PAs funded under Component 3. Funding under b) will include investments in support of community livelihoods and socio-eco. development. Further details on each of the proposed efficiency measures are given in the next section. Cluster Management Committees (CMCs) have been created for 5 clusters but will no longer be supported in their original functions (as per the 2019 MoUs). PIU/IC need to think about how they will communicate this to the CMCs. A key message to transfer is that investments into the PAs and communities of the Clusters will be done as originally planned.

2.2 Revision of the programme's cost and financing plan

In line with the conceptual adaptations mentioned above, the PIU will prepare an updated cost and financing plan (C+FP) for BACCP II/III by June 10, 2022 and submit this to KfW for non-objection.

The revised C+FP shall propose an adequate allocation of the available funds among component 1 (management planning and basic equipment on a country-wide basis), component 2 (PA support and livelihood development in the 12 PA of the former clusters located in Western Mongolia), component 3 (PA support and livelihood development in the seven selected PA in Southern Mongolia) and component 4 (training and research). For components 2 and 3, the PIU shall also propose which budget share shall be earmarked for PA support and which share for livelihood development. On the basis of the revised budget, the PIU can make a more detailed calculation of the amounts of funds available to each of the PAs and their surrounding buffer zones/soums.

2.3 Procurements and steps to enhance efficiency of implementation

2.3.1 Agency contract

An agency contract was jointly signed between MET and KfW on March 30, 2022. The agency contract authorizes KfW to release all upcoming interim payments to the Consultant, starting from instalment 5.

2.3.2 Amendment to ECO's IC contract

KfW has been informed by the PIU and IC that a cost neutral amendment of the consulting contract has been proposed to MET. The amendment involves the re-allocation of IC expertise in order to adequately accommodate for the required input under the different components of the programme. The amendment is also expected to address changes in the disbursements to the IC as per the agency contract (cf. 2.3.1) and to include a number of additional reimbursables. Since the cluster approach has been dropped, further reimbursables for the development of cluster management plans (except for the payment of CMP for Cluster 2 and the payment of PA management plans) can be removed from the consultant contract and be returned to the programme's overall budget. KfW has no concerns about the proposed changes and kindly requests that the amendment is reviewed by MET at its earliest convenience upon receipt and then submitted to KfW for formal non-objection in order to allow for the timely implementation of planned activities.

2.3.3 Raising the threshold for NCB good to 1 million EUR

In line with the 2021 update of KfW's procurement guidelines applying to BACCP II/III, KfW has proposed to increase the threshold for goods NCB to 1 million EUR (compared to 200.000 EUR as per the 2019 version of the guidelines). This is to enable the PIU to conduct such tenders without prior review by KfW. Both MET and MoF have formally consented to this proposal (cf. read and agreed letter signed on April 6th, 2022). Upon signing this letter, the PIU will have to revise its Procurement Plan (PP) for 2022, ensuring that relevant tenders up to this threshold are conducted as NCB (not ICB). The Mission kindly requests MET to approve the revised PP so that planned tenders can be launched at the earliest opportunity. KfW reserves the right to post-review up to two tenders annually, starting from 2023. These reviews will be conducted following the completion of a tender (unlike a step-by-step review in real time as was the case with the prior review tenders). KfW will chose the sample of tenders to be reviewed on the basis of the annual procurement plans.

2.3.4 Additional country-wide tenders

In order to address PAAs' urgent equipment needs, KfW and PIU/MET have jointly agreed to implement a series of tenders on a country wide basis (rather than focusing on the PA of the five former clusters plus the 7 special PA only). These include tenders for ranger uniforms, vehicles, and basic equipment. KfW recommends that additional country-wide tenders in support of the PA and local socio-eco. development be considered in all future procurement up to the end of the programme, provided that they address real works, goods and service needs of the PAA.

2.3.5 Provision of standards for works by MET

As part of BACCP II/III, KfW has offered support in funding a series of works for Mongolia's network of PAs, such as further PAA buildings, ranger posts and camping sites. For efficiency purposes, only ranger houses shall be considered for funding under BACCP II/III. In order to ensure that MET's expectations and standards are adhered to in the design and technical specifications of these houses, DPAM will submit the general construction requirements to PIU/IC by June 15, 2022. The PIU/IC will either seek an amendment to the contract of the blueprint company contracted under Phase I or else provide a direct award to another consulting company by September 15, 2022. The contracted company shall revise the original blueprints, taking into account the general construction requirements mentioned above plus any other lessons learnt from Phase I (e.g the inclusion of sanitary facilities). The revised blueprints shall be submitted to MET by the end of December 2022. MET will be asked to review/comment on these documents within two weeks upon receipt. In case, no agreement on the documents can be reached by the beginning of February of 2023, the funding of works shall no longer be considered under this programme.

2.3.6 Funds for the monitoring of field activities for the PIU

Regular field and monitoring visits by both IC and PIU staff are central for identifying progress, challenges and related solutions for each component of BACCP. Without insights and lessons learned gained from the field, the PIU will not be able to fully carry out its management functions. The Mission therefore strongly recommends that the Mongolian partners ensure sufficient travel budgets are made available, in order for the PIU to conduct monitoring activities on a regular basis.

2.4 Specific elements of programme implementation

2.4.1 Planned WRTIC Khovd: While the sites for the construction of the RTC has been chosen and cleared, a series of fundamental issues such as size, operational concept, purpose, budget and possibly including catering and accommodation services remain unresolved to date – despite two years of preparatory activities. The small assessment that is currently ongoing is not sufficient to facilitate decision-making. The Mission recommends that a proper needs assessment is conducted and an operational concept developed by an external consultant (direct award) and presented to KfW at the latest by the end of September 2022. An architect for designing the centre shall be contracted by December 2022. The proposed budget shall be in line with the amount of funds made available per PA as per the revised C+FP mentioned above, while also allowing other

investments in support of the PAA. The mission recommends that the WRTIC shall be similar in size and budget as the one in Khangai Nuruu RTIC (possibly with a larger conference room).

2.4.2 Multifunctional PAA building in Great Gobi B: The ITG group has prepared the blueprinting, design and budget for a multifunctional PAA building in Altai soum. Since then, MET has split Great Gobi B PA into two distinct PAs. It therefore remains unsolved whether the proposed building shall be located in the soum originally selected. According to the Mission, the proposed location in Altai soum makes good sense – taking into account its convenient location right next to an asphalt road and that the design prepared by ITG is readily available. The Mission kindly asks that the Mongolian partners confirm in writing by the end of September 2022 the proposed building's location. Otherwise, this building will no longer be considered for funding under BACCP II/III.

2.5 Finalisation of selection of 7 individual PA: With view to the proposed changes (i.e. the replacement of Bulnain Nuruu and Tes River NP by Numrug SPA), KfW is looking forward to receiving the evaluation results, together with an explanatory note by the PIU/IC for non-objection as part of the upcoming quarterly report.

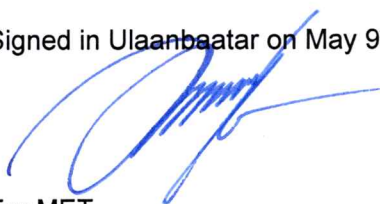
2.6 Choice of activities in support of the PAs and livelihood development

For the benefit of an enhanced conservation linkage of all livelihood/ socio-economic activities, it is agreed that the PIU, with support by the IC, prepare a concept note on how, with each and every supported socio-eco. development/livelihood measure, the respective beneficiaries' and/or the local authorities' (financial) commitment to biodiversity conservation/ PA support can be secured in a timely and adequate manner. KfW is looking forward to receiving such concept note for non-objection at the latest by June 30, 2022. Furthermore, it is agreed that the socio-eco baseline study originally envisaged is no longer required in the light of the revised conceptual outlook.

2.7 ESMF

With the agreed conceptual changes (notably the deletion of Cluster Mgt. Plans – see above), ESMF requirements are expected to decrease significantly. Nonetheless, certain safeguard issues will still need to be adequately taken into account.

Signed in Ulaanbaatar on May 9th, 2022



For MET

E. Battulga
State Secretary MET



For KfW

Ms. Nina Otto
Sr. Project Manager