

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

May 30th – June 15th, 2023

Minutes of Meeting

In May/June 2023, a KfW Mission, comprising Ms. Nina Otto (Sr. Project Manager, June 5th to June 15th, 2023), Mr. Matthias Bechtolsheim (Sr. NRM Expert, May 30th to June 7th, 2023), Ms. Karina Nikov (Sr. Environmental and Social Specialist, May 30th to June 7th, 2023) and Mr. Fabian Stähr (Procurement Expert, June 5th to June 10th, 2023) visited Mongolia to hold discussions on phases I - III of the “**Biodiversity and Adaptation to Climate Change Programme**” (BACCP). The site visits were accompanied by Mr. Baatartsogt Narantulga /the Project Director and Head of DPAM, Mr. Boldbayar Myagmarsuren/the Programme Coordinator/Head of PIU, Dr Alexander Gradel/ IC CTA, Dr Erdenebayasgalan Ganjuurjav/ KfW's local representative as well as other key IC and PIU/MET staff. The Mission also held meetings with Mr. B. Bat-Erdene, Minister of the Environment and Tourism, Mr. Ganbaatar Myagmarjav, Vice-Minister of the Environment and Tourism, Mr. Ch. Chimidsuren from MoF and Mr. I. Bathkhuu from MoED. Parts of the mission visited Altai Tavan Bogd National Park (NP), Khukh Serkh Strictly Protected Area (SPA), Mongol Els NP, Khar Us Nuur NP, Myangan Ugalzat NP and Great Gobi B SPA (Western Mongolia). The other part of the mission visited Khangai Nuruu NP, Orkhon Valley NP, Ikh Gazriin Chuluu NP and Small Gobi SPA in Southern and Central Mongolia. Ms. Nikov and Mr. Stähr mainly worked in UB with the IC and PIU on environmental and social (E&S) risk management and procurement issues, respectively.

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 and the Mongolian MET. The signatories agree to implement the recommendations and agreements/next steps contained in these Minutes as diligently as possible; justified deviations will not be considered as non-compliance.

1. BACCP I

1.1. Closure of BACCP I

As of June 2, 2023, an amount of approx. 11.478.000 million EUR (out of a total of 11.5 million EUR) has been transferred by KfW for payments under this phase. This leaves approx. 22.000 EUR still to be dispersed. As per the amendment of ECO's consultant Phase II contract signed on

September 26th, 2022, it was agreed that these remaining funds shall be withdrawn by the Consultant for the funding of reimbursable costs (within 2022).

Once KfW has reviewed and non-objected the final audit report of this phase (for the year 2023, see 1.2 below) and once all remaining payments under this phase have been affected (i.e., with the balance of account amounting to zero EUR), KfW will officially inform BMZ of the closure of this phase. BACCP I may be subject to an independent impact evaluation at a later stage.

1.2 Auditing (BACCP I and BACCP II/III)

Auditing: For the fiscal year 2022 the auditors noted no material misstatement regarding the use of the FC funds under BACCP I and BACCP II (cf. Independent Auditors' Reasonable Insurance Report). KfW is currently reviewing the audit reports for these two phases. A final audit report for BACCP I, covering the use of the remaining funds in 2023, will still have to be compiled and then submitted to KfW for non-objection (see 1.1).

1.3 Buffer Zone Fund (BZF) under BACCP I

Approx. 255.000 EUR remaining under Phase I are currently foreseen for an extension of the revolving BZF. The total made available for the BZF under this phase is therefore expected to amount to approx. 688.000 EUR (430.000 EUR in 2021 plus 255.000 in 2023). The transfer of the additional funds shall take place once the independent evaluation of the BZF has been contracted. Prior to the transfer, the PIU/IC will inform KfW for obtaining a final non-objection. In parallel, the PIU will prepare an amendment of the original on-lending agreement (OLA) covering the additional 255.000 EUR, which is also subject to KfW's non-objection. The results of the evaluation shall be used for two purposes: a) a possible adjustment of the modalities of the BZF under BACCP I, and b) the design of the planned expansion of the BZF under BACCP II/III. Possible adjustments shall also incorporate any recommendations provided by the safeguards experts. In addition, the IC team will submit to KfW a proposal on the further M & E of the BZF under phases I-III following the availability of the evaluation results.

During the field visits, discussions were also held with the BZF stakeholders in Khangai Nuruu and Orkhon Valley. Anecdotal evidence indicated that both agreed livestock figures as well as repayment schemes have been adhered to and that demand for BZF support outstrips available funds.

Lastly, as per the five OLAs signed between MET, SBM and PAA as well as soum representatives in July 2021, the OLAs are valid for a duration of four years and hence will expire by July 2025. The amendment covering the approximately 255.000 EUR will not affect the initially foreseen duration of the fund. During the mission, it was agreed that the next steps regarding the closure or expansion of the BACCP I BZF shall be discussed during KfW's progress review mission in 2024.

2. BACCP II/III

2.1 Payments and funding issues

2.1.1: Processing of payments by MET/MoF and payments in EUR: The mission kindly asks that MET/MoF review invoices submitted by contractors without delays so as to allow the PIU to process payments for the delivery of goods and services in a timely manner and avoid potential penalty payments. In case payments are to be done in EUR (for contracts under the simplified direct disbursements procedure), the contractor shall inform the PIU via which corresponding banks the transfers shall be done. These details need to be included in the contractor's invoice. Likewise, the Mission asks that half year reports submitted to MET by the IC are reviewed within three weeks upon receipt, with notice given to KfW upon review so that KfW can process IC payments.

2.1.2: Counterpart Contribution: As per Amendment No. 3 of the Separate Agreement for BACCP II dated April 24, 2020, the Mongolian Government has pledged to provide 14,8 billion MNT as a counterpart contribution for BACCP II/III, to be provided for covering the costs of the PIU, for operation and maintenance purposes of the Protected Areas (MET's budget for this purpose) and for MET investments in the PA system (e.g. for PA infrastructure). MET's regular budget for the PAA system is not considered part of the counterpart contribution (cf. the Separate Agreements for BACCP II/III). So far, MET has allocated approx. 2,5 billion MNT for the funding of the PIU for the years 2021 and 2023, plus 1,1 billion MNT for the construction of Dariganga and Achit nuur PAA offices in 2022. The Mission has asked MET to provide additional information on the counterpart contribution, if any, by 15 of September. The Mission noted a clear need for the provision of operation and maintenance funds to the PAs and recommends that MET's high commitment to this purpose as demonstrated for the years 2019-2021 is kept up.

2.1.3: Funding of taxes and import duties: As per the Financing Agreements for BACCP II and III, the German Financial Contribution, shall not be used for the financing of taxes and other public charges to be borne by the Recipient nor for important duties (e.g. for the BACCP vehicles).

2.2 Procurements

2.2.1: Planning of further investments: Important investments for the PAs have taken place in 2022 and 2023 (vehicles, research and basic equipment, uniforms, online meeting equipment, tractors). Spot wise inspections during the field trips showed that they are readily available, put to proper use and clearly contribute to the motivation and management capacity of the PAA staff. Quick win measures for livelihood support (green houses and irrigation systems) also appear to contribute to income generation, yet lack a clear link to biodiversity conservation (cf. section 2.6 of the MoM signed May 9, 2022) – a point that should be considered if these type of activities are scaled up. The Mission would like to congratulate the PIU/IC for these achievements and asks that the momentum for an efficient implementation is scaled up.

Overall, the mission recommends that the PIU/IC start planning for further activities/investments to be implemented in the short and medium term. Planning for further investments shall be based on the needs of the PAAs (as per their management plans), contribute to the objectives of the logframe and hence the four envisaged outputs of the programme and also match the budget shares that have been agreed for the four BACCP components. It was mutually agreed that past investments that have proven to be successful (under BACCP I or BACCP II/III) should be scaled up by launching new tenders (e.g. for uniforms, eco-cabinets, equipment, livelihood support),

involving the safeguards experts where necessary. As cluster support is no longer pursued, investments should largely be targeted towards PAAs plus buffer zone communities. However, the IC will prepare a short note to KfW by June 20th, proposing whether or not other environmental agencies such as ADETs and WBA shall be considered for further support, too. Activities in support of livelihoods and socio-economic development at the local level shall have a link to biodiversity conservation, subject to further discussions with KfW. IC/PIU shall prepare a short proposal on how to operationalise livelihood activities by Sep. 15, 2023. The Mission further suggests that suitable activities developed by GIZ are considered for funding under BACCP.

In line with BACCP's logframe, the programme shall support the development and/or updating of MPs for the PAAs in the programme's target areas (with the PAA having the overall responsibility for this task). In the sites visited, MPs are largely available. However, approval of MPs via MET is partially pending (incl. for MPs developed under BACCP II/III) among other things as MET is planning to extend the standard duration for MPs from 5 to 10 years. The Mission highly recommends that MET ensures the pending approval of MPs in a timely manner (cf. outputs 1 to 3 of the programme).

As during their previous monitoring visits, the Mission stressed that all goods and works funded under BACCP continue to require regular operation and maintenance funds in order to ensure the functionality and sustainability of their use and that securing such funds lies within the responsibility of MET.

2.2.2: Procurement and Operational Plans: The mission requests that Procurement and Operational Plans (PP and OP) are treated by MET/MoF with the necessary degree of flexibility. Not all activities can always be implemented within the time frames as listed in those plans as circumstances, needs etc. may change. In part related to the outcomes of this mission, it is expected that the PP will be amended in due course and submitted to KfW for non-objection.

2.2.3: Inventories and distribution lists: The PIU shall keep an up-to-date inventory which lists all activities funded under BACCP II, showing which investments (goods, works and services) are made available for which location/PA/buffer zone and in which amount. Such an inventory requires regular updating by the PIU so that such lists can readily be made available upon requests. Further, it was agreed that distribution lists are prepared together with the TOR (terms of specification) for each and every tender, clearly indicating to which beneficiary (e.g. PA or community) the tendered investments shall be delivered. Such lists shall be based on the needs of the intended recipients, with final lists being reviewed/cleared by the IC prior to the launching of the tender. Any further changes to the distribution lists are subject to further KfW non-objection. Currently, a number of tenders require the finalization of their distribution lists. The Mission asks that these are finalized at the earliest convenience so that the tenders can be launched without further delay.

2.2.4: Results of the post-review of procurements done in 2022: KfW is currently completing its post-review of selected procurements conducted in 2022 and will share its results in due course. Any conclusion from this review shall be considered in future procurements.

2.2.5: Review of TOR by TECs: TOR for investments and consulting services shall not be changed by the TEC after the TOR have received non-objection from KfW.

2.2.6 Responsibilities regarding procurement related complaints: According to KfW's procurement guidelines, procurement related complaints are to be handled by the project executing agency in charge of managing tenders, in this case MET. However, the Mongolian partners (MET/MoF) currently have no clear procedures in place to address these types of complaints. Given this lack of clarity, at least one tender under BACCP II (MONNCB-03/22) was canceled as the tender validity period had expired prior to the complaint being handled. Following the mission, KfW will prepare an official letter to MET and MoF, outlining the stipulations of our procurement guidelines regarding the handling of complaints and the extension of bid validities. In the meantime, the mission welcomes the fact that a tender complaint committee has been established by the Mongolian partners and recommends that members of this committee possess of relevant procurement related expertise. The Mission stressed that all tender related complaints needs to be brought to the attention of KfW and be addressed by MET by looking into the content of the complaint.

2.2.7 Direct awards: The mission noted a certain degree of unclarity regarding the further application of the direct award (DA) tendering procedure. Unless otherwise agreed with KfW, DAs shall be further implemented in line with the procedure previously non-objectioned by KfW.

2.2.8: Proposed study tour: Any study tour funded with BACCP funds will need to be based on a clear proposal to be submitted to and non-objectioned by KfW. Such a proposal shall be prepared by MET and identify the need, content, purpose, and goals of the study tour and be organized in a cost-efficient manner (i.e. by choosing a destination in the region and allowing for sufficient preparatory time). Study tour participants should focus on rangers/PAA authorities plus selected representatives of the PIU or IC and MET for coordination and follow-up purposes. The proposal shall be reviewed by the IC and then be submitted by KfW for non-objection.

2.3 Constructions

2.3.1 Planned WRTIC Khovd: Up to date no detailed/satisfactory needs assessment nor operational concept for the proposed centre has been developed and submitted to KfW for review so there is no basis for further decision-making (cf. MoM 2022). MET will prepare a proposal on how to proceed with the suggested building by end of August 2023.

2.3.2 Multifunctional PAA building in Great Gobi B: As per KfW's communication with ITG and the IC, KfW has not provided a non-objection to the technical drawings prepared for the planned multi-functional building and has asked ITG to make certain changes to these drawings. If MET agrees, costs associated with changing the drawings may be covered by BACCP funds. The mission would like to remind MET a) that a response to KfW's questions on the O&M concept needs to be submitted and kindly asks that these are submitted by June 25, 2023 and b) that responsibilities regarding the design and funding of the auxiliary buildings plus the equipment of the building need to be clarified. The IC/PIU will submit an updated road map for the proposed implementation of the building to KfW by July 10, 2023, also highlighting any open points that require further discussion.

2.3.3 Ranger Houses: Tendering of the ranger houses shall be done independently of the tendering of other construction measures. Any relevant preparatory activities shall follow the necessary safeguards procedures. Discussions between KfW and MET on the funding of additional PAA buildings will continue.

2.4 Environmental and Social (E&S) Risk Management

The performance of E&S Risk Management is currently moderately satisfactory due to the lack of coordinated E&S risk management. During the mission it was agreed to strengthen the coordination and planning of E&S risk management by updating the E&S workplan and developing E&S risk management flowcharts/checklists for a) ESMF implementation, b) the introduction of a Grievance Redress Mechanism, c) stakeholder engagement/communication and d) E&S risk and impact management, with initial priority given to b) and c). It was further agreed to carry out monthly E&S meetings (PIU and IC), quarterly meetings with KfW and to provide internal (monthly) virtual E&S trainings. Furthermore, to avoid parallel processes and enhance quality management, the mission asks that all national and international assigned E&S staff working for the IC and PIU shall work in a coordinated manner re. E&S risk management related planning, implementation, monitoring and reporting. E&S risk mitigation actions also need to be reflected in the procurement of works. A detailed action plan for the years 2023 and 2024, which covers the E&S risk management actions that were agreed during the mission, has been developed and shall be implemented by the IC and PIU accordingly.

2.5 Monitoring and Evaluation (M&E)

Via the technical reports submitted by the IC, KfW will require regular updates on the development of BACCP's impact/programme objective, outcome/project objective as well as outputs as defined in the logframe of the programme. For each indicator, a baseline value and a target value shall be set. Updates on each indicator shall be submitted at an interval that is jointly agreed with KfW. The IC is currently preparing a monitoring plan listing the requirements for the monitoring of each indicator and will submit this to KfW for approval. Technical reports prepared by the IC will be shared with the PIU prior to submission to KfW and MET.

Signed in Ulaanbaatar on June 13th, 2023

For MET

Mr. Ganbaatar Myagmarjav
Vice Minister MET

For KfW

Ms. Nina Otto
Sr. Project Manager/ Principal