Global Environment Facility (GEF)

MONGOLIA

Conservation of the Eg-Uur Watershed

GEF Medium Sized Project

PROJECT BRIEF

September 2002

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ACRONYMS

CAS	Country Assistance Strategy
CMS	Collaborative Management System
CTA	Chief Technical Advisor
DANIDA	Dutch Technical Assistance
DC's	District Councils
EUWA	Eg-Uur Watershed Area
EPA	Environmental Protection Agency
GDP	Gross Domestic Product
GEF	Global Environment Facility
GTZ	German Technical Assistance Group
IFC	International Finance Corporation
JICA	Japan International Corporation Agency
M&E	Monitoring and Evaluation
MBDA	Mongolian Business Development Agency
MNE	Ministry of Nature and Environment
MSP	Medium-Sized Project
NFTP	Non-Forest Timber Products
NGO	Non-Government Organization
PDF	Project Disbursement Fund
PPP	Public Private Partnership
PSAS	Private Sector Advisory Services
PSC	Project Steering Committee
PSU	Project Support Unit
TACIS	European Union's Technical Assistance for the Commonwealth of the Independent States
TFC	Taimen Conservation Fund
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
USAID	United States Agency for International Development
WMC	Watershed Management Council
WSC	Wild Salmon Center

PROJECT BRIEF

1. Identifiers:

Project Number:	**503476**
Project Name:	Conservation of the Eg-Uur Watershed
Duration:	5 Years
Implementing Agency:	World Bank
Executing Agency:	IFC
Requesting Country:	Mongolia
Eligibility:	CBD Ratification on 30 September 1993
GEF Focal Area:	Global Biodiversity
GEF Programming Framework:	OP 2: Coastal, Marine and Freshwater Ecosystems

2. Summary:

The project aims to establish a partnership between the local communities, government institutions and bodies, and tourist companies to collaboratively and proactively establish a natural resource management regime for the Eg-Uur Watershed Area (EUWA) in the north-western region of Mongolia. The financial sustainability and biodiversity conservation vehicle for the project is high-end, low impact catch and release flyfishing ecotourism. The underlying rationale of the project is to treat wildlife as a locally managed concessionable natural resource, rather than as a simple public good, thereby enabling the local communities to maximize the economic returns from its use. The Collaborative Management System (CMS) that will provide the necessary funding and management capacity is based on a Public-Private Partnership model: the GEF-led financing enables the implementing organization, a Mongolian NGO called the Taimen Conservation Fund (TCF), to sustainably manage the conservation activities of the EUWA as a trustee on behalf of the local communities.

3. Project History:

The American flyfishing company, Sweetwater Travel and its Mongolian partner, Hovsgol Travel, have been operating a successful flyfishing ecotourism business on the Eg and Uur rivers since 1995. They approached the IFC in 1999 to request funding to develop a conservation management system to protect the natural resources of the Eg-Uur Watershed Area (EUWA). To this end, the two companies established an NGO, the Taimen Conservation Fund (TCF), to assist the local communities manage the EUWA natural resources. The IFC, together with the WWF, have facilitated two stakeholder meetings (June 2001 and June 2002) with the representatives from the companies, local communities, provincial and national governments to develop consensus and determine the project structure. The content of this project brief is based primarily on the decisions made at the two stakeholder meetings.

4. Implementing Organization:

The TCF will consist of a management team and a board of directors. The management team of the TCF is the Project Support Unit (PSU), and the board is the Power Steering Committee (PSC). The PSU is responsible for project implementation and will be seconded to the local communities to facilitate inter-district coordination between the natural resource councils, which were established following the stakeholder meeting in June 2001 (*natural resource councils: seven District Councils (DC's) and one inter-district Watershed Management Council (WMC)*). The sponsors (Sweetwater and Hovsgol Travel) also enlisted the support of the Mongolian Business Development Agency (MBDA), an established NGO with ten years of operating experience in Mongolia, to assist the TCF in the initial project implementation stages. In addition, WWF Mongolia will continue to cooperate with the TCF, particularly on activities involving the development of the CMS and enforcement programs, and the execution of adaptive research studies and biodiversity assessments.

5. Costs and Financing (US $ Million):

GEF:		**1.0**
CO-FINANCING		
PRIVATE FOUNDATIONS*:		**0.6**
Concession and Licensing Revenues:		**0.43**
Sub-Total Co-Financing		**1.03**
TOTAL PROJECT COST:	**$**	**2.03**

Eg River

* The project sponsors and the IFC have jointly entered into discussions with private foundations to provide co-financing: $300,000 endowment funding for the Taimen Conservation Fund and $300,000 for project implementation costs. IFC is submitting the MSP Project Document prior to securing these funds in order to expedite the GEF review process, and will secure funding commitments from the co-financiers before disbursement of GEF funds. IFC believes that there is a high likelihood that these funds will be committed.

6. GEF Focal Point Endorsement:

Ms. N. Oyundar
Director, International Cooperation Department
Ministry of Nature and Environment
Mongolia
Endorsed on February 6, 2002 (see Annex 7)

7. IA Contacts:

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8. Project Linkage To Mongolia's Development Objectives:

The EUWA Project supports the Mongolian government's privatisation drive, a shift away from ownership and management control by the state to the private sector. Recently, the Mongolian Parliament approved a law to allocate a percentage, up to 85%, of revenues generated from natural resource uses (e.g. fees, concessions, licenses, tariffs) to be utilized for conservation initiatives. In 1997, the Mongolian Parliament also passed the National Program on Protected Areas to increase coverage of protected areas by up to 30 percent of its total land area. In 1997, Mongolia also ratified the Ramsar Convention on Wetlands. The project is consistent with the Biodiversity Conservation Action Plan of Mongolia (1997), which stresses the importance of wetland protection and natural resources management by the local peoples. The Mongolian government supports privately managed conservation initiatives. An example is the Prezhawalskii Horse Reserve at Huustai Nuuruu, in which the Dutch-based NGO, MACNE, manages a nature reserve on behalf of the local communities and the Mongolian government. The Environmental Action Plan (1995) and the National Agenda 21 (1998) also indicate the importance of conserving endangered species, as well as a sustainable utilization of wetland biodiversity in Mongolia. In addition, the project is consistent with the environmental laws of Mongolia, particularly the following laws: Land, Protected Areas, Buffer Zone, and Water Resources. Tourism is one of the leading hard currency earning sectors for Mongolia, and generates 10.2% of GDP, or US $ 105.2 MM. The government established the Mongolian Tourism Board to promote and coordinate national and regional tourism initiatives with the private sector. To date, there have been two Tourism Master Plans supported by the government of Japan (JICA) and the European Union (TACIS). The plans emphasize the importance of developing sustainable tourism/ecotourism development in biodiversity rich areas.

9. Project Linkage to World Bank CAS:

The Country Assistance Strategy (CAS 17604-MOG, June 2, 1998) states that the World Bank will assist the Government's poverty reduction efforts through support for community-based initiatives in sustainable land and resource use. It emphasizes support for a growth-orientation (such as development of ecotourism), including support for income-generating activities, the promotion of environmental awareness and sustainable resource use, and integration of gender concerns. The CAS also emphasizes broader participation of stakeholders, including the private sector.

10. Project Development Goal:

To ensure the sustainable conservation of the EUWA ecosystem through the realization of economic benefits from the sustainable use of wildlife, resulting in equitable sharing of financial benefits between the local communities and private operators:

(i) Objectives

a. To conserve biodiversity-rich taiga riparian, forest, and prairie ecosystems;

b. To monetize a previously unvalued natural resource through implementation of a natural resource use concession and licensing system;

c. To demonstrate to the local inhabitants and other communities throughout Mongolia, that flyfishing ecotourism can provide a competitive rate of return as compared to alternative, higher impact industries, such as mining, logging, and hunting, while complementing the traditional pastoral nomadic way of life.

(ii) Rationale

a. The EUWA boasts one of the most pristine and biodiverse taiga riparian ecosystems in all of Eurasia. It consists of a uniquely self-contained hydrological network from source to confluence, and is naturally protected by rugged mountain ranges in all directions. It supports a unique hard currency earning asset: a healthy population of taimen, which is a highly sought-after game fish;

b. Despite its remote location, the watershed is easily accessed by low-impact forms of transportation, such as small planes and helicopters, which, is an ideal condition to develop high-return forms of private sector managed ecotourism. The GEF intervention provides the conditions to initiate a natural resource user fee system, which will tap into these returns to fund biodiversity conservation and community development on a financially sustainable basis.

EUWA

11. Key Performance Indicators:

Objective to Be Monitored	Performance Indicator	Expected Change
Collaborative Management System	Participation of stakeholders in the management of the EUWA natural resources through the convening of natural resource councils Establishment of use zones Establishment of tourism carrying capacity limits Establishment of a user fee collection system, including such instruments as: concessions, outfitter fees and licenses Establishment of outfitter certification program	Formation of CMS results in increased dialogue between local inhabitants and watershed decision-makers Formation and operation of District Councils (DC) results in more effective management of natural resource use at the local level within the first year Formation and operation of Watershed Management Council (WMC) results in a more coordinated management of natural resources at the inter-district, watershed level within the first year The WMC designs a Natural Resource Management Plan for the watershed within the first three years
Natural Resource Management Regime	Implementation of the Natural Resource Management Plan at the district levels within the first three years Health of wild fisheries and fish populations (as indicated by on-going monitoring activities) Health of the terrestrial animal populations (indicator of poaching activity) Incidence of fires in the watershed (indicator of poaching activity) Use of adaptive research and biodiversity assessments to support inter-district cooperative management of natural resources The finding of the studies and data collection are disseminated into English and Mongolian in an accessible and readable format to both the general public and international scientific community by the end of the project	Anti-Poaching Brigade formed, trained and operational, and is actively monitoring watershed hot spots within the first two years of project inception Increased use of adaptive research findings in developing conservation and natural resource use strategies (for example stable populations of taimen are maintained through wild reproduction, as a result of the establishment of user zones and user limits based on migrations patterns and breeding requirements) Sustainable (no-kill, do minimal harm) catch and release fishing standards are adopted in the most commercially viable and biodiversity strategic zones Fishing and hunting activities are monitored and appropriate natural resource use fees are levied on a fully participatory watershed level within the first three years
Sustainable Use Systems and Alternative Livelihoods	Private outfitters have successfully secured user rights to zones on the watershed and are paying the full contracted amounts within the first three years License fees are collected based on actual user numbers by the end of the project Financial and administrative self-sufficiency Amount of employment opportunities, outside of the traditional subsistence herding activities Average income of households participating in the tourism industry Growth in SME's in the tourism industry Private outfitter commercial viability Increased employment opportunities in alternative livelihoods	Licensing, outfitter fee and concession system is operational within first three years, including an open and transparent tender process (for example concessions) Revenues collected are appropriately distributed to fund on-going conservation efforts within the first three years Surplus revenues collected are appropriately distributed to the local communities to further promote development activities in the watershed Conservation activities are financed by the revenues on a long-term financially sustainable basis by year five Replication of model on other watersheds in the country Replication of model on other watersheds outside of Mongolia Private outfitters receive commercial credits to establish or expand operations in this watershed, or other watersheds that have adopted similar sustainable use systems

I. PROJECT SITE

1. The Eg-Uur watershed area (EUWA) is a located in a remote region of Northern Mongolia where the Eg and Uur rivers meet. The Eg river, 474km in length with 40,454 km2 of catchment area, originates from Lake Hovsgol and flows south where it meets with the Uur river (see Annex 1). The Uur river, 331 km in length with 12,300km2 of catchment area, originates from the Kheven-Saluu mountains in NE Hovsgol Province and flows south until it meets the Eg river. The combined Eg-Uur, recognized from this point on as the Eg river, flows for another 200 km's until it reaches the Selenge river, a tributary of Lake Baikal. The triangular shaped watershed area, consisting of the Eg and Uur rivers until the point of confluence with the Selenge river is recognized as the Eg Uur Watershed Area (EUWA), a total area of approximately 3.48 million ha, which constitutes about 16.3 per cent of the total catchments of the Arctic Basin in Mongolia. The EUWA covers territories of 6 districts in the Hovsgol province (Alag-Erdene, Hatgal, Tunel, Chandmani-Undur, Tsagaan-Uur and Erdenebulgan), and one district in Bulgan province (Teshig).
2. The EUWA is a mosaic of forest and grassland including characteristic species of Siberian and Mongolian taiga. The region is characterized by dark chestnut, chestnut and podzol soils. The forest ecosystem of the area comprises the forested areas of the eastern part of Lake Hovsgol, between 49°30'N-51°N and 100°E-106°E.
3. The region's climate is continental, dry and cold. The mean temperature in winter is –20°C and in summer it is 15-20°C. In this area, winter starts in the last 10 days of October and lasts for 140-170 days. Snow starts to fall very early in the autumn season, averaging 5-10 cm, and in some areas reaching as much as 36 cm. The mean precipitation in the area ranges from 250 to 350 mm.
4. The EUWA has a population of 20,800, with 5,334 households. More than half of the population is engaged in semi-nomadic livestock herding, while the rest live in settlements, mostly in district centers and villages. About 43.4 % of the whole population falls under the poverty line, significantly higher than the national average of 28 %.

II. GLOBAL SIGNIFICANCE OF THE BIODIVERSITY

5. Though many of Mongolia's wilderness areas are of outstanding beauty, the EUWA is particularly spectacular, largely due to its geographical isolation from major population centers. It is a major water catchment area for Mongolia. Various water quality indicators classify it to be at the highest standards in the world.
6. Located in the South Baikal forest zone, the EUWA, contains about 10 percent of forest reserves of Mongolia. It includes taiga and sub-taiga forest zones, with such dominant species as cedar, taiga cedar, taiga larch, sub-taiga larch and birch. The forest and grassland that covers the entire region contributes not only to the overall health of the Eg-Uur watershed region, but also to a protected area across the border in Russia. The region has great potential to develop and promote trans-boundary conservation initiatives.
7. The EUWA is internationally known to be rich in taiga fish species, and is one of the last remaining natural habitats for the taimen (*Hucho Taimen "*Siberian") (length of up to 2.0 m, weight 50 kg), the world's largest salmonid and one of its least studied freshwater game species. The region provides a natural habitat for 12 fish species, such as the taimen, and including the: Siberian Sturgeon (*Acipenser baeri)*, Arctic Cisco (*Coregonus autumnalis)*, Grayling (*Thymallus arcticus),* Asian trout (*Brachymystax lenok*), Minnow (*Phoxinus phoxinus*), Lagowskii's Minnow (*Phoxinus Lagowskii*), White fish (*Coregonus lavaretus*), Stone loach (*Nemachilus barbatulus*), Siberian spiny loach (*Cobitus taenia sibirica*), Burbot (*Lota lota*), Common carp (*Cyprinus carpio*) and Pike (*Esox lucius*). Based on the frequency of occurrence, the fish species are classified in three groups in Mongolia: very rare (Siberian sturgeon and common carp), rare (taimen, Lagowskii's minnow, white fish, stone loach, Siberian spiny loach, burbot and pike), common (Asian trout "lenok"{the long nose species}, grayling and minnow).
8. The taimen is one of three species in the Hucho genus: Hucho Perryi (Para Hucho Perryi, "Sakhalin"),

Hucho Taimen ("Siberian"), Hucho Hucho (*Huchen, Danube Salmon*). The **Hucho Taimen** habitat traditionally extended from east of the Urals to the Siberian far east, with highest concentrations residing in tributaries and littoral areas of Lake Baikal, including on its southern reaches: Mongolia and SE Russia. The highly endangered **Hucho Hucho** lives in small pockets throughout the Danube river watershed in Central and Eastern Europe. The **Hucho Perryi**, the anadromous cousin of the Hucho Taimen, has a range that is limited to the rivers that connect to the Sea of Japan. Today, the stocks of all Hucho species are drastically decreasing around the world due to water pollution, intensive poaching/hunting and over-fishing. The EUWA is one of the last remaining habitats that holds a robust Hucho population.

9. Of the three taimen species in the Hucho genus the IUCN lists the Hucho Hucho as "Endangered" (EN A2bcde,B1+2bce). Whereas, the Hucho Taimen has been listed under Mongolia and Russia's *version* of the IUCN Red Book as threatened. However; the IUCN hasn't recognized either country's classifications yet, as a conclusive study to determine an internationally accepted threatened species classification has not been produced. An important output of this project is to establish an IUCN threatened species classification for the Hucho Taimen.

10. In addition to fish species, the region is habitat to 51 mammals and 21 species of rodents, many of which are endemic and, or, endangered. The Eg-Uur Watershed contains the last remaining wild reindeer (*Rangifer tarandus*) habitat in Mongolia. The reindeer herd with about 30 animals, inhabits the taiga forest at the Uur river basin. Other mammals that are found in the areas are musk deer (*Moschus moschiferus*), moose (*Alces alces*), Maral Stag (*Cervus candensis*), Siberian elk and wild boar (*Sus scrofa*). Among those, musk-deer, reindeer and moose are listed in the Red Book of Mongolia, while red deer and boar are classified as rare. The carnivores are also well represented in the region, such as Pallas' cat (*Felis manul*), brown bear (*Ursus arctos*), gray wolf (*Canis lupus*), red fox (*Vulpes vulpes*), corsac fox (*Vulpes corsac*), stoat (*Mustela erminae*) steppe polecat (*Mustela eversmanni*), Eurasian lynx (*Lynx lynx*), Eurasian badger (*Meles meles*) and lesser weasel (*Mustela nivalis*). Among the rodents, the red squirrel (*Sciurus vulgaris*) and marmot (*Siberian marmot*) have become very rare in recent years..

11. The EUWA is also known for its rich bird species, 189 in total, of which 123 are migratory. Among them, 9 species are listed in the Mongolian version of the Red Book, including the black stork (*Ciconia nigra*), whooper swan (*Cygnus Cygnus*), swan goose (*Anser cygnoides*), osprey (*Pandion haliaetus*), white tailed eagle (*Haliaeetus albicilla*), hooded crane (*Grus monacha*), white-naped crane (*Grus vipio*), great bustard (*Otis tarda*), and Eurasian penduline tit (*Remiz pendulinus*). In recent years, the region has also become habitat for the Imperial eagles (*Aquila heliaca*), whose population has drastically decreased in the south Siberia and Lake Baikal areas over the last few years. A total of 18 species of waterfowl have been identified during spring and autumn, many of whom spend the summer in the region.

12. In addition, there are many species of insects, mollusks, amphibians and reptiles that are critical to maintain an ecological balance in the region. The papilio muchaon (*Papilio machaon*) and privet hawk-moth (*Sphinx ligustru*) that are found in the region, for example, are also listed in the Mongolian Red Book.

III. THREATS TO BIODIVERSITY

13. The EUWA is a relatively remote and untouched area. Its nature has been kept relatively intact without too much human disturbance until the last few years. However, the region is experiencing increasing threats from depletion of species due to illegal poaching of terrestrial game species and fish. Moreover, land and habitat degradation are rapidly increasing due to deforestation, as well as increased economic activities, such as over-grazing, mining and infrastructure development. Each of these threats is discussed below together with their underlying root causes.

Illegal Hunting

14. Illegal hunting and animal by-products trading has increased dramatically over the last 10 years, following Mongolia's adaptation to a market economy. There are several major underlying causes. First of all, because of the isolation of the region from the central provincial markets most of the herdsmen raise their

animals for subsistence needs. For many of these herdsmen, the trading of wild animal parts is an expedient way to gain cash income. Second, unemployment has become a serious social problem in all the districts of the region. Formerly hired by State government and industries, many district inhabitants became unemployed following the shift from the command to a market economy. These people have now learned to hunt wild animals to cover their cash and subsistence needs. Third, serious threats from hunting come from domestic and international tourists. Hunting is increasingly becoming a hobby for many more prosperous Mongolians.

15. Illegal hunting stems in part from a lack of knowledge of existing laws and regulations. Not only the local herders, but many government officials and rangers do not even have a clear understanding of existing laws on hunting. International tourists are also not provided with adequate information. Moreover, the enforcement of laws is very weak in the EUWA. The environment inspectors and rangers have not received adequate training and equipment to carry out their duties. Financial resources are also severely limited for conservation activities. In fact, they are barely enough to pay the salaries of the inspectors and rangers. While mainly local people carry out illegal poaching and fishing, it has been difficult for the local rangers to arrest them in small communities in Mongolia where everyone is related or are friends or acquaintances. An informant system is also not in place in this sparsely populated country. Finally, the existing laws and regulations, with their existing penalties, do not provide adequate control mechanisms to prevent hunting because of inadequate penalties. In many cases, the market price for the hunted products is much higher than the fees and penalties.

16. Major hunting in the area includes musk deer, elk, boars, and squirrels. Among mammals, musk deer is both the most threatened species and the most profitable for illegal hunters. This is related to the high demand in China for the musk glands. Although no population census has been undertaken for the musk deer in the region, local people have noticed a dramatic decrease in the deer population. Reaching about US $ 25-30 per scent gland in the local market provides a high incentive for local people to hunt and poach these animals. Due to the near elimination of their musk deer population in their own districts, some hunters are now moving to the neighboring districts to hunt deer, increasing conflict between districts. The elk population has drastically declined because of the illegal hunting of the animal for its antlers. Surveys during 1999-2000 indicate that deer density in the region has declined to less than one elk per 15 km2. The hunting is initiated due to the high price of elk antlers in the market, which reaches about US $25 per kilogram in the region. These elk antlers are exported to both Russia and China for medicinal purposes. An illegal trading system has been developed in the region where middleman from the cities come to the local villages and even to the herder's home to buy these products at low prices.

Illegal Fishing

17. A relatively minor amount of illegal fishing is due to local people. Concerning the pressure caused by the local communities, the illegal fishing that occurs during the spawning and migration periods, or the ice fishing that goes on in the wintering areas, represents the greatest threat to the fish stocks. These poachers are typically the less established herdsmen, or visiting relatives from provincial centers. It is not uncommon for Russian poachers to cross the border to illegally fish and hunt. Although 2,055 fishing licenses were issued for household consumption purposes during 2000 in the EUWA, the quantity and type of fish caught under the license are not monitored and controlled. In addition, illegal fishing is conducted during the winter months when it is easy to fish and transport the catch to market. Fishing during this period could lead to significant impact on the fish population, as taimen are known to gather in the few deep holes, the whereabouts of which are well known throughout the community.

18. Market demands for these fish resources are increasing in some areas where it is more accessible, particularly in Hatgal village. In Hatgal, families about 80% of families are engaged in illegal fishing for the markets in Murun and Ulaanbaatar. The fishing by local people is not targeted to the taimen fishery only, but generally for any type of fish. In some cases, due to lack of fishing hooks or other appropriate tools, some prohibited fishing methods such as fishing by pitchfork, dynamite and electric-shock are practiced even in the wintering areas and spawning sites. As a consequence, the taimen and other fish species are seriously threatened in some areas of the watershed. The existing legislation does not provide sufficient

penalties to halt and prevent illegal poaching. For example, the average market price of taimen is US $ 0.75 per kg, or approximately US $ 15 per fish, while the fine is only US $ 2 – 5 per violation. Moreover, the fish license for locals is inadequately priced: 2 taimen and 10 other fishes are US $ 0.60.

19. The greatest threat is coming from outsider fishers: the domestic and expatriate tourists. Many of these outsiders have limited knowledge of the need to obtain licenses. Most disconcerting is the tourist traffic from Eastern Europe where the Hucho Taimen's cousin, the Hucho Hucho is highly endangered. For most Eastern European fishers a trophy taimen head obtained during a trip to Mongolia ranks as a lifetime achievement, a passage right of manhood. In addition, an increasing number of city dwellers are visiting the EUWA for taimen fishing, although no official numbers have been recorded. The fishing by these groups is usually conducted as a hobby, and often the fish that are caught are wastefully discarded.

Deforestation

20. **Fire:** Forest fires, are leading to serious water and land degradation in the EUWA. Due to intensive forest fires in 1996-1998, timber, trees and animals have significantly decreased in the EUWA. In a few districts during the years 1996- 1998 fires destroyed more than half of the forest reserves. Forest fires occur mainly due to careless activities of poachers. Research has also determined that due to forest fires, permafrost soils are melting and water reserves are declining, which is leading to flooding in the spring and drought in the summer. Fire-fighting capacity is limited at the district level, because of a lack of equipment and limited training.

21. **Logging:** Large scale commercial logging is not operational in the area at present, since the state industry stopped its operations in the early 1990s. Though 323 illegal logging cases were revealed in year 2000 in the EUWA, it is considered to represent a very small percentage of the actual illegal logging activities going on in the area. The Buriats, the major minority ethnic group in the area, live in a log house during the summer and require a substantial amount of timber for their house construction. It is well known among the locals that many poor families illegally collect timber in the forest. Moreover, most forest areas in EUWA suffer from uncontrolled collection of bushes and small trees for kindling and fodder for the herds. According to the government's records, approximately 7,000 - 8,000 m2 of firewood is collected and sold by local entrepreneurs per year to meet the needs of the villages in Tsagaan Uur, Erdenebulgan, and Teshig districts. It is widely known that local inhabitants extract much more than the government officially recognizes.

22. **Insects:** Another concern is the forest loss caused by the Siberian silk moths, which have spread in the area dramatically over the past few years, and in some cases have destroyed entire swaths of forestland in a few locations. In Bulgan aimag, a total of 270,000 ha has been infected, which is approximately 20 percent of the entire forest area. The increasing infestation of this pest seems to happen every few years in Mongolia, but it has occurred just recently for the first time in the EUWA. Only limited research has been conducted on the consequences of this insect infestation on the forests in Mongolia.

Mining exploitation and Infrastructure development

23. Although the EUWA is a relatively remote area, proposals for economic development activities like mining exploration and development and related infrastructure construction are increasing every year. Mining exploration and possible development, as well as construction of roads and hydroelectric power plants are becoming threats to the region's environment. A few bridges, roads, and electricity lines have been constructed in the region in the past few years.

24. A gold mine run by a Mongolian company started its operations a couple of years ago at the source of the Tavt river, which is one of the tributaries of the Eg river, located below the primary fly-fishing sections of the river (anecdotal evidence suggests that the taimen does not migrate over long distances). The mine is expected to produce some 5 tons of gold reserves, with 150-200 kg to be extracted every year. Gold refinement uses various chemical substances (e.g. arsenic), which have a high potential to contaminate the river. The dam that is used to filter the tailings, which was built 40-50 m from the river basin, has a high potential for water contamination. An environmental impact assessment of the mining operation is currently underway, but the results are not yet available.

25. A small hydro power plant (200 KW) is planned to start in late 2002 in the Erdenebulgan district with funding from DANIDA. A canal will be constructed parallel to the river and this could have adverse impacts on fish migration, if it is not constructed properly. An environmental impact assessment study was undertaken; but the results are not yet available.

Tourism Activities

26. Although tourism development has great potential to promote conservation activities, there are potential risks and negative impacts from such activities on the biodiversity in the EUWA. As a result of the depletion of fish stocks in other rivers in Mongolia and the introduction of successful sustainable use techniques by Sweetwater Travel, the Eg-Uur is increasingly gaining the reputation as the premier fishing destination in Mongolia. This popularity translates into an increased demand by other fishers and tourists coming to the region: higher impact from increased volume and potentially lower conservation standards. Sweetwater Travel and Hovsgol Travel have been able to effectively regulate their clients, because they maintain a ratio of one professional fly-fishing guide for every two tourists. This close supervision by professionals of small tourist groups insures consistency in conservation practices in the uses of the watershed's natural resources. A good example of the negative impact that unsupervised catch and release fly-fishing tourists can have on a watershed is that mortality rates can increase from under 5% to 20%. Close professional supervision is one of the conservation benefits of high-end, low-impact ecotourism. Although the number of tourists hasn't on average exceeded 200 per year, tourist camps have been developed and more visitors are coming to the area every year.

27. There are currently four tourist camps operational in the EUWA: three camps run by the Hovsgol Travel/Sweetwater Travel and one by Central Mongolian Airways. There was a total of approximately 200 tourists in 2000, including nearly 100 of them who visited the area exclusively for taimen fishing hosted by the Hovsgol/Sweetwater Travel camps. Currently the tourist camps in the EUWA are paying a lump sum fishing rights fee and are not paying for each fish caught by their tourists. Other than the 100 catch and release fly fishers who visited the Hovsgol/Sweetwater camps, there is no record available on the number of fishers or the type and quantities of fish caught by the other tourists.

28. There is increased concern by some of the local peoples towards the jet boat that is used by the tourist camps, as well as waste and sewage systems of the camps. Motor vehicles travelling on the rivers in this region are completely new and foreign to the local inhabitants. The direct impact of motorboats on the river is yet to be determined. More information is needed on possible direct local impacts and lessons learned from the experiences and policies of other parks and protected areas in which motorboats are allowed. Moreover, poor tourism infrastructure in the area, such as a lack of roads and bridges, can also lead to habitat fragmentation and land degradation by increased transportation using off-road vehicles.

Overgrazing

29. Overgrazing of pasture land is an increasing threat to the overall ecosystem in the EUWA. Recent studies have revealed that extensive overgrazing is resulting in pasture degradation in all districts in the region. Data shows that pastures in the EUWA have exceeded the carrying capacity by average of 29.6%. In particular, herders from neighboring districts have intensively used reserve pastures in the districts during the *dzuds* (Mongolian term for the disaster started by a dry summer, and followed by a large amount of snowfall in the winter). In addition, there are major concerns about overgrazing in border areas by herders from neighboring districts. For example, every year 30,000 livestock from Ulaan-Uul district spend the winter in Tunel district, which leads to overgrazing of pastures in concentrated areas near the district borders.

30. Overgrazing is becoming a concern throughout the nation due to the absence of adequate policies and regulations by both central and local government bodies ever since the change in the economic system in the early 1990s. Herders have taken advantage of free access to state-owned grazing land and the absence of accountability mechanisms to engage in overstocking. Moreover, increasing number of herders now remain close to settlements, where the social services are concentrated, rather than engage in seasonal migrations. This causes pasture degradation near settlement areas.

IV. PROJECT OBJECTIVES

Threats	Response
I. Poaching	
Illegal Fishing and Hunting	• Natural Resource Management Plan provisions; • Regulatory reform; • Concession and Licensing system; • Enforcement (human and technical) capacity building; • Administrative (human and technical) capacity building;
II. Deforestation	
Fire and Insects	• Natural Resource Management Plan provisions; • Administrative (human and technical) capacity building;
Logging	• Natural Resource Management Plan provisions; • Limited Enforcement (human and technical) capacity building; • Administrative (human and technical) capacity building;
III. Economic Growth	
Mining, Infrastructure, and Overgrazing	• Natural Resource Management Plan provisions; • Administrative (human and technical) capacity building;
Tourism	• Natural Resource Management Plan provisions; • Certification system; • Regulatory reform; • Concession and Licensing system; • Alternative livelihood options and training;

31. The project aims to remove threats to biodiversity by:
    - Developing a participatory management plan, implementation structure, and policy framework for biodiversity conservation in the EUWA;
    - Improving human and technical capacity to better manage and conserve biodiversity and ecosystems in the EUWA;
    - Improving sustainable use practices and livelihood options in the EUWA;
    - Improving information, communication, and education system to support policy, planning and decision-making in the EUWA;
    - Providing for financial sustainability to ensure that the local inhabitants have sufficient resources to address future threats.

32. Although the EUWA remains a relatively pristine habitat for the taimen and other species, the lack of a conservation management plan and the recognition of an economic value for the sustained use of the natural resources in the area has a high potential to allow unplanned economic development and further damage to the ecosystems. The government recognizes the threats to Mongolia's natural resources, and with support from donors has been working actively to develop the regulatory framework to promote conservation and human development initiatives. The proposed GEF intervention, aims to assist local communities to build upon the government's baseline commitments to ensure conservation significant biodiversity found in thein the EUWA's ecosystems. The proposed project will be implemented in coordination with the private and public sectors. **It is important to note that the ecotourism companies, Sweetwater Travel and Hovsgol Travel, were the first organizations to practice proper conservation-oriented natural resource management practices in the EUWA. It was at their initiative through a proposal to the IFC, that the GEF intervention was recommended.**

33. The project specifically addresses GEF's Operational Program # 2: Marine, Coastal and Freshwater Ecosystems, with a targeted approach to integrating communities, biodiversity conservation and the private

sector under a CMS for the EUWA. The project expects to remove specific barriers and threats to biodiversity conservation in the EUWA, principally through strengthening human and technical capacity. Aligning the interests of nomads and villagers on the coordinated use of differentiated, but dependent ecosystems requires a highly integrative approach to the management of the EUWA's natural resources.

34. The project places great importance on a single keystone species, the taimen, because: (i) It is the indicator species, and its decline signals the decline of the ecosystem; (ii) The financial viability of biodiversity conservation is highly dependent on its survival. In addition, to promote public awareness, the taimen, will be used as a 'flagship species' for the purposes of external communications and marketing programs. For example, the project leverages the name recognition of the taimen by naming the NGO, the Taimen Conservation Fund, after it. The strategic use of the word "taimen" in the name of the NGO will enhance the NGO's ability to raise additional funds from the visiting tourists, who on average are quite wealthy, and have a history of making sizeable contributions to such organizations.

35. The project sponsors and stakeholders take the view that because of budget limitations and the challenges of building a skilled and dedicated management team, committed to five years of working in a remote Siberian location the size of the Czech Republic, that the project must remain highly focused, bound by identifiable and accountable outputs and reasonable expectations. The project's resources will be concentrated on developing and protecting the watershed's ecosystems that surrounds the two rivers: the areas that provides critical habitat for the aquatic species, which is currently the single and only major hard currency revenue producer for the watershed. This protective net would also include the adjoining forest and prairie transition zones, migratory bird areas, swamplands and tributaries that have direct links to the health of the riparian ecosystem. The project sponsors recognize: (i) Forest fires and illegal logging degrade river banks and destroy fisheries; (ii) Poachers scare tourists and kill wild mammals, which are important links in the overall health of the ecosystem; (iii) Healthy levels of biodiversity are an important component to attracting tourists to the region, thus any type of unsustainable extractive industry can instantly destroy the ecosystem's ability to attract tourists. As the project evolves it will extend its reach outward, resources permitting, to cover the remainder of the watershed's terrestrial resources, according to the comprehensive EUWA Natural Resource Management Plan.

V. CURRENT SITUATION (BASELINE COURSE OF ACTION)

INSTITUTIONAL AND POLICY SITUATION

Biodiversity Conservation

36. The Government of Mongolia has made a strong commitment to further the conservation of biodiversity and ecosystems in the country. More than 20 environmental laws have been established to regulate land use and to conserve natural resources in the country. The implementation of the laws is facilitated by more than 60 regulations, 105 parliamentary rules and procedures, and more than 100 decrees by the Ministry of Nature and Environment.

37. Based on this legislation, a total of 48 protected areas, covering approximately 20 million hectares (i.e., 13% of the country's territory) have been established to date. Under the National Program for Protected Areas, the government has committed to place 30 percent of its land under protection. The EUWA has been identified as one of the sites to be nominated as a protected area in the near future with its biodiversity richness and importance of trans-boundary conservation initiatives.

38. The parliament has recently approved a law to establish a fund for environmental conservation and restoration from the revenue of natural resource use at the local level. The law establishes a legal base to share revenue from the natural resource use fees (forest, hunting, land, and water use fees) for conservation. Following this law, the Bulgan province in the EUWA will be able to use approximately US$ 50,000 for conservation initiatives annually.

39. The Environmental Protection Agency (EPA), under the Ministry of Nature and the Environment (MNE) is the government agency in Mongolia that is responsible for the implementation of environmental policy and laws. The provincial and district governments are responsible for the protection of the environment outside of the protected areas at the local level, in coordination with the MNE. Under the provincial governor, an Environment Conservation Unit is appointed to oversee and implement conservation and natural resource use policy in the entire province. Each district also appoints a district inspector and 5-7 rangers. In total, there are about 35-40 inspectors and rangers in the EUWA who are responsible for nature conservation and enforcement. Most of the staff have unrelated backgrounds to the environmental conservation profession, and have received very limited training and have no equipment to conduct their duties. Rangers lack uniforms, transportation, and basic equipment such as binoculars, guns, and radio communication systems.

40. In addition to the government rangers, Sweetwater and Hovsgol Travel's tourist camps in the EUWA has hired a total of about 15 private rangers to patrol the river basin. This innovative system is operational year around, though it has met with limited success. This is due to a lack of training (none of them have had training) and official authority (many of them are not officially appointed by the local government as rangers, and thus have little enforcement authority and power).

Tourism Development and Policy Linkages

41. Mongolia's Tourism Master Plans acknowledge that most tourists come to Mongolia to enjoy its nature, traditional culture and biodiversity. For this reason the plans emphasize the importance of further promoting nature conservation initiatives and developing ecotourism.

42. There are no on-going projects related to environmental conservation and sustainable natural resource use in the EUWA. The baseline situation reveals that the ecosystem in the EUWA is vulnerable. Until this project there has been little to any attention paid to the ecological management of the watershed. Development is inevitable, and appropriate action now could increase the likelihood that conservation will accompany development. GEF intervention at this stage will catalyze the development of an appropriate framework for conservation through sustainable use of resources within the ecosystem.

43. The Tourism Promotion Board of Mongolia, under the Ministry of Infrastructure has been given the mandate to promote and implement the tourism policy, including eco-tourism development. However, tourism is a relatively new industry in Mongolia and it is in its early stages of development. Particularly, ecotourism development, with the focus on nature conservation and community involvement has just started in a limited scale with support from GTZ supported conservation project in the Gobi and Khan Khenti Protected Areas, and WWF in western Mongolia. This project will coordinate its activities, and learn from the experiences of other in-country projects. Private sector involvement in conservation initiatives is new and innovative to Mongolia, and could generate strong interest as a model to be used in future projects as a way to sustainably finance conservation initiatives in Mongolia, and in the surrounding region.

VI. EXPECTED PROJECT OUTCOMES (ALTERNATIVE COURSE OF ACTION)

44. The goal of the project is to develop technical and human decision-making capacity in the local communities to sustainably manage conservation on the EUWA. At the end of the five-year project, the following outcomes are expected:

1) Collaborative Management System – Developed a highly participatory inter-district natural resource advisory council system to coordinate biodiversity conservation policy for the EUWA;

2) Natural Resource Management Regime– Developed a natural resource management plan and implemented an operations and administrative system to sustainably manage biodiversity conservation in the EUWA;

3) Sustainable Use Systems and Alternative Livelihoods – Increased alternative livelihood options in the

EUWA through the increased participation and training of the local community inhabitants in the economic development of the region.

45. Though Mongolia as of 1991 was a communist country, it has made significant strides since then in developing a multi-party, participatory democratic political system at all government levels: national, regional and local. The project aims to enhance and build capacity in the existing government institutions and bodies by: (i) Establishing natural resource councils at the district and watershed level; (ii) Providing technical and fiscal management support to these councils[1].

46. **Financial Sustainability:** The financial sustainability component of the project is the proposed concession and licensing system. The stakeholders agreed to create a user zone system on the rivers, in which select areas are identified as either low, high or restricted areas, and are accorded the respective natural resource use rights based on strict carrying capacity limits and optimal yield management levels (see Annex 4 for a proposed model). The natural resource rights in areas determined to be best suited to high-end flyfishing tourism will be sold exclusively to the highest bidder through a competitive bidding system, such as an open tender or auction system on a long-term, right of first refusal basis. All bidders will require pre-appraisal approval and certification by the TCF before being permitted to enter the competitive bidding procedure. The IFC, through its consultations with the sponsors, other outfitters operating on similar natural resource concession systems, and through its own due diligence has preliminarily identified base-case minimum concession amounts for the use of the watershed's riparian natural resources (see table and graph below). This requirement will ensure that the local communities receive the minimum amount to cover the costs of the conservation system on a sustainable basis. To ensure that the local communities also share in the potential upside, the concession agreements will include revenue sharing covenants.

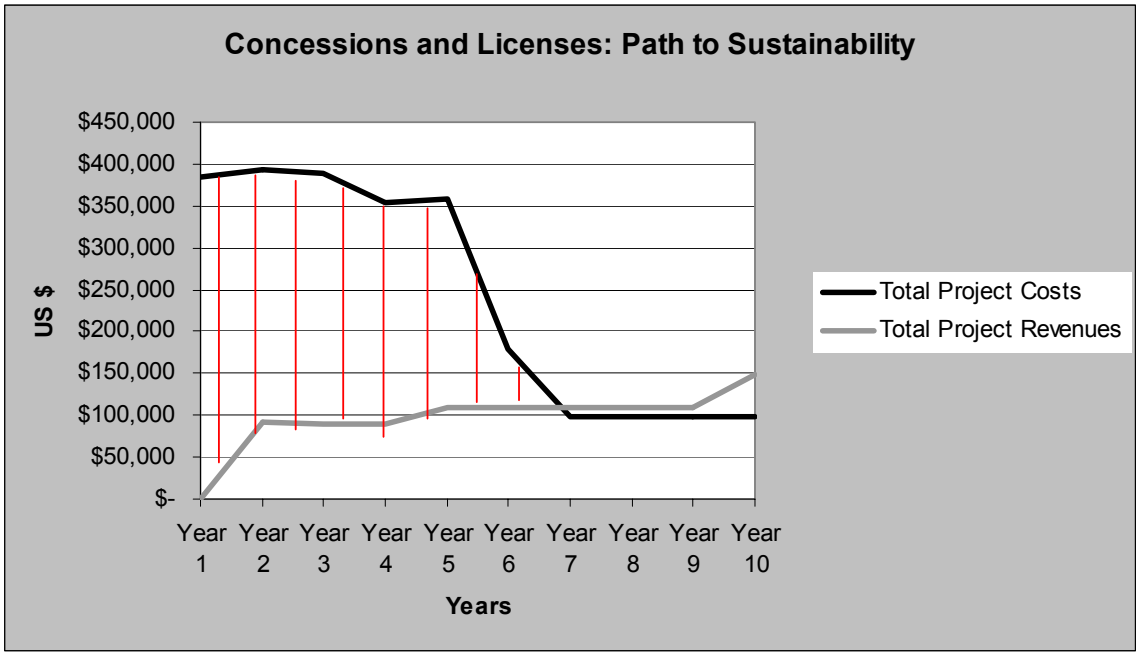
    Current projections estimate that the EUWA has the capacity to generate US $ 110,000 per year or more from a combination of user fees if an effective natural resource management plan is implemented and enforced (see table below or the project budget in Annex 8). In the case of concession fees it's projected that the base case minimum that the flyfishing companies should pay to the local communities for the long-term (15 year minimum) natural resource use rights to the river's gamefish populations is US $ 20,000 per year. Under this scenario the river is divided into five concession zones on a variable rate, based on resource productivity. The zones would be leased exclusively to private companies under an open and competitive bidding system, such as an auction. In addition to the annual concession payments, it's projected that there would be a one time initiation fee charged to the winning bidders, which is projected to total US $ 20,000 for all five zones. By year five it's projected that the minimum concession fees would double to US $ 40,000 to account for the implementation of the EUWA Natural Resource Management Plan and the accountability of enforcement of the natural resource use rights. To add an additional layer of incentives, the concessionaires would be committed to a 10% minimum revenue sharing agreement with the local communities, that would be adjusted on sliding scale upwards based on profitability benchmarks. The base case projects that this amount could total in the range of US $ 50,000 annually. Additional fees include a sustainable sport fishing certification fee of US $ 2,000 per year and individual licensing fees, based on a tiered variable rate, depending on residence and nationality, which totals approximately US $ 9,000 / year (see Annex 8 for financial projections and project budget).

    The base case scenario estimates that the project will require five to six years of incremental concessional financing to get the initial conservation system operational and sustainable. By year six or seven the necessary systems will be in place such that the EUWA will no longer require incremental cost financing (See financial sustainability point reached at years six and seven in the table and graph below). At this point the operational costs are estimated to be about $100,000 / year, which would be covered by the base case minimum concession and license revenues generated by the private sector operators. This amount could

[1] Hereafter, any reference to "natural resource councils" refers collectively to the EUWA ecosystem level council, Watershed Management Council (WMC), and the seven participating district or village level councils, District Councils (DC's).

well be above this minimum depending on the success of the project's implementation. In case there are any shortfalls, the project budgets some endowment funding from co-financing sources in years six through ten.

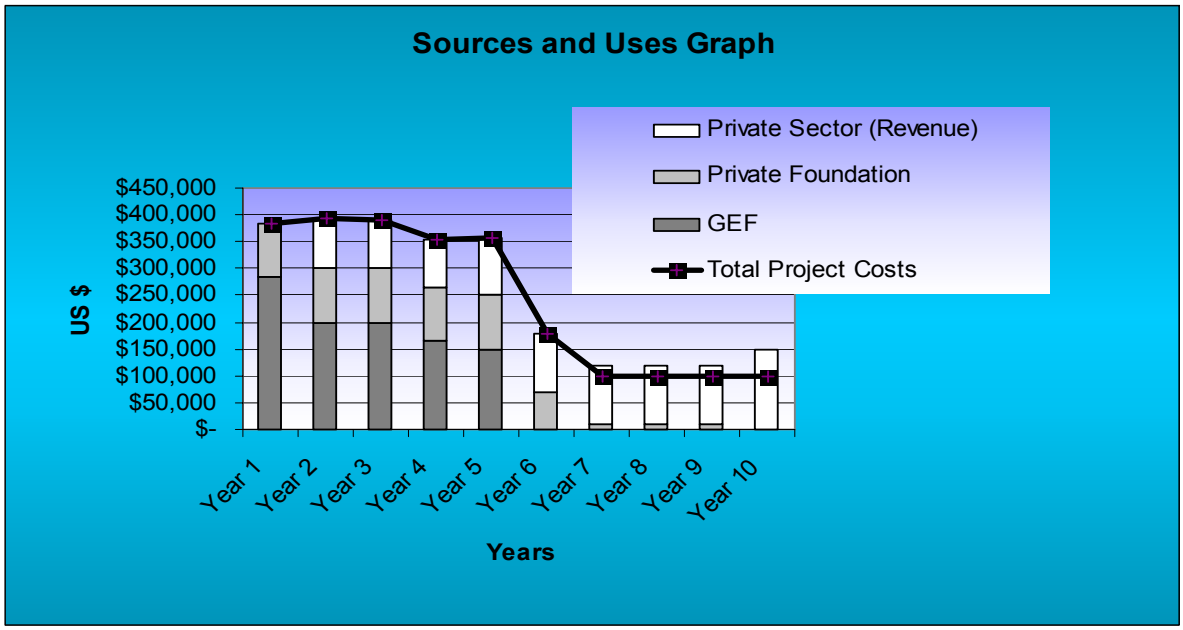
Costs	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total Project Costs	$ 385,000	$ 392,250	$ 388,950	$ 353,950	$ 358,950	$ 178,950	$ 98,950	$ 98,950	$ 98,950	$ 98,950
Revenues										
Minimum Concession Fees	-	40,000	20,000	20,000	40,000	40,000	40,000	40,000	40,000	80,000
Revenue Sharing w/ Concessionaire	-	40,500	57,200	57,200	57,200	57,200	57,200	57,200	57,200	57,200
Certification Fees	-	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
License Fees	-	9,750	9,750	9,750	9,750	9,750	9,750	9,750	9,750	9,750
Total Project Revenues	-	92,250	88,950	88,950	108,950	108,950	108,950	108,950	108,950	148,950
Incremental Costs	$ 385,000	$ 300,000	$ 300,000	$ 265,000	$ 250,000	$ 70,000	0	0	0	0



The graph below indicates the GEF and co-financing sources are to provide the initial incremental funding to cover the global and local incremental costs respectively in years one through five, indicated by the dark grey and light grey bars. In year six there are no longer global incremental costs, only local incremental costs, indicated by the light grey bar. By year seven onwards the project is fully financially sustainable, indicated by the white bar, backed by a buffer of endowment funding from external co-financing sources, indicated by the light grey bar. The black line indicates the project capital and operational costs in year one through six. Year seven onwards, the black line indicates the operational costs for sustaining the proposed EUWA conservation system. By year ten the project is not only financially sustainable, but also generating surplus funds for the TCF's endowment. Conditions will be established in the disbursement agreements that place stringent requirements on TCF's access to draw-down from the GEF-allocated funds in the IFC account, so as to directly correlate *actual* revenue collection amounts from the concessionaires with

projected incremental grant funding needs from the GEF. The PSC will review the financial statements to determine TCF's eligibility to receive concessional credits from the GEF allocated funds in the IFC account.

Depending on the financial conditions of the TCF, it could be in a position by year ten to self-finance similar projects on other watersheds in Mongolia. This of course doesn't exclude replication of the model well before this time. The replication strategy on other watersheds in Mongolia can be implemented with very little upfront capital expenditure, because of its low asset requirements and the demonstration effect of the model. If its successful, the model can be readily adapted to other watersheds through direct linkages between local community governments, the EUWA stakeholder groups and the TCF.



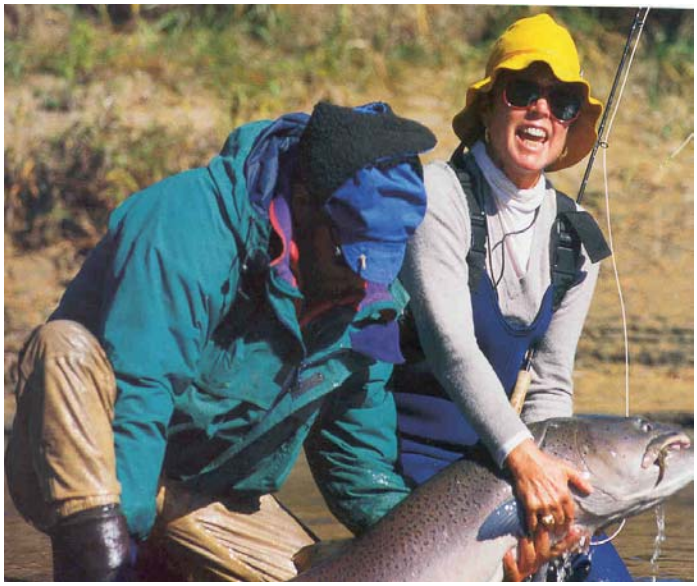
47. **Certification:** A critical output of the June 2002 Stakeholder's meeting was the commitment made by the stakeholders to adopt internationally recognized sustainable sports fishing best practices for the EUWA. The certification system not only establishes sustainable use standards for the use of the watershed's natural resources, but also provides an additional revenue stream for the TCF, further bolstering the project's financial sustainability. Though most flyfishing outfitters practice similar ethics throughout the world when it comes to the use of fish resources, a formal sustainable use certification system, similar to that of the Forestry Stewardship Council (FSC), has not been created to date. The TCF will develop a formal certification system for the EUWA based on the current international best practices of sustainable use flyfishing tourism. The intention is for the TCF to take a leading advocacy role in promoting an internationally recognized third party sustainable use certification system for the flyfishing outfitter industry, a lead by example approach.

48. The TCF has identified four areas of conservation management -- financial sustainability, user zones, concessions and enforcement -- in which the project can draw from the best practices of other projects throughout the world. The TCF has actively consulted these project sponsors in developing this project brief with the intention to adapt these best practices to the EUWA. The best practices are as follows:

- **Flyfishing for Sustainability**—A similar flyfishing ecotourism model as that proposed by this project is currently in operation in Kamchatka, Russia. The Wild Salmon Center has developed a financially and environmentally sustainable conservation program on the Kamchatka Peninsula, in which flyfishers pay a completely tax deductible donation to the Wild Salmon Center to flyfish on protected rivers, while at the same time actively participating in the sample collection and tagging program. The flyfisher must take scale and fin samples, and tag each fish that it catches before releasing it back into the wild. Hovsgol Travel and Sweetwater Travel will initiate a tagging system in the spring of 2003 similar to the one used in the UNDP - GEF supported project in Kamchatka, Russia. They are also considering how to adapt a

tax deductible payment system for their clients.

- **User Zones and Concession System Model --** The Dean river in British Columbia, Canada is an example of a fishery that has implemented a user zone management system that effectively protects its wild stocks of salmonids using a hybrid concession and public use model. In many respects this user zone system is similar to the one proposed for the EUWA. It is envisioned that the project will fund exchanges and training sessions between the EUWA and the Dean River stakeholders.
- **The Model for Enforcement EUWA** - Given Mongolia's close historical relationship to Russia and the average Mongolian's strong grasp of the Russian language, it is envisioned that the project will support training exchanges and long-term cooperation with Pavel Fomenko's Amur tiger anti-poaching brigade in the Primorsky region of Russia. WWF is actively involved in Pavel's highly renowned group, providing much of his funding, and can act as the liaison for coordinating training exchanges with the project.
- **IFC's Lessons on Concessions:** The IFC, through its Private Sector Advisory Services (PSAS) division, developed a concession system for the South African national parks. Though the EUWA has not been designated as a national park or protected area, much of the analysis and findings are readily transferable to any type of land tenure and natural resource use system. This analysis will be incorporated into the WMC's Natural Resource Management Plan.



A satisfied client of Sweetwater and Hovsgol Travel, catching and releasing a taimen on the Uur river. The GEF funding will facilitate the implementation of tagging and sample taking by the tourists, similar to that practiced by the Wild Salmon Center in Kamchatka, Russia (see photo on the right).

A client of the Wild Salmon Center on the Kvachna river in Kamchatka, works with his guide to tag the fish, take scale and fin samples, and to measure the fish before releasing it back into the wild. Proper handling by the guide and a swift release ensures that the fish returns to the wild unharmed. After five years of sample taking and measurement recording the Wild Salmon Center made a startling discovery: wild steelhead in Kamachatka have as many as 19 life histories (survival strategies) as compared to the NW American cousins, who only have five. Besides the environmental degradation and human predation, which has decimated the NW American stocks of Steelhead, the hatchery breeding system has produced a weaker species, less prepared to cope with natural and manmade disasters.. This finding demonstrates the important role that biodiversity and natural breeding in the wild plays in helping to ensure the survival of a species.

49. **Public Private Partnership Model**: The critical innovation of the project is the establishment of a Public Private Partnership model to collaboratively develop, implement and manage on a financially sustainable basis the conservation and use of the natural resources in the watershed. The rationale for this structure is that the local governments in the EUWA currently don't have the administrative, decision-making and financial capacity to establish the conditions for private sector businesses to be willing to make long-term investments in the watershed's natural resources. In addition, the current institutional structure lacks a coordinating mechanism between the seven districts in the watershed. Through the vehicle of an NGO -- the

Taimen Conservation Fund (TCF) -- the project will establish a coordinating mechanism between the seven districts, the government institutions and private companies: (i) The NGO will *deliver* the technical expertise and training to the natural resource councils and local government institutions in order to build sustainable management capacity, will *provide* fiscal expertise and accountability for the management of revenue collection and allocation, and will *design* and *implement* a sports fishing certification system for companies operating on the watershed; (ii) The companies will pay fees (e.g. concession, licensing and certification) to the TCF, which will act as a trustee on behalf of the local communities. The TCF will work with the existing government institutions and natural resource councils throughout the EUWA to develop policy mechanisms and administrative infrastructure to promote private sector ecotourism initiatives. Once the companies recognize that the proposed management system for the EUWA is fiscally responsible and accountable to its policies, they will have a greater appetite to pay for the legal rights to use the natural resources within the watershed, a point of mutual benefit.

50. **Establishment of the Natural Resource Councils (Watershed Management Council (WMC) and District Councils (DC's):** The two stakeholder meetings determined the need to establish two levels of natural resource councils, one at the district level and the other at the watershed level. The DC's are highly inclusive and participatory, providing direct representation to the local inhabitants and user groups. On the other hand, the WMC is more a federated coordinating body, representing the collective interests all seven of the district's constituents. The DC's include: elected local officials at the district level, elected officials from the sub-district or "bag" level, environment inspectors and rangers, and representatives of user groups. For example, in the district of Erdenbulgan, in which there are approximately 600 households, consisting on average of two adults per household, there will be two elected officials and one appointed official representing the district on the DC, and up to 20 or more elected sub-district representatives who will represent their constituencies on the DC. The WMC will consist of one elected representative from each of the seven DC's, two Environmental Inspectors from the two provincial governments (Bulgan and Hovsgol), and a representative from the TCF. The WMC will operate on a more strategic level than the DC's, coordinating and mediating the interests of the local districts for the greater good of the EUWA.

51. **Project Implementation -- an introduction to the role of the TCF's Project Support Unit (PSU):** As a result of the two stakeholder meetings in June of 2001 and June 2002, the participants agreed to establish a community-based approach to sustainably manage the EUWA natural resources, hence, the creation of natural resource councils: DC's and WMC. However, effective project implementation and sustainable management requires technical and management capacity in the existing government institutions and the newly formed nature resource councils. Since this human technical and management capacity is lacking, the stakeholders have agreed to second the TCF's management team, the PSU to the natural resource councils as the on-the-ground project management and technical advisory body. The PSU consists of an Executive Director, Chief Technical Advisor, and Administrative Assistant to the Executive Director. In addition there are seven administrative officers that will be stationed in each of the seven districts and will be responsible for coordinating the project activities with the DC's and WMC. The close cooperation and daily interaction between the TCF's management team, the natural resource councils and the existing government institutions, provides for the necessary technical sophistication and accountability to deliver successful project implementation, while ensuring full local community participation (see Annexes 2, 3 and 4 for a detailed description of the implementation plan).

52. **Project Oversight and Strategic Direction, the Power Steering Committee (PSC):** The stakeholders have agreed to the establishment of a project board, the PSC, that will be represented primarily by non-governmental organizations. The PSC will operate as the board for the Taimen Conservation Fund. It will perform two roles: (i) It will provide strategic direction and oversight for the project; (ii) It will conduct periodic monitoring and evaluation audits of the project (see Section XI Monitoring and Evaluation Plan). The PSC will defer the tactical and implementation decisions to the PSU in coordination with the Watershed Management Council (WMC). The board has the authority to amend the original project document and to make budget changes on a unanimous vote basis of all of the board members. The PSC will be composed of nine voting members, which includes six representatives from the private sector and three representatives from the government. The three government representatives include two provincial government

representatives from both the Hovsgol and Bulgan provinces, and one at the federal level, the GEF focal point at the Ministry of Nature. It was determined by the stakeholders that because of the sensitivities of coordination between the provinces that both Hovsgol and Bulgan should have government representation on the board. In addition, the innovative role of the TCF (as trustee of the WMC), particularly in regards to its revenue collection responsibility, requires that there be close dialogue with the Ministry of Nature during project implementation stages. (see Annexes 2, 3, and 4 for a detailed description of the implementation plan)

53. **Private Sector Managed Conservation:** The Mongolian Ministry of Environment and Nature confirmed that the current regulatory environment supports private sector managed natural resource conservation during the June 2002 stakeholder's meeting. The precedence for such a system is the Hustai Nuruu Prezhwalskii Horse reserve, in which the Dutch funded, Mongolian-based NGO, MACNE, manages a nature reserve as a trustee on behalf of the Altan Bulag district, Tuv Province. The participants of the June 2002 Stakeholder's meeting agreed to take a similar approach to the management of the EUWA's natural resources. To this end, the TCF will act as the trustee on behalf of the local inhabitants of the EUWA to manage the conservation activities of the watershed.

54. **Fiscal Management Role of the TCF**: Neither the natural resource councils nor the existing government bodies have the technical and human capacity to manage revenue collection and allocation unassisted. Because the project's financial sustainability is dependent upon effective conservation management of the EUWA's natural resources, the stakeholders have agreed to channel the natural resource use revenue collections and allocations through the TCF, based on a trustee relationship. The PSU, which is seconded to the WMC, will be entrusted with these fiscal management responsibilities. To ensure local community participation in the revenue and allocation system, the TCF and natural resource councils will work together to develop the fiscal management system as part of the Natural Resource Management Plan. However, the WMC, in consultation with the DC's, will be entrusted with coordinating the allocation and disbursement activities with the TCF, to both encourage equitable distribution amongst the districts, while at the same time allowing for instances of disproportionate allocations, so as to address the conservation needs of critical habitat and biodiversity areas, regardless of political boundaries.

    The PSU and WMC will jointly develop a budget in consultation with the DC's, and submit it for approval to the PSC. Once passed the TCF, will disburse funds to cover conservation management activities on the watershed, either directly or through the local governments[2]. The revenue collection system will be carried-out according to existing Mongolian laws, in which up to 85% of all natural resource use fees can be allocated to conservation activities at the local level. The TCF will transfer the required percentage allocations to the national and regional governments as determined by Mongolian law, and according to any charter agreements at the ministerial level. Following the budgeted disbursements and government transfers, all additional funds will be treated as part of a conservation endowment and will be managed according to internationally accepted trust fund portfolio practices. In addition, the TCF will have the authority to solicit additional funding from external sources.

[2] Ultimate authority over project implementation resides with the board, the PSC, including dispute resolution between the natural resource councils and the TCF's project management team, the PSU.

VII. ACTIVITIES AND FINANCIAL INPUTS

In order to achieve the 3 major outcomes, the following activities will be implemented (see Annex 8 for a more detailed budget):

Component	Total Costs		GEF	Private Foundation	Fees, Licenses and Concessions
	US $ M	% of Total	US $ M	US $ M	US $ M
1. Collaborative Management System (i) Establishment and training of CMS natural resource councils (ii) Collaboration with public stakeholders (iii) Collaboration with local community user groups (iv) Collaboration with private sector companies (v) Establishment of use zones (vi) Establishment of tourism carrying capacity limits	0.8	40 %	0.5	0.3	0.0
2. Natural Resource Management Regime (i) Adaptive research studies on biodiversity and conservation requirements Development of an enforcement system (ii) Establishment of natural resource use fee system (licenses and concessions) (iii) Development of communications program (iv) Development and implementation of a monitoring and evaluation system (v) Establishment of an enforcement system	0.5	25%	0.5	0.0	0.0
3. Sustainable Use and Alternative Livelihoods (i) Development of a long-term financially sustainable private sector investment program (ii) Development of alternative livelihoods (training, expansion of private sector investment activities) (iii) Establishment of a tourism certification system	0.73	35%	0.0	0.3	0.4
Total	**2.03**	**100 %**	**1.0**	**0.6**	**0.4**

1.) Collaborative Management System (CMS)

GEF US $ 500,000

Private Foundation US $ 300,000

Development of a participatory CMS, consisting of natural resource councils (DC's and WMC) and a coordinating governing body (TCF):

55. In order to enhance local community and private sector cooperation on biodiversity conservation and natural resource use, the project will facilitate the formation of natural resource councils, seven District Councils (DC's) to be established at the district level and the Watershed Management Council (WMC) at the EUWA level. The mechanism was identified based on experiences and lessons learned from other conservation and community development activities initiated in other areas of Mongolia. Currently, no coordination mechanism exists at the district and regional levels on conservation and sustainable development for the EUWA. For this reason the WMC is particularly critical to the success of the project because it involves inter-provincial cooperation and coordination between six districts in the Hovsgol province and one district in the Bulgan province (see Annex 2 for a detailed terms of reference for the implementation plan).

56. The TCF will develop a Strategic Management Plan for the EUWA. The Strategic Management Plan will address the administrative, financing, institutional structuring (government and non-government), human and technical capacity building components of the project. In addition the TCF will assist the WMC to develop a Natural Resource Management Plan for the EUWA. The Natural Resource Management Plan will provide the guidelines for natural resource use at the watershed level. The TCF will be responsible for integrating both plans, and providing assistance to the DC's to design Action Plans for each of their districts.

57. The WMC is the ecosystem advisory body for the EUWA, and is responsible for designing polices and passing regulations with the consent of the local governments through the DC's for the EUWA concerning natural resource uses and conservation activities. The WMC, with the assistance of the TCF, will be responsible for developing a Natural Resource Management Plan for the EUWA, which will provide the inter-district coordinating guidelines for the Action Plans at the district level.

58. The DC's are the most inclusive, highly participatory link for the local communities in the EUWA inter-district management system. They are a feedback channel for the local inhabitants to voice their opinions to the WMC in order to influence the policy and regulation development processes. As such, the main responsibility of the DC's is to coordinate activities and policies related to conservation and use between district governments and local inhabitants. Over time it's envisioned that as resource user groups and other private sector interests develop in the districts, the CMS system is flexible enough to include them in the DC's as they emerge. A critical administrative output of the DC's is to develop Action Plans for each of their districts in coordination with the TCF and WMC.

Regulatory Framework: Role of NGO's in the Management of Natural Resource Use

59. During the process of the development of the Natural Resource Management Plan, the WMC and DC's, with the assistance of the PSU will also identify weaknesses in the regulatory framework and work with the appropriate institutions, including other environmental NGOs that are active in the field, to strengthen related laws and regulations. This will include such proposals as revisions to regulations concerning the role of NGO's in the management of natural resources: (i) Licensing fees -- collection and allocation; (ii) Natural resource use concessions, and; (iii) Enforcement systems. Though the existing policy framework in Mongolia sufficiently support the project's implementation requirements, areas of improvement have been identified in the stakehdoler consultations, such as allocation amounts between local and national governments of natural resource user fees. Based on the findings of their research the WMC, in coordination with the TCF, will develop proposals of appropriate amendments and changes, at both the national level Laws – Xuul –, and propose changes to local level resolutions – Togtol.

Conduct training of WMC and DC representatives on environmental laws, sustainable natural resources management, leadership and planning skills

60. In order for the WMC and DC's to be effectively administered, the key members will receive training on environmental law and sustainable natural resource management practices. It is also important that leadership and management training is incorporated into the training programs. For decades, Mongolia has adopted a top down approach to planning and management. Although many people understand the importance of a participatory approach, they are not trained and require new skills to better utilize grassroots decision-making skills, administrative and management processes.

Develop effective hunting and fishing license fee collection structure and concession system for national and international tourists in the region

61. The project will solicit the opinions of local inhabitants on fishing, hunting, forest and grazing resource requirements through town hall meetings. The aim will be to take an inclusive approach by soliciting the ideas and opinions of the local inhabitants, particularly the users of the conservation-targeted resources, in the decision-making process of the DC and WMC councils. These town hall meetings will precede the DC and WMC meetings. They will be coordinated by the chair person at either the DC or WMC council level and facilitated by the PSU's Executive Director or CTA.

62. One of the first tasks accorded to the WMC and TCF will be to develop an open and transparent fishing and hunting license and natural resource use concession fee system. An effective collection system must be developed that maximizes revenues to the local community, while providing for convenient and transparent ways for the issuance and collection of fishing and hunting licenses, and natural resource use concessions. The project will support the TCF and WMC in promoting policies and regulations that will establish high-end, low-impact forms of ecotourism, such as catch and release, barbless flyfishing, segmented by use zones. It is agreed that the WMC, in coordination with the TCF, will develop a concession system that sells fishing rights to the private sector for certain zones of the river through a competitive bidding system, such as an auction, according to strict conservation guidelines, including low and high impact zones.

63. The IFC is open to considering the business plan of any operator who has won concession rights on the EUWA and is certified by the TCF. To ensure that there is no conflict of interest between the IFC and the project proposers, the IFC will only consider lending to a private operator who wins concession rights on the EUWA in a transparent, open and competitive bidding procedure.

2.) Natural Resource Management Regime

GEF US $ 500,000

Conduct detailed assessment on key management issues, develop functional information management system, including a GIS mapping, and produce a Natural Resource Management Plan

64. The Natural Resource Management Plan will provide the biodiversity conservation rationale and objectives for the management of the EUWA and integrate it with the regional policy and planning programs. The plan includes land use, conservation, and sustainable use components. The TCF will help the WMC: (i) Review the regional and district development plans; (ii) Assess the adaptive research results of the biological and socio-economic studies, and lastly; (ii) Develop appropriate land and natural resource use policies.

Conduct a comprehensive riparian ecosystem study on the lifecycle, spawning behavior, and habitat of the watershed's indicator species, including the Hucho Perryi taimen

65. The Natural Resource Management Plan is dependent on the findings of the adaptive research studies of the riparian ecosystem. The results of these studies will be used to develop policies for the sustainable use and conservation practices of the watershed's natural resources. There has not been a Western accredited study for a well-known scientific journal or research institution performed on the lifecycle, spawning, ecosystem requirements and behavior of Taiga riparian species to date. The EUWA study will largely be considered

the first definitive study for taiga riparian ecosystems, with wide-reaching global benefits for other similar ecosystems throughout Eurasia.

66. Many of the fishes in this taiga riparian ecosystem used to inhabit rivers spanning from Western Europe to the Russian Far East. Because of over fishing, habitat loss and pollution, this type of riparian ecosystem found in the Eg-Uur watershed is now limited to a few pockets in eastern Siberia. The project endeavors to conduct the necessary scientific research that will enable future initiatives throughout Eurasia to protect and rebuild the either threatened or already damaged taiga riparian ecosystems. The EUWA supports a healthy population of a gamefish that is in high demand by tourists. As long as the taimen´s habitat is clean and abundant in an ecosystem of natural ¨wild¨ biodiversity, and the fish populations are healthy, there will be a strong demand from tourists to pay for the experience of catching and releasing this magnificent animal. This study will provide the project with the necessary findings on the needs of the ecosystem's riparian resources to make informed decisions that will optimize the use of biodiversity.

67. A critical output of the adaptive research and biological assessments is to determine how to divide the watershed in to user zones. The project provides the means to assess such critical biological conditions of the riparian species as spawning behavior and migratory patterns. Based on the findings of these assessments the Eg and Uur rivers and their tributaries will be subdivided into different user zones, ranging from high impact to restricted use. Sustainable use standards and restrictions will be developed and applied to these zones and incorporated into the Natural Resource Management Plan for the EUWA.

Form, develop and sustain an anti-poaching brigade, and conduct training for the Anti-Poaching Brigade, provincial and district environment inspectors and rangers on environmental laws, communication skills, and basic ecology

68. In order to establish long-term financial sustainability within the first six years of the project, appropriate enforcement mechanisms are required to assure adherence to the conservation policies by local inhabitants and visitors. For this reason, a critical output of the project is to strengthen enforcement capacity. To this end the project will provide funding to establish, train, equip and operate an EUWA-wide Anti-Poaching Brigade. TCF will work actively with the district governments to train, manage and compensate the Anti-Poaching Brigade. The formation of the anti-poaching brigade is a stop-gap measure to monitor and enforce natural resource use activities, particularly along the sensitive, high-use fishing areas of the Eg and Uur rivers.

69. The DC's will nominate candidates from their districts. To insure objectivity and transparency of each unit, and to minimize corruption and nepotism, the brigade members will be regularly mixed and rotated in and out of units in the different district beats. Besides the in-country training there are provisions in the project's budget to fund exchanges with existing anti-poaching brigades in the region, such as with Pavel Fomenko's Anti-Poaching Brigade in the Primorsky region of Russia.

Conduct communication and outreach programs to the targeted local communities and local/international tourists, including educational program to cooperate with the Buddhist community to disseminate conservation messages based on Buddhist beliefs

70. Special emphasis will be made to develop and conduct communication and outreach programs, since education and communication activities have proven essential in influencing people's attitudes and practices concerning biodiversity conservation. This component will focus on two distinctive target groups: 1) Local communities (including hunters and fishers); and 2) National and international tourists. Conservation education programs will include workshops that promote biodiversity related awareness and the distribution of environmental education materials.

To assist the community to rebuild a site of historical significance and cultural heritage that will be used to facilitate community involvement in conservation initiatives

71. Located at the border of Tsagaan Uur and Erdenebulgan soms, the Dayan Derkh monastery holds significant historical importance for Buddhist and Shamanist religions in the EUWA. Destroyed during the Stalinist

purges of the 1930´s, the monastery had the unique distinction of serving both Buddhist and Shamanist/Animist practitioners in the region. Its history of multi-faith tolerance makes it an excellent candidate to act as a conduit for community outreach supporting biodiversity conservation initiatives. The restoration of this monastery has been planned by the local people, however, it has been pending for a few years due to a lack of funding. It is considered that by restoring the monastery, it would be a natural site for convening WMC and inter-district meetings. Moreover, it would be a attractive site for the tourists to visit, further diversifying the ecotourism opportunities in the region. This initiative will be financed by the donations from the clients of Sweetwater Travel and Hovsgol Travel through the vehicle of the Taimen Conservation Fund and *will not involve GEF money.* The companies have already advertised this fundraising program in major flyfishing magazines. The initial response from their clients has been very positive. The companies recognize that establishing goodwill in the community plays a critical role in facilitating the local inhabitants to buy-in and participate in conservation initiatives.

Conduct monitoring of businesses in the region, such as tourism, mining, infrastructure development, and others to conduct adequate EIA and follow environmental laws and license fees

72. The TCF will ensure that an impact assessment is conducted and environmental impact is minimized by the development activities in the region. In addition, the TCF will monitor business entities to ensure that they pay the required fees related to natural resource use in the EUWA.

3.) Sustainable Use Systems and Alternative Livelihoods

Private Sector US $ 432,500

Private Foundation US $ 300,000

Further develop sports fishing tourism business to sustainably use biodiversity and alleviate poverty

Birds eye view of the Sweetwater and Hovsgol Travel camp at the confluence of the Eg and Uur rivers

River view of the Sweetwater and Hovsgol Travel camp at the confluence of the Eg and Uur rivers

73. Flyfishing companies are only willing to invest large sums of money into a region if they have some guarantees that the local communities will maintain the natural resources at the necessary pristine levels for their given business needs. For this reason the local communities need to proactively develop conservation and natural resource management policies with their local governments, supported by national laws and resolutions, and back them with credible enforcement practices. Lacking the necessary financial resources to develop these policies and enforcement capacity on their own, the local communities and the private sector tourism companies in the EUWA have turned to the GEF and IFC to help initiate the process.

74. The initial research on tourism carrying capacity indicates that the whole watershed, based on a low impact, high return sustainable use model, could support approximately 400 flyfishers / year. One of the critical outputs of the adaptive research and biological assessments is to identify sensitive habitat areas (e.g. spawning grounds) and areas that are most suitable to support higher margin flyfishing ecotourism. These areas would be classified as low-impact zones, and even in some instances, restrictive use zones. Further research will be conducted throughout the project's duration by the TCF to determine the optimal balance between low and high volume use.

The TCF's certification authority will play an integral role in developing a high-return, low-impact ecotourism industry in the Eg-Uur Watershed

75. Though flyfishing in its own right has a naturally embedded sustainable use and conservation ethic (fly fishers typically follow a self-regulated 100% catch and release policy towards their quarry), certification further adds value by adopting best practices into a formal system of standards. These standards, if communicated properly, establishes credibility with the target class of tourists that the natural resources are managed properly and the outfitters are reputable. It's unclear at this point from lessons learned from other sectors, such as forestry and coffee, whether there is an actual price premium attributed to certification. There is however strong evidence that if a consumer is given a choice between a certified and non-certified product or service at the same price level, the former win's out on average. In an industry such as adventure travel to remote international locations, which caters to a very small and wealthy clientelle, certification can only have a positive influence on demand variance through service differentiation.

76. Though ecotourism certification standards are still being developed on an industry-wide basis, there are some transferable lessons to be drawn from the certification system for the timber products industry. The TCF will play an active role in performing the necessary adaptive research on the EUWA ecosystem to determine appropriate sustainable use standards that will be applied to the certification process. It is envisioned that the private operators, once they have passed the certification screening process, will pay the TCF a fee for certification. To insure compliance, the TCF will carry-out random evaluation reviews on the private operators, and in consultation with the natural resource councils, will make recommendations for punitive action.

Alternative Livelihoods and Vocational Training

77. The increased investment by the private sector in the EUWA will further increase employment opportunities in the relatively underdeveloped ecotourism services industry, positions that include translators, guides, cooks, administrative staff, cleaners, carpenters, electricians to name a few. The increased investment in the EUWA will further diversify employment opportunities in the tourism sector, complimenting traditional subsistence herding, while providing a viable alternative to hunting and gathering activities.

78. Currently the GDP per person in Mongolia averages around $ 400 - 600 per year. In the EUWA, 43% of the population lives in poverty, well below the national average of 28%. The average wage paid by the Sweetwater Travel and Hovsgol Travel companies is approximately $100 / month, or $600 - $700 for the six month tourist season, well above the national average of $50-60 / month. These numbers do not include tips, which can increase those earnings by 100 to 200%. A fully operational flyfishing tourism operation, with four full-time camps could employ close to 100 employees (400% increase from the current level!), including higher wage earning jobs such as accountants, translators, guides, and managers. Additionally, the

other high-use sections of the rivers can employ 100's of new tourism related operators, from guides, to independent certified tourist operators, to supporting staff. Some of these salaries would be partially denominated in US dollars, and could be as high as $2,000 in a single fishing season (e.g. a skilled flyfishing guide). The private operators currently actively train the local inhabitants to be professional guides and managers to increase the localization of the company's operations, and have coordinated multiple training exchanges to the US for key employees, particularly: translators, guides and managers. Though, the company at maximum capacity can employ 1-2% of eligible adults in the three districts that it actively operates in (Teshig, Erdenbulgan and Tsagaan Uur), the company optimally would like to see further development of the tourism sector, such as the development of hotel accommodations in at least two of the districts in the EUWA. Additionally, all of the supplies that support the camps are shipped in by light aircraft. A thriving flyfishing ecotourism business demands a robust supply chain infrastructure to supply the necessary perishable and non-perishable, durable and non-durable goods.

79. Though increased employment opportunities in the tourism sector will have a direct benefit to a number of households in the EUWA, there are many other indirect benefits of the project to alternative livelihood development. These benefits will be achieved through increased regional economic activity and responsible resource allocation. Through the introduction of proper fiscal management practices, the TCF will strive to balance the demands of biodiversity conservation with that of economic development. The TCF's most important tool to this end is its ability to redirect natural resource user fees back into the local economy. To this end the project places great importance on human and technical capacity building, and *local* level decision-making. The local inhabitants can identify the critical areas of economic development for their communities, such as vocational training and education, and can exert their influence through representation on the natural resource councils to allocate the funds accordingly. It's in the best interest of the local inhabitants to see a system that maximize user fees at a sustainable level, such that the base case conservation costs are covered (a stipulation of GEF funding!), leaving the remaining surplus to be used for other economic development needs.

Replication

80. The project seeks to demonstrate that flyfishing can be both an effective conservation tool and a profitable revenue generator for local communities in developing countries. As a result of the demonstration effect of the project, the IFC would consider providing commercial credits, directly or through affiliate relationships with other institutions, to develop similar Public Private Partnership models in other watersheds. An important output of the project will be for the TCF to develop a replication strategy to apply this model on other watersheds in Mongolia. For this reason, the TCF is being positioned as not only a locally focused EUWA conservation management NGO, but also one with a national agenda. The Ministry of Nature's focal point feels very strongly that this project's merit rests largely on its ability to be adopted in other watersheds throughout Mongolia.

VIII. RISK ASSESSMENT

Project Risks

81. **Inter-district Cooperation**: The project is based on the current interests of the stakeholders to work together at the inter-district level to jointly manage the watershed's natural resources. One of the critical challenges of the CMS is to coordinate the interests of six districts from one province (Hovsgol) and one district from another province (Bulgan). Because the six districts in Hovsgol have a long history of cultural, social and political exchange with each other, and relatively little contact with the one district in Bulgan, there is a risk that the minority district in Bulgan will not be treated equally in the WMC. In order to mitigate these risks, the project will structure the WMC by-laws to protect the interests of the minority stakeholders.

82. **Regulatory Environment**: Though the current regulatory environment is suitable for the proper implementation of the project, future policy changes may be recommended to improve upon the existing system. To mitigate regulatory risk, the project will work closely with different levels of government in developing the Strategic Management and Natural Resource Management Plans. In addition, the TCF will

proactively identify key regulatory issues that may be in conflict over the involvement of an NGO in the management of a natural resources at an ecosystem level. The project will facilitate the cooperation of a diverse group of stakeholders, including NGOs and companies, who have a shared interest to maintain a close dialogue with the government on conservation and sustainable use issues for the EUWA's natural resources.

83. **Political, Market and Business**: The project is also vulnerable to political, market and business risk associated with the international flyfishing tourism industry. Such factors that could adversely effect the private sector's business, and thus its ability to meet its concessionaire obligations, include a sustained recession, poor weather conditions for a sustained period, natural disaster that effects the fishery, political turmoil in the country or the surrounding region, collapse of the domestic infrastructure such as air transportation, and more.

84. **Concessionaire**: Sweetwater Travel and Hovsgol Travel, who initiated the project idea, stand the risk of failing to acquire a single concession on the EUWA. Though the project documents clearly stipulate that the TCF will be a distinct and independent organization from Sweetwater Travel and Hovsgol Travel, the project would certainly suffer from the leadership vacuum following these companies departure.

85. **Land and Resource Rights**: Mongolia lacks a strong legal framework and tradition of private ownership, land tenure and leasing rights. The proposed licensing and concession system for the natural resource use rights to wildlife, though supported by the current laws and regulations, in practice is a highly innovative and foreign concept in Mongolia. The implementation of such a system may face resistance from multiple constituencies, including private citizens, NGO's, government bodies, companies, and political parties. To mitigate this risk the project has involved the stakeholders at all levels of government and civil society to actively participate in the decision-making process. The WMC and DC's are highly inclusive bodies at the local and regional levels, while the PSC includes the participation of the relevant government representatives at the national level.

86. **Project Implementation**: Though the MBDA plays an important NGO advisory and governance capacity building role for the TCF, there also exists a potential conflict of interest and reputation risk as a result of the two organizations' collaboration. The current Minister from the Ministry of Nature and Environment formerly worked for the MBDA. Though the Minister has officially relinquished all ties to the MBDA, as a requirement of his new position, he may still maintain informal relationships with the organization's employees. Besides a commitment to pay a market rate for office space rent in the MBDA facilities, the project doesn't have any other financial or quid pro quo commitments to the MBDA. The MBDA is a respected organization within the community and brings critical expertise and credibility to the TCF, which outweighs conflict of interest and reputation risks.

87. **Macro-Economics**: Additional macro-level project risks include the economic instability of the country and region, therefore leading to decisions based on short-term economic needs without considering the long-term conservation needs. Moreover, political instability in the country could also result in short term interests and preferences for quick results in quick money making schemes, such as clear cutting forests or strip mining. The project will initiate workshops and training with decision makers and citizens to increase awareness of the importance of conservation initiatives for the long-term, while meeting short-term interests through tourism development and other business opportunities by generating sufficient fees from sustainable use of natural resources.

IX. STAKEHOLDER AND COMMUNITY INVOLVEMENT

STAKEHOLDER IDENTIFICATION AND PARTICIPATION

88. This project involves a wide range of stakeholders, including both private and public entities, NGO's, as well as civil society organizations. The primary stakeholders will be the local inhabitants, private ecotourism operators and the relevant local, regional and federal government bodies. At the local level, the district governors, representatives to the district parliament, environmental inspectors and rangers, tourist

companies, local herders and villagers, local hunters and fishers, local and international NGOs are identified as the major stakeholders. At the national level, representatives from the Mongolian Parliament, Ministry of Nature and Environment, Ministry of Infrastructure (Tourism Promotion Board), Mongolian Academy of Science, and Mongolian National University, local and international NGOs are involved in project related activities.

INFORMATION DISSEMINATION AND CONSULTATION

89. The project was developed with full participation of all concerned stakeholders. The methodology used for project planning included: stakeholder workshops using the logical framework analysis, individual and group interviews in the field, and PRA and RRA methods in selected districts. These participatory tools will also be used in the project implementation phase.

90. The project concept was developed through a series of discussions with all the above mentioned stakeholders and through stakeholder meetings, which were held on 4-5 June, 2001, and July 5 – 7, 2002 in Toilogt, Hovsgol province, in which most of the stakeholders mentioned above participated. At the stakeholder meetings, biological threats, socio-economic conditions, possible project initiatives, and a collaborative management structures were discussed and agreed by the participants. To facilitate the exchange of ideas between the local inhabitant participants, Nicholas Flanders, an IFC social specialist participated in the second stakeholder's meeting on July 5-7, 2002.

91. The project will continue to follow a participatory decision-making approach throughout the project implementation stages, and will adapt the project's outputs to meet the challenges of an ever changing social, political and economic environment.

X. INCREMENTAL COST ASSESSMENT

The baseline expenditures for conservation activities and programs for the EUWA is comprised of small scale national government allocations to the district and provincial governments, and minimal tax receipts collected from the local inhabitants by the district governments. The economic baseline program is limited, due to the remoteness of the area, and probably doesn't exceed US $ 20,000.

Under the economic baseline scenario, funding would not be available to manage biological resources with local participation, initiate informed management planning and implementation based on scientific research, and conduct training and outreach programs necessary for the involvement of stakeholders in ecosystem planning and biodiversity conservation.

The GEF alternative totals US $ 2,032,000 (not including PDF A), above the economic baseline of US $ 20,000 of which global incremental cost amounts to US $ 1,000,000, the amount requested from the GEF. The remainder $1,032,000 will fund activities attaining mostly domestic benefits and therefore will be financed by Private Foundations, Government of Mongolia and the private sector (see Annex 6 Incremental Cost Matrix).

XI. MONITORING AND EVALUATION PLAN

Progress Reports: Regular monitoring of the project will be undertaken by the Project Steering Committee (PSC) through the progress reports that are required from the PSU. Progress reports will need to refer to performance indicators as established in the project brief. The first progress report by the TCF will be due within the first month of commencement, and will serve as the Inception Report. The PSU will be responsible for submitting a monthly progress report for the first year, or until such time that the IFC deems necessary. At that time, the progress reports will then conform to a quarterly submission cycle, including comprehensive mid-term and final reports at years three and five. All progress reports should include financial analysis and updated projections

Independent Audits: US $ 30,000 has been budgeted for project evaluation, which will include independent mid-term, five year project completion and two-year post-project follow-up evaluations. The evaluations will

focus on the progress of the project's core objective: achieving financially sustainable conservation of the EUWA's biodiversity. The independent auditors will also be expected to report on stakeholder participation and satisfaction, in addition to the usual GEF evaluation parameters.

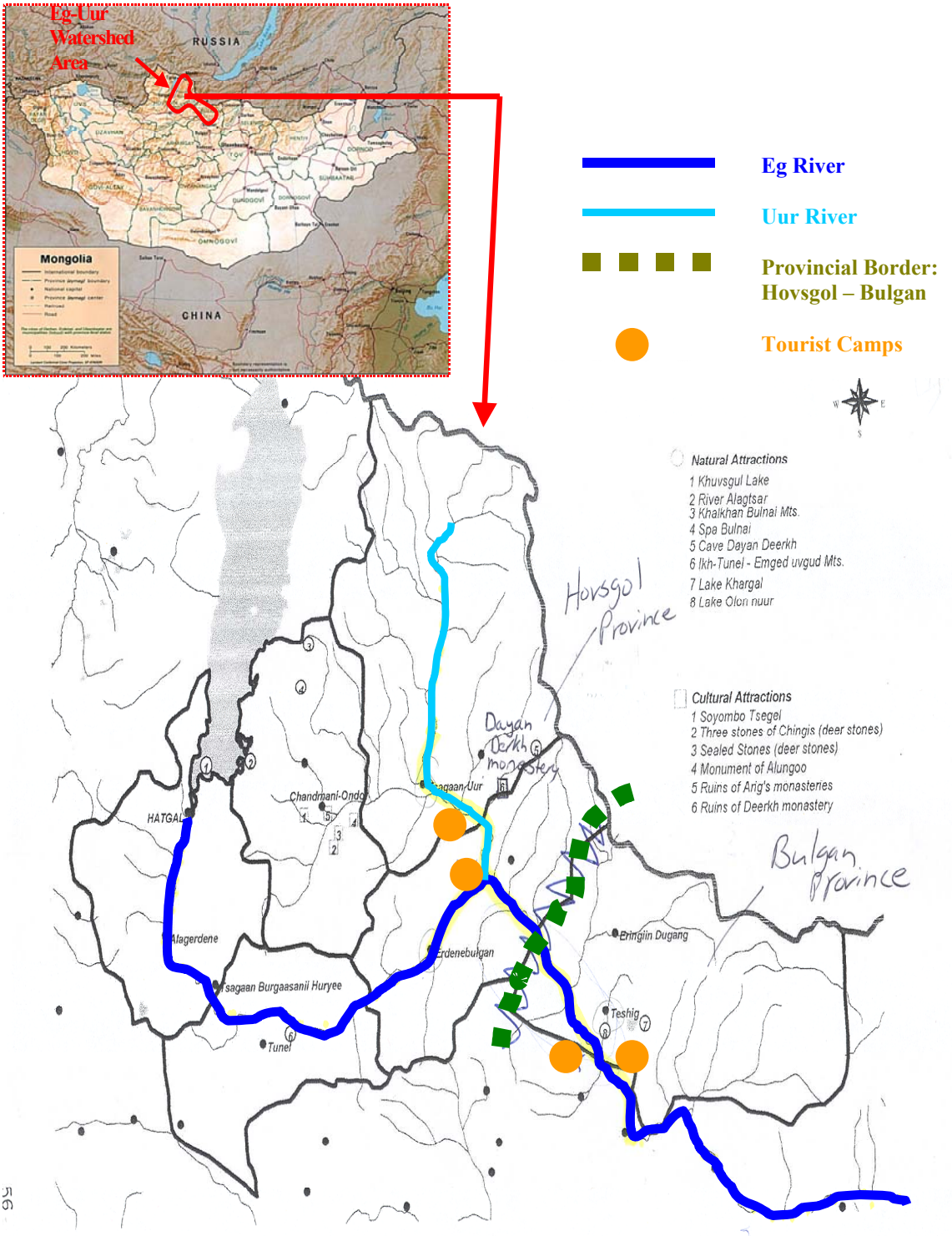
The data collection procedures carried-out by the independent auditors will involve the active participation of stakeholders at all levels. The key stakeholder groups for data collection are as follows: flyfishing operators, the Anti-Poaching Brigade, district and regional governments, natural resource councils, local inhabitants, TCF staff and consultants, relevant NGO's and government institutions. During the three independent audits, besides reviewing project documents, reports and financial statements, the TCF will arrange site visits for the auditors. The purpose of these site visits is to enable the auditors to witness first-hand the data collection and field work activities of the project's stakeholders. The visits could include, though not limited to, the following activities: (i) Meeting with TCF staff and consultants to review the findings of the biological assessments and adaptive research; (ii) Attending townhall and natural resource council meetings; (iii) Meeting with local government officials and policy makers; (iv) Participating in anti-poaching brigade patrols and data collection activities; (v) Evaluating flyfishing operators' natural resource use practices and client-participatory data collection activities.

Based on the evaluations of the PSU's progress reports and findings of the independent auditors, the PSC can make informed decisions on project performance, and can advise the IFC accordingly. The IFC, independent of the PSC, maintains strict control over the fiscal management of the project, and will exercise its right to block disbursement until the recommendations of the auditors and, or, PSC are implemented.

Pictures from the July 5 – 7, 2002 Stakeholders Meeting

ANNEX I

Mongolia and Eg-Uur Watershed Area



ANNEX II

Project Implementation Plan

Performance Indicator Timeline: Disbursement from the IFC account to the TCF account during the first year will be authorized by the IFC PSC member on a quarterly basis during the initial CMS structuring stages. Below are some of the key performance benchmarks for the first year:

Benchmarks	**1st Year Quarterly Checklist**			
	1st Q	2nd Q	3rd Q	4th Q
WMC is formed, and by-laws are developed and approved	X			
DC's are formed, and by-laws are developed and approved	X			
WMC and DC by-laws are approved by or are in legal compliance with the relevant local, regional and national government bodies		X		
PSU initiates an adaptive research and biological assessment program			X	
Flyfishing outfitters initiate a tagging and scale/fin sample collection system			X	
PSU, WMC and DC's develop and approve an preliminary outline of the Natural Resource Management Plan				X
PSU and WMC develop and approve a Fiscal Management Plan				X
WMC and DC's develop and approve a natural resource use concession and licensing system for the EUWA				X
WMC and DC's develop and approve an EUWA Anti-Poaching Brigade system				X

Power Steering Committee (PSC): The PSC will be composed of nine voting members, which includes six representatives from the private sector and three representatives from the government.:

Organization	**Individual**
1. Hovsgol Travel (NG)	Mr. Purevdorj
2. Sweetwater Travel (NG)	Mr. Daniel Vermillion
3. WWF Mongolia (NG)	Mr. Chimed
4. Mongolian Business Development Agency (MBDA) (NG)	Mr. Bayarbat
5. International Finance Corporation (NG)	Mr. Jeffrey Liebert
6. Mongolian Parliament Member from the Eg-Uur region of Hovsgol Province (G)	Senator Gombojav
7. Ministry of Environment and Nature (G)	Ms. Oyundar, GEF Focal Point
8. Bulgan (G)/(NG)	To be named later
9. Private Foundation (NG)	To be named later

G = Government, NG = Non-Government

The PSC will meet semi-annually to review the PSU's progress report. The PSC will then make recommendations to the PSU based on this report. The PSC has the right to call for an independent M&E or financial audit, in addition to the mid-term and final audits already budgeted in the project. The PSU will then submit a final annual progress report to the GEF, taking into account the recommendations made by the PSC. The Chairman position will be determined by majority vote on an annual basis. The Chairman will be responsible for setting the agenda and conducting the meetings. All board members have the right to decline his Chairman rotation and defer to the next candidate. Depending on the PSC implementing appropriate corporate governance mechanisms and transparency the IFC may exercise the right to relinquish its position on the board. All Government board seats are tied to the position, not the individual, and thus are subject to change following elections and civil servant personnel changes.

If there is an additional donor or lender, such as a Private Foundation, who makes a significant contribution to the project, the PSC may expand to include a member from that organization. This scenario is very likely given the high probability that there will be an additional co-financing contributor committing up to US $ 600,000.

*If Sweetwater Travel and Hovsgol Travel fail to secure concession rights on the EUWA they will lose their positions on the PSC. One member from each qualified (certified by the TCF) EUWA concessionaire would assume a position on the PSC. In the case that there are more than two concessionaires on the EUWA, their membership position would rotate as determined by the other PSC members on a fair and equitable basis.

Project Support Unit: The on-the-ground implementing team for the project will be the project support unit (PSU), which will be stationed in the watershed. The PSU will be responsible for implementing the project activities as a trustee of the natural resource councils. Because of the relative small size of the project, the Executive Director will have a more operational role in the implementation of the project, similar to that of a corporation's Chief Operations Officer. The CTA will take an active role in structuring and designing the project, and overseeing its strategic direction, similar to that of a corporation's Chief Technology Officer. Note, that the PSC will closely monitor the Executive Director's activities to insure that the Executive Director is closely following the consultations and recommendations of the CTA, particularly on matters that are not within the Executive Director's scope of training and experience. Likewise, the PSC will closely monitor the CTA to insure that the individual is effectively cooperating with the Executive Director, and sensitive to Mongolian cultural morays and working conditions. The PSU will be responsible for preparing and delivering to the PSC a semi-annual progress report. Based on the recommendations either from an upstream appraisal by the PSC or from an independent audit, the PSU will then submit a final semi-annual progress report to the GEF secretariat.

The project recognizes the importance of hiring dedicated and highly skilled professionals to lead the PSU. Since the inception of the idea of the project in 1999, the sponsors have worked actively with a broad range of consultants, government officials, business leaders, scientists, NGO and multi-lateral representatives. From this pool of contacts the project will enlist the services of skilled professionals who have experience working with: 1.) GEF/Multi-Laterals on project management; 2.) Anti-poaching brigade enforcement groups who have developed similar systems in the developing world; 3.) Salmonid scientific research organizations that have similar biological and adaptive research expertise; 4.) Flyfishing outfitters that follow best practices of sustainable sport fishing ; 5.) Local and international NGO's, who have expertise in developing CMS systems, alternative livelihood training programs and anti-poaching brigades. The project has a strong pool of candidates to draw from to staff the PSU once it becomes operational. The project also will have the support of an experienced advisory board, the PSC, which is cross-institutionally represented.

Watershed Management Council (WMC) and District Councils (DC's): As agreed upon by the local stakeholders, the WMC and DC's will have decision-making authority only in the sense that their members consist of the elected local officials from the seven districts in the watershed. In this capacity, regulations and policies agreed upon at the WMC level would have required the support of the district's local governments

through their representation in the District Councils. Though the project is structured with strong central governance and fiscal oversight mechanisms in the PSU and PSC, the project is highly dependent on the WMC and DC's to effectively generate consensus at the local level, design policies, pass regulations, and follow through with conservation enforcement measures. To facilitate inter-district cooperation, the PSU will be seconded to the natural resource councils as the professional technical managing body of the project, until such time that the government institutions can take over the responsibility.

WMC: The WMC will consist of 10 representatives: 1.) Representatives from the seven DC's; 2.) Chief of Environmental Conservation Service Hovsgol province; 3.) Chief of Environmental Conservation Service Bulgan province; 4.) The Executive Director or Chief Technical Advisor of the TCF's PSU. The financing agreement between the IFC and the TCF will include provisions to establish a trust fund at EUWA level in the Natural Resource Management Plan to support provisions for the development of an endowment. The TCF will act as the trustee manager of this fund and its endowment on behalf of the natural resource councils. The fund will have covenants that explicitly elaborate the parameters by which conservation and sustainable use activities are funded. The WMC will invite relevant representatives from government ministries to their meetings, when necessary. The WMC is responsible for reporting to the Hovsgol and Bulgan aimag governors to seek necessary policy support and coordinate with the central, provincial and local governments..

DC's: The seven DC's will each consist of three core members: 1.) District Governor; 2.) District Chief Environmental Inspector; 3.) District Hural Citizens Representative. Additionally the sub-district "Bag" representatives will also participate in the council. The WMC will be responsible for determining how many "Bag" level representatives will be allowed on each district council to ensure equitable representation and distribution between all seven districts and their constituents. The DC's will organize the town hall meetings in coordination with the PSU.

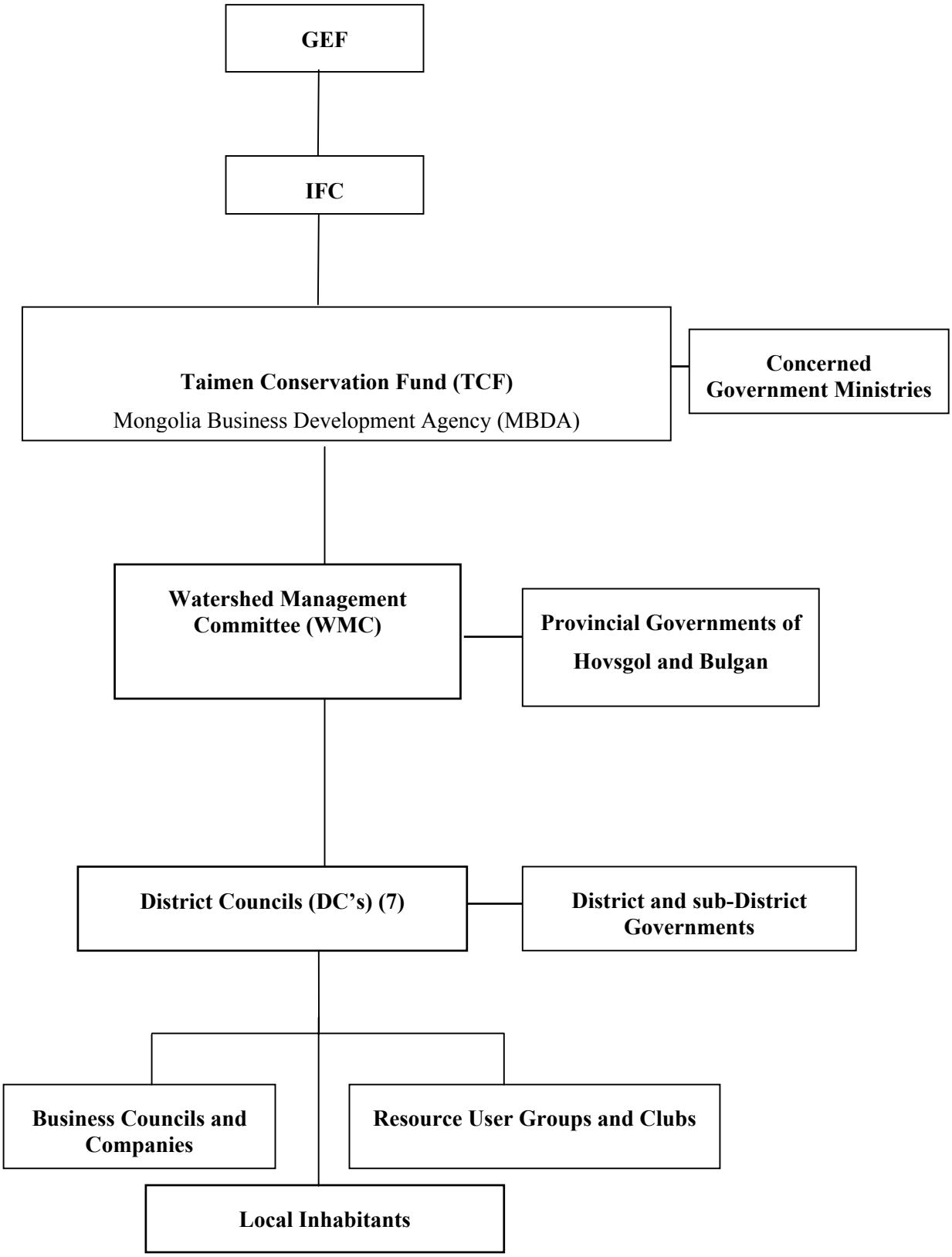
Funding and Disbursement: GEF funds will be deposited in a US $ account as decided by the IFC, disbursed on a quarterly basis to the TCF's dollar account. All allocations will be made according to an annual and quarterly budget prepared by the PSU, approved by the IFC. All disbursements over $10,000 will require IFC approval, except equipment purchases, of which expenditures over $2,500 will require IFC approval.

Concession Payments: To provide an additional measure of accountability, all concession payments from the private sector operators to the TCF will be made on a monthly basis.

Role of the MBDA: The MBDA will create an affiliate relationship with the TCF. The TCF's central headquarters will be based in the MBDA's building, and will maintain small offices with an administrator housed in each of the seven district government buildings in the EUWA. During the period of time that the TCF is housed at the MBDA's facilities it will be obligated to pay the MBDA a fair market rental rate for the space that it occupies. Though the TCF will maintain a central office in UB, the majority of the work will be carried-out in the field, the seven districts in the EUWA. The TCF will establish its own separate bank account in Mongolia for receiving and disbursing funds. The MBDA will act as the incubator for the TCF during the project period, and will actively assist the TCF on NGO procedural and regulatory issues, and provide administrative and government liaison support. The MBDA has already helped Sweetwater Travel and Hovsgol Travel to register the Taimen Conservation Fund in Mongolia.

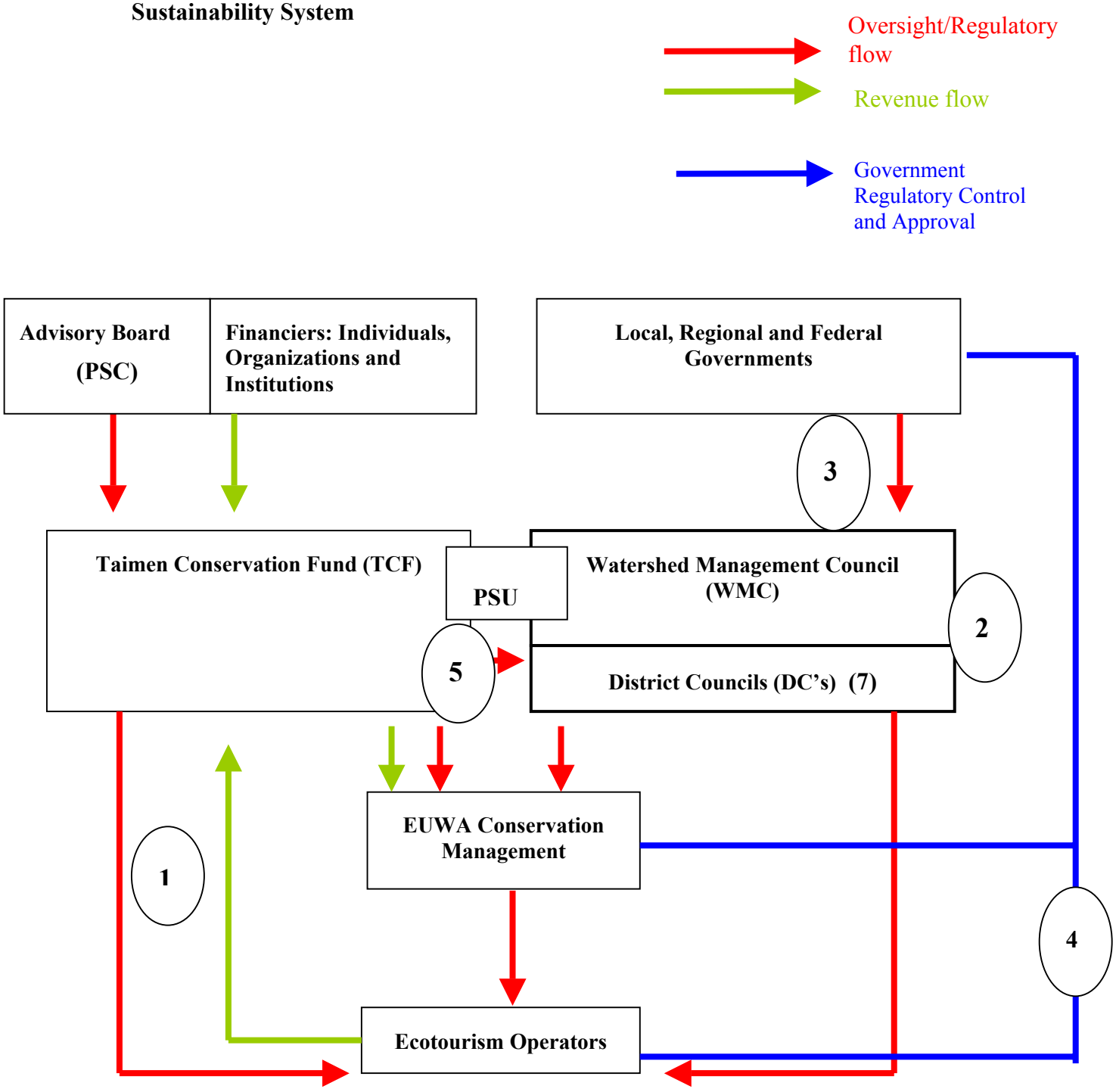
ANNEX III

PROJECT IMPLEMENTATION ORGANIZATION CHART



ANNEX IV

Public Private Sector Partnership Flow Chart: Regulatory and Financial Sustainability System



6. **Private Sector** – Flyfishing outfitters – concession fees establish financial sustainability;
7. **Civil Society** - Community representatives ensure local inhabitants participation and commitment;
8. **Public Sector** – Government coordination mechanism through natural resource councils facilitates compliance with the regulatory environment;
9. **Government** – Government authorization on concession granting and enforcement systems confers legal rights to non-governmental recipients;
10. **TCF** – Conservation trustee provides technical and fiscal management capacity to EUWA.

ANNEX V

Project Monitoring and Evaluation Checklist

Duration of Project (in years)					
Completion of project activities	PROJECT-YEARS				
	1	2	3	4	5
1.1 Establish a collaborative management structure (CMS) among the key stakeholders in the watershed region for effective coordination and management of natural resource use and conservation, including the establishment of the WMC and seven DC's	X				
1.2 Conduct training of the CMS representatives on environmental laws, sustainable natural resource management, leadership and planning		X			
1.3 Develop the EUWA Strategic Management Plan at the WMC, and Action Plans at the DC level, including a comprehensive land use plan, to be integrated with the Natural Resource Management Plan, by the CMS and to be endorsed by the Ministry of Nature and Environment as well as integrated in the regional development plans		X	X	X	
1.4 Advocate policy changes to create adequate incentive and financial structure to conduct long term conservation and sustainable use initiatives		X	X	X	X
1.5 Develop sustainable fishing and hunting rules with the local stakeholders by conducting annual town halls to solicit input at the grassroots level on local guidelines, laws and resolutions on endangered species, quantities per hunter, fishing and hunting seasons, and fishing and hunting zones	X	X	X		
1.6 Develop, by the Watershed Management Council (WMC) an effective hunting and fishing license fee collection and concession structure for national and international and local tourists and tourist companies in the region, based on similar low-impact, high-return models used in other parts of the world, and implement at the ecosystem EUWA level.	X	X	X		
1.7 The WMC holds an open and competitive bidding procedure, auction for concessions to the fishing rights on designated sections of the Eg and Uur rivers to qualified (certified by the TCF) private ecotourism operators;		X	X		
2.1 Conduct a comprehensive riparian ecosystem study on the lifecycle, spawning behavior and habitat of the watershed's indicator species, including the Hucho Perryi taimen;	X	X	X	X	X
2.2 Collect comprehensive spatial and attribute data of the region, such as biological, cultural, natural resources, and socio-economic statistics;	X	X	X		
2.3 Develop a Natural Resource Management Plan for the EUWA, integrated with the WMC Strategic Management Plan and Land Use Plan, and the Action Plans at the DC level		X	X	X	
2.4 Conduct communication and outreach programs to the targeted local communities and local/international tourists on environmental laws and regulations, values and benefit for watershed conservation;		X	X	X	X
2.5 Develop, train and sustain anti-poaching brigade in targeted districts to initiate intensive patrolling on illegal fishing and hunting by the local population as well as national and international tourists;	X	X	X	X	X
2.6 Fund necessary equipment to be provided initially to the anti-poaching brigade, and as the project progresses to provincial and district environment inspectors and rangers for environmental law enforcement, supported by training that includes: monitoring, enforcement, communication and basic ecology skill development;	X	X	X	X	X
2.7 *Conduct* a study (**100% funded by the Taimen Conservation Fund**) on the historical significance of the local Buddhist monastery, Dayan Derkh, which was ruined during the Soviet purges; *Contract* for structural and architectural designs for the rebuilding of the monastery and; *Restore* it, such that it can be utilized as a functioning cultural heritage site. The site will play a supporting role for conservation education in the community, and will act as an important social catalyst for unifying the region;	X	X	X	X	X
3.1 Enhance the sports fishing ecotourism industry on the watershed, according to the sustainable natural resource use and conservation system established by the WMC and DC's;	X	X	X	X	X
3.2 The TCF certifies private operators according to the sustainable natural resource use and conservation standards established by the TCF in consultation with the WMC to make private operators eligible to bid on concessions and apply for licenses from the WMC and DC's;		X			
3.3 Certified private operators successfully bid and secure concessions from the WMC and DC's to sustainably use the watershed for ecotourism activities;		X			
3.4 Other ecotourism operators pursue the local governments and the Taimen Conservation Fund to establish similar operations on other watersheds in the country, thereby replicating the model on a national level, and if overly successful, on other watersheds throughout world;					X
3.5 Annual employment and job training workshops are conducted at the EUWA level on an annual basis;		X	X	X	X

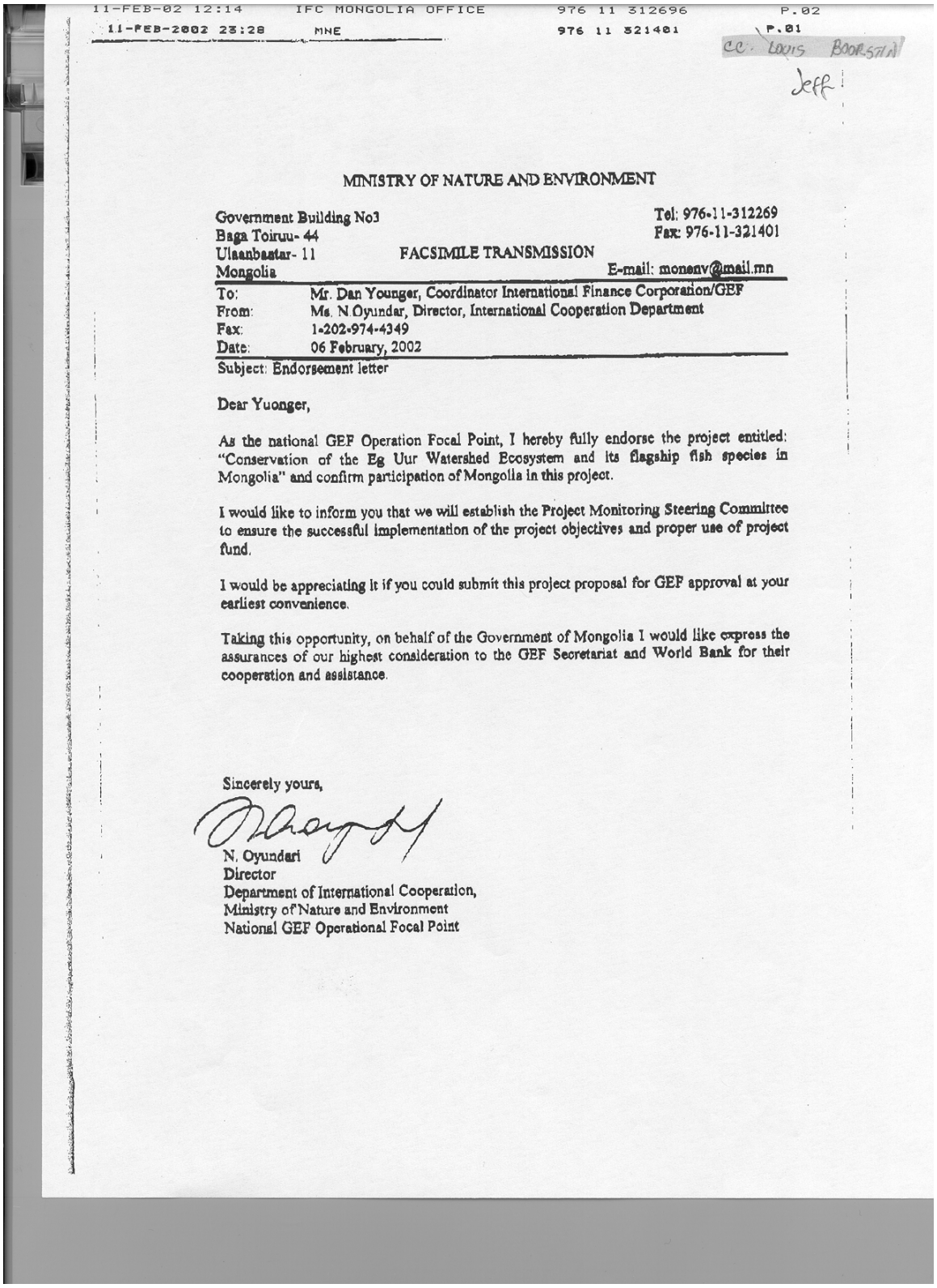
ANNEX VI

Incremental Cost Matrix

Outcomes	Baseline	Alternative	Incremental (Alternative-Baseline)
Global Environmental Benefits	Loss of globally endangered species, habitat loss and ecosystem degradation due to: • Lack of technical and human management capacity; • Lack of adequate policy mechanisms; • Lack of local community participation in natural resource management; • Lack of alternative livelihoods; • High demand for wild animal resources.	Establishment of a CMS leads to the effective management of the EUWA, which; • Removes the threats to the biodiversity; • Enables the local communities to conserve the globally significant biodiversity; • Provides a viable, sustainable wealth generation alternative to the local communities.	Develop a transferable conservation and natural resource management plan and vehicle, through the establishment of a Public Private Sector Partnership, which: • Enhances conservation management; • Ensures ecosystem balance; • Provides financial sustainability; • Increases alternative livelihood options; • Produces a replicable model for the region.
Domestic Benefits	Unsustainable harvesting of the EUWA's natural resources, including: • Wildlife resources; • Forest products; • Pasture lands.	Provide an alternative sustainable management system for the use of the EUWA's natural resources, which results in the sustainable use of: • Wildlife resources; • Forest products; • Pasture lands.	Enhance conservation management of the EUWA ensures healthy ecosystem balance in which forest, grassland and wildlife species could be utilized in sustainable ways for wealth generation by the local communities. As a result the: • Private sector is encouraged to develop; • The local communities become integrated into the national economy; • Private companies are given the impetus to make long-term investments in the local communities, under sustainable conservation guidelines.
Outcome 1: **Collaborative Management System**	Lack of a collaborative management system to address the biodiversity conservation needs of the ecosystems of the EUWA that extend beyond the political boundaries of multiple local administrative units; **Financial Resources: US $ 0**	• Establishment of a CMS through a Public Private Sector Partnership; • Formation of Natural Resource Councils at the district and watershed levels; • Development of a Strategic Management Plan for the EUWA. **Financial Resources: US $ 800,000**	**Financial Resources:** GEF: US $ 500,000 Private Foundation: US $ 300,000 **Total Incremental Costs: US $ 800,000**
Outcome 2: **Natural Resource Management Regime**	Lack of a natural resource management plan, and human and technical execution capacity; **Financial Resources: US $ 20,000**	• Perform on-going biological assessments and adaptive research; • Establish natural resources use system; • Develop communications program; • Establish enforcement system; • Develop a monitoring and evaluation system. **Financial Resources: US $ 500,000**	**Financial Resources**: GEF: US $ 500,000 **Total Incremental Costs: US $ 500,000**
Outcome 3: **Sustainable Use and Alternative Livelihoods**	Lack of private sector revenue generation mechanism to support biodiversity conservation activities on the EUWA on a sustainable basis; **Financial Resources: US $ 0**	• Develop financially sustainable private sector investment program; • Increase alternative livelihoods; **Financial Resources: US $ 752,000**	**Financial Resources:** GEF: US $ 0 Private Foundation: US $ 300,000 Private Sector Revenue Generation: US $ 432,000 **Total Incremental Costs: US $732,000**
Total	**Financial Resources: US $ 20,000**	**Financial Resources: US $ 2,052,000**	***Total Incremental Cost: US $ 2,032,000***

ANNEX VII

Focal Point Endorsement Letter



11-FEB-02 12:14 IFC MONGOLIA OFFICE 976 11 312696 P.02
11-FEB-2002 23:28 MNE 976 11 321401 P.01

cc. Louis Boorstin

Jeff

MINISTRY OF NATURE AND ENVIRONMENT

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FACSIMILE TRANSMISSION

To: Mr. Dan Younger, Coordinator International Finance Corporation/GEF
From: Ms. N.Oyundar, Director, International Cooperation Department
Fax: 1-202-974-4349
Date: 06 February, 2002
Subject: Endorsement letter

Dear Yuonger,

As the national GEF Operation Focal Point, I hereby fully endorse the project entitled: "Conservation of the Eg Uur Watershed Ecosystem and its flagship fish species in Mongolia" and confirm participation of Mongolia in this project.

I would like to inform you that we will establish the Project Monitoring Steering Committee to ensure the successful implementation of the project objectives and proper use of project fund.

I would be appreciating it if you could submit this project proposal for GEF approval at your earliest convenience.

Taking this opportunity, on behalf of the Government of Mongolia I would like express the assurances of our highest consideration to the GEF Secretariat and World Bank for their cooperation and assistance.

Sincerely yours,

N. Oyundari
Director
Department of International Cooperation,
Ministry of Nature and Environment
National GEF Operational Focal Point

Project Budget

Contents:

Summary:

The Private Public Partnership Model includes two financial management components in its design: (i) The Implementing Agency (TCF) that represents the local communities of the EUWA as a trustee, and; (ii) The concessionaire, which acts as the revenue generator for the EUWA. The TCF has three revenue streams: concession, license, and certification fees. For this reason the structure of the project's budget includes **base-case** concession and licensing revenue pro-forma projections and a detailed project budget for the TCF.

Pro-Forma: Taimen Conservation Fund Concession and Licensing Projections

The proposed concession system offers the maximum revenue generation to the local communities for the use of the EUWA's riparian natural resources, as compared to higher use "public goods" licensing systems. Besides the conessions, the concessionaire outfitters will be responsible for paying certification fees to the TCF, an amount still to be determined, though projected at US $ 2,000 per year. The fishing licenses fees are treated as a direct payment by the clients to the TCF, though the outfitters will be responsible for collection. Local residents and Mongolian nationals will be responsible for paying for their licenses directly to the TCF's district offices.

According to preliminary carrying capacity analysis for the EUWA, operating under the ideal circumstances in which the a significant portion of the watershed is dedicated to sustainable flyfishing, the indications are that the watershed can support just under 400 flyfishers per year. (This analysis is subject to change following the biological assessments) Under the existing conditions Sweetwater Travel estimates that they can feasibly use 33% of the watershed, while the remainder is either experiencing too much pressure (i.e. over fishing, proximity to urban centers) or isn't suitable for sustainable flyfishing practices. Based on a 33% occupancy rate for the concessionaire, the watershed can achieve financial sustainability between years 7 – 10, while minimizing its environmental impact on the watershed's natural resources. The assumptions are based on aggressive costs projections and conservative revenue projections. The revenue projections consist of the concession minimums, and a 10% revenue sharing agreement. It's envisioned that local communities will be protected from the downside business risk through concession minimums, and still share in the upside through a revenue sharing agreement with the outfitters. The exact details of the revenue sharing agreement will be worked-out when the natural

resource councils and the Taimen Conservation Fund design the concession system as part of the Natural Resource Management Plan.

Pro-Forma Taimen Conservation Fund:
Concession and Licensing Projections, Page # 3

The proposed concession system breakdowns the watershed into five concessions, of which four would be of immediate interest to a flyfishing concessionaire such as Sweetwater and Hovsgol Travel. In addition, the winning bidder would also be responsible for a one time charge, roughly twice the value of the annual concession fee. The licensing fee structure is based on current projections of carrying capacity limits, and are subject to change as the project evolves. The revenue sharing mechanism will have an inverse relationship to the minimum concession fees. As the revenues of the concessionaire increase, the minimums will fall. This mechanism still needs to be further developed.

Pro-Forma Taimen Conservation Fund:
Project Budget, Page #4

The majority of incremental global and local costs are related to technical and human capacity building. The asset purchases, a relatively small component of the overall budget, occur in years one and six. The major cost component of the project is the foreign experts, who will be enlisted with the technical project management and advisory responsibilities to develop a CMS and Natural Resource Management Plan. The focus of their work will be on activities relating to the conservation of the biodiversity of the EUWA. The approximate budget breakdown of the GEF funding allocates 50% funding, approximately $500,000, to cover foreign experts and the remaining 50%, approximately $500,000 to support human and technical capacity building as pertaining to biodiversity conservation. The private foundation funding will be allocated to activities having local benefits, primarily through its support of building the Taimen Conservation Fund's endowment and providing supplemental funding to the GEF resources to cover additional expenditures, particularly costs associated with foreign experts and training programs. Eventually, once the intervention has established a sustainable natural resource management regime on the EUWA, it's envisioned that the TCF will have a sufficient endowment to not only replicate the model on other watersheds, but to also invest in development projects in the local communities, such as the rebuilding of the Dayan Derkh monastery.

The project budget is broken down by cost centers and activities. There are four cost centers: **Operations and Administration, Training, Miscellaneous** and **Equipment**. The three activities are: **Collaborative Management System, Natural Resource Management Regime** and **Sustainable Use Systems and Alternative Livelihoods**. See the budget projections on page 4.

Taimen Conservation Fund

Concessions and Licenses

(US dollars)

Assumptions

Concession Growth Rate	
Year 4 and 10, then will stabilize, 3-10%	100%
Initiation Fee	100%

Licensing Tariff Structure	
Foreign	$ 50
Out of Province	$ 20
In-Province	$ 10
Local EUWA	$ 5

Quantity of Fishers	
Foreign	110
Out of Province	100
In-Province	150
Local EUWA	150

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Concessions										
Set Minimum Conceesion Fees										
Upper Uur River	$ -	$ 5,000	$ 5,000	$ 5,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 20,000
Upper Eg River	-	2,500	2,500	2,500	5,000	5,000	5,000	5,000	5,000	10,000
Eg-Uur Confluence to Canyon	-	5,000	5,000	5,000	10,000	10,000	10,000	10,000	10,000	20,000
Eg Canyon to Teryelen	-	5,000	5,000	5,000	10,000	10,000	10,000	10,000	10,000	20,000
Teryelen to Eg-Selenge Confluence	-	2,500	2,500	2,500	5,000	5,000	5,000	5,000	5,000	10,000
One time Fee (every 15 years)		20,000								
Total	-	40,000	20,000	20,000	40,000	40,000	40,000	40,000	40,000	80,000
Revenue Sharing										
Fly-fishing suitable sections	-	57,200	57,200	57,200	57,200	57,200	57,200	57,200	57,200	57,200
Other										
Total Concession Revenue	-	**97,200**	**77,200**	**77,200**	**97,200**	**97,200**	**97,200**	**97,200**	**97,200**	**137,200**
Licensing										
Foreign	-	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500
Out of Province	-	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
In-Province	-	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Locals	-	750	750	750	750	750	750	750	750	750
Total Licensing Revenue	-	**9,750**	**9,750**	**9,750**	**9,750**	**9,750**	**9,750**	**9,750**	**9,750**	**9,750**
Total Revenues	$ -	$ **106,950**	$ **86,950**	$ **86,950**	$ **106,950**	$ **106,950**	$ **106,950**	$ **106,950**	$ **106,950**	$ **146,950**

Taimen Conservation Fund												
Project Budget												
(US dollars)												
GEF Grant	1,000,000											
Rate	10%											
Conservation Trust Fund												
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**	**5 year Total**	**10 year Total**
Revenues												
Minimum Concession Fees	-	40,000	20,000	20,000	40,000	40,000	40,000	40,000	40,000	80,000		
Revenue Sharing w/ Concessionaire		$ 40,500	$ 57,200	$ 57,200	$ 57,200	$ 57,200	$ 57,200	$ 57,200	$ 57,200	$ 57,200		
Certification Fees		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000		
License Fees		9,750	9,750	9,750	9,750	9,750	9,750	9,750	9,750	9,750		
Total Project Revenues		**92,250**	**88,950**	**88,950**	**108,950**	**108,950**	**108,950**	**108,950**	**108,950**	**148,950**		
Costs												
Project Personel and Administration	204,000	204,000	204,000	204,000	204,000	81,600	81,600	81,600	81,600	81,600	$ 1,020,000	$ 1,428,000
Project Equipment	106,000	12,000	29,000	7,000	6,000	51,500	4,000	4,000	4,000	4,000	160,000	227,500
Project Training	39,000	30,000	18,000	18,000	12,000	-	-	-	-	-	117,000	117,000
Project Miscellaneous	36,000	146,250	137,950	124,950	136,950	45,850	13,350	13,350	13,350	13,350	582,100	681,350
Total Project Costs	**$ 385,000**	**$ 392,250**	**$ 388,950**	**$ 353,950**	**$ 358,950**	**$ 178,950**	**$ 98,950**	**$ 98,950**	**$ 98,950**	**$ 98,950**	**$ 1,879,100**	**$ 2,453,850**
Sources and Uses												
Sources												
GEF	$ 285,000	$ 200,000	$ 200,000	$ 165,000	$ 150,000	$ -	$ -	$ -	$ -	$ -	$ 1,000,000	$ 1,000,000
Private Foundation	100,000	100,000	100,000	100,000	100,000	70,000	10,000	10,000	10,000	-	500,000	600,000
Private Sector (Revenue)	-	92,250	88,950	88,950	108,950	108,950	108,950	108,950	108,950	148,950	379,100	963,850
Total Sources	**$ 385,000**	**$ 392,250**	**$ 388,950**	**$ 353,950**	**$ 358,950**	**$ 178,950**	**$ 118,950**	**$ 118,950**	**$ 118,950**	**$ 148,950**	**$ 1,879,100**	**$ 2,563,850**
Uses												
Total Uses	**$ 385,000**	**$ 392,250**	**$ 388,950**	**$ 353,950**	**$ 358,950**	**$ 178,950**	**$ 98,950**	**$ 98,950**	**$ 98,950**	**$ 98,950**	**$ 1,879,100**	**$ 2,453,850**
Funding Surplus (defecit)	-	-	-	-	-	-	*20,000*	*20,000*	*20,000*	*50,000*	-	*110,000*