3. M&E during reporting

GOVERNMENT OF MONGOLIA

Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

In partnership with Canada

BIOFIN
The Biodiversity Finance Initiative

UNDP

Country Results Report

The Biodiversity Finance Initiative (**BIOFIN**) programme in **MONGOLIA**
REPORTING PERIOD: January to June 2025

21 July 2025



BIOFIN COUNTRY PROGRAMME

W: https://www.biofin.org/index.php/Mongolia

BIOFIN
The Biodiversity Finance Initiative

BIOFIN COUNTRY PROGRAMME PROFILE

Country: Mongolia

Geographic coverage: The BIOFIN programme in Mongolia is implemented country-wide in general. Especially FS1: Enforcement of the Natural Resource Use Fees law targets national law and is to be implemented nation-wide covering all 339 municipalities and 21 provinces and the capital. FS3: Re-purposing biodiversity harmful subsidies targets national policies or fiscal reform in environmental sector. FS2: Strengthening Billion Tree Fund to mobilize private finance for Nature based Solutions are to be implemented with targeted private institutions including the support from government agencies such as the the Ministry of Finance and Ministry of Environment and Climate Change.

All the three finance solutions address the challenge of insufficient funds and incoherent policy and governance; therefore, implementation of these prioritized finance solutions will trigger long-lasting positive changes to the environmental, social, and economic systems dependent upon nature in Mongolia.

Programme period (as funded by Phase II/Phase II Extended funds/The Biodiversity Finance Initiative – Phase II (BIOFIN Mongolia): August 2019 - June 2021/June 2021 – March 2026-April 2026 - December 2030

Budget (from Phase II/Phase II Extended funds/The Biodiversity Finance Initiative – Phase II (BIOFIN Mongolia): USD 135,000 for Phase II; USD 810,000 for Phase II Extended funds; and USD 1,404,000.

The Biodiversity Finance Initiative (BIOFIN) programme team in Mongolia would like to thank our partners – namely, the Global BIOFIN team, the Governments of Germany, the Government of Canada and UNDP Ecosystems and Biodiversity Programme – for their support in making the implementation of BIOFIN in Mongolia possible.

This report is collaboratively authored by members of the programme team, with support from the BIOFIN global programme management team.

Table of Contents

Table of Contents i

A. Executive summary ii

A. Country factsheet: the country's biodiversity finance profile and the programming approach 1

A.1. Biodiversity finance profile 1

A.1.1. Biodiversity profile 1

A.1.2. Mongolia's commitment to and engagement on protecting its biological diversity and preventing further loss. 2

A.1.3. Country's financial profile 2

A.2. National implementation context 3

B. Overview of key results 8

B.1. Implementation of Finance Solutions 8

B.1.1. Finance solution 1: Enforcement of the implementation of Natural Resource Use Fees law. . 8

B.1.2. Finance solution 2: Strengthening Billion Tree Fund to mobilize private finance for Nature based Solutions. 27

B.1.3. Finance solution 3: Re-purposing biodiversity harmful subsidies. 28

C. Social inclusion stories 30

D. Lessons learned and adaptive measures: 31

E. Risks 33

E.1. Programmatic risks (risks to the programme) 33

E.2. Social and environmental risks (of the programme) 35

List of annexes and related notes 35

Annex 1: Indicator Tracking Table (in Excel) 35

Annex 2: All BIOFIN activity participants 35

Annex 3: NRUF law performance report FY 2024 36

Annex 4: Ministry of Finance 2026 budget call circular for General Budget Governors 36

Annex 5: "Nature of Subsidies" A step-by-step guide to repurpose subsidies harmful to biodiversity and improve their impacts on people and nature 36

A. Executive summary

Progress toward targeted results

Validated BFP (following the validation of a PIR, BER, and FNA)

During the first phase of BIOFIN, Mongolia developed its National Biodiversity Finance Plan (BFP) in response to the National Biodiversity Programme 2015–2025. The plan was based on three key assessments: the Policy and Institutional Review (PIR), Biodiversity Expenditure Review (BER), and Financial Needs Assessment (FNA).

The BFP prioritized the most feasible financing solutions, including: strengthening the enforcement of the Law on Natural Resource Use Fees, reintroducing the pastureland usage fee, establishing a privately owned environmental trust fund, and promoting impact investment to support the operational costs of state protected areas. The findings from these assessments were validated by relevant stakeholders in May 2019.

Finance solution 1: Enforcement of Natural Resource Use Fee (NRUF) Law implementation

The objective of this finance solution is to effectively implement a national law (2012 NRUF law) with a view to enhance biodiversity impact of local budgets and promoting sustainable biodiversity management.

A gap analysis in existing fiscal regulation and institutional frameworks governing NRUF Law implementation followed by the development of a revised version of a regulation, the supplementary document to the NRUF Law, with the technical assistance of the BIOFIN team and its approval by the Government of Mongolia[1] could lead to an eminent implementation of the NRUF law. The development of a database[2] enabling public transparency of local environmental budgets and a series of activities to strengthen target actors on local environmental financing in line with NRUF Law context as well as permanent exercises on planning, reporting of execution, and monitoring/evaluation of local environmental budgets which took place nationwide since 2022 is the huge efforts paid by the BIOFIN team.

In March 2025, the Ministry of Environment and Climate Change concluded that the implementation rate of NRUF law in 2024 was 64.3%. As of 31 December 2024, total revenue generated from the use of natural resources reached MNT 283,994.2 billion (equal to USD 83.1 million), while total environmental expenditure from NRUF revenue reached MNT 47,382.2 billion (US$ 13.98 million), a 217% rise compared to the baseline average between 2016 and 2021. In 2024, a total of 1,501 environmental protection and rehabilitation activities

[1] 2022 Government Resolution No.2; Regulating revenue generation from use fees, expenditure, and reporting on local measures for nature protection and rehabilitation; https://legalinfo.mn/mn/detail?lawId=16390164586241&showType=1

[2] Database for environmental budget and expenditure; https://finance.eic.mn/

were implemented nationwide. Since July 2023, the Ministry of Finance (MoF) has been actively supporting the enforcement of the Law on Natural Resource Use Fees (NRUF) not only through its bi-annual budget call circulars, but also by reviewing and approving dedicated budgets for environmental protection and natural resource rehabilitation. In accordance with Article 18.1 of the NRUF Law, the MoF approved an environmental protection and rehabilitation budget of USD 19.63 million for the 2025 fiscal year - a 66% increase compared to the same budget of the previous year of 2024.

In July 2024, the BIOFIN team contributed to the renewal of the budget classification in collaboration with UNDP SDGBE project. In November 2024, the BIOFIN team and the Ministry of Environment and Climate Change (MECC) piloted the country specific taxonomy of environmental expenditure nation-wide with the help of an extension platform of the Environmental Budget and Expenditure Database. The taxonomy is a tailored classification based on diverse environmental protection and natural resource rehabilitation measures being implemented country wide. With the newly developed taxonomy, it became possible to increase public spending and measure the outcomes along with national priority goals and targets that contribute to the commitments under the Rio conventions.

Furthermore, a new classification of Budget Programmes and Purpose-Based Measures for Environmental Protection and Rehabilitation was proposed aligning with the COFOG framework for government functions, the GLOBE taxonomy for biodiversity-related expenditures, the detailed classification developed under the BIOFIN II project in Mongolia for environmental protection and restoration measures, and the goals and expected outcomes set forth in Mongolia's long-term development policy documents related to environmental protection and rehabilitation.

Towards achieving FS1's intention, BIOFIN Mongolia team will continue its technical assistance for the finalization of the database on environmental budgets and expenditures. The database is planned to be completed as outlined in the 2010 Government Resolution No.85 and officially handed over to the Ministry of Environment and Climate Change within Q2 2026.

More efforts will be paid to the development of a revised Bill on NRUF law and submission to the parliament for the spring session 2026. Currently, the Working Group has just been re-established by order No.A/808 of the Minister of Environment and Climate Change dated 22nd November 2024. All draft documents were finalized in accordance with Article 8 of the Law on Legislation to submit to the working group responsible for preparing the revised version of the NRUF Law.

Finance solution 2: Strengthening Billion Tree Fund to mobilize private finance for Nature based Solutions.

The intention of the finance solution is to unlock domestic private finance for biodiversity conservation and climate actions. Designing financially viable nature- and land-based

solutions will also comply the objective of the FS which aims to mobilize up to US$ 0.5 million and catalyze additional US$ 1 million annually to contribute filling biodiversity finance gap of the country.

The “Billion Tree Fund”, the climate and forest fund, was established in March 2022 by the Mongolian Bankers Association and Mongolian Sustainable Finance Association to fulfill the private sector commitments to the Billion Tree national campaign. Billion tree fund seeks UNDP support to align its operations with international practice standards for Conservation Trust Funds and diversified funding options.

Therefore, BIOFIN country team is carrying technical assistance to support privately owned Billion Tree Fund (BTF) to:

- Operationalize Billion Tree Fund: and
- Development of sustainable investment (NbS).

Due dilligence exercise carried out by an international consultant from August till October 2024 was successfully concluded the opportunity to collaborate with the fund further. As the following, signing a Memorandium of Understanding is under discussion between UNDP and Billion Tree Fund.

In December 2024, UNDP BIOFIN country team and BTF jointly developed a Forest and Land Restoration (FLR) project concept note and participated in the FAO-led the First Investment Forum for the RESULT Asia Pacific FLR programme. Currently FAO is gathering the feedback on all 10 proposals from 8 countries including Mongolia. A follow-up call was made early January, however, no further actions on funding have been discussed so far.

Finance solution 3: Re-purposing biodiversity harmful subsidies

The aim of this solution is to carry out reform of biodiversity harmful subsidy practices toward enabling conditions in favor of environmentally sound subsidies.

Within the third component, the Reducing negative finance towards national priorities on biodiversity, subsidies and incentives which might have potential harm to the environment have been screened through the selected economic sectors. The assessment of the subsidies' effectiveness against their stated objectives, their cost-efficiency and their environmental impacts has been completed, and two priority subsidies were selected from the sector of agriculture to be re-designed. Road map for subsidy reform is currently under development.

Successful reform of the two subsidies has potential to eliminate harmfulness of MNT 40 billion (US$ 11.7 million annually). The reform will not be limited to the revision of the legislative document, it will cover the development of compliance mechanisms, and M&E system as well as enabling transparency.

In Q4 of 2024 UNDP CO hired an expert team and to achieve FS3's intention, program team will proceed to the establishment of the inter-ministerial committee and enable multistakeholder engagement consultations to identify further steps and approve the roadmap for reforming harmful subsidies.

Currently, a total of 16 potentially harmful subsidies have been identified across agriculture, transport, and energy, with agriculture prioritized for redesign. Economic and environmental assessments found cashmere, wheat, wool, and milk subsidies to be the most harmful. Currently, in-depth analysis of milk and wheat incentives is being conducted in cooperation with MoFALI, as these are considered most feasible for reform. Detailed review and policy development are ongoing, with discussions on the third subsidy still in progress.

All of the above efforts and achievements were not possible without funding from the Government of Germany and the Government of Canada. Therefore, the BIOFIN country team thank our funding partners and the Global BIOFIN Team.

Other Results and Looking Ahead

In respect of Project Document and new Global Biodiversity Framework, composition of the Steering Committee of the BIOFIN country programme has been re-considered from March 2023. As a result of a series of discussions with MECC, UNDP CO successfully established a National Steering Committee (NSC) in March 2024. The newly formed NSC is responsible for overseeing the implementation of the two UNDP global initiatives, the "Biodiversity Finance Initiative" and the "Umbrella Programme to Support NBSAP Update and the 7th National Reports". The NSC is co-chaired by the State Secretary of Environment and Climate Change and involves two focal points at the Ministry of Finance and the Ministry of Environment and Climate Change. Its membership consists of Deputy Head of the Cabinet Secretariat of the Government of Mongolia, directors of departments of the Ministry of Economy and Development, the Ministry of Food, Agriculture, and Light Industry, the Ministry of Construction and Urban development, the Ministry of Road and Transport Development, the National Forest Agency, the National Water Agency, as well as representatives from academia and executives of NGOs. Inclusion of representatives from all key sectors emphasizing a whole-of-government and whole-of-society approaches will foster stronger synergies, integration and alignment in the planning and implementation of national biodiversity, climate, and land restoration plans and strategies.

B. Country factsheet: the country's biodiversity finance profile and the programming approach

B.1. Biodiversity finance profile

B.1.1. Biodiversity profile

Mongolia is a landlocked country situated between Russia and China. It is of global biodiversity significance due to its transitional ecosystems e.g., the Siberian Taiga, Central Asian steppe, and the Gobi Desert, which creates a unique assemblage of species. Biodiversity in Mongolia was an integral feature of the intact ecosystem until the mid of 20th century. The pastoral livestock husbandry well adapted to seasonal climatic and geographical conditions was a part of those ecosystems. Such unique formation was the peak of biodiversity advancement at the given geographical and climatic conditions.

However, Mongolian biodiversity is in severe decline due to a combination of sectoral interests *(such as: agriculture, mining, and infrastructure*), climate change, incoherent policy and governance, and insufficient financing. For example, the number of livestock[3], which is a major contributor to the degradation of habitats and the biodiversity loss has climbed up to 71.1 million in 2022. Due to overgrazing and climate change, a total of 76.9% of Mongolian land has degraded to some extent[4] covering decline in soil fertility, desertification, and reduce in biomass and richness in species diversity. Over the past 80 years, the annual average air temperature increased by 2.24°C while rainfall decreased by 8%. Knowingly higher temperatures led to increased evapotranspiration and the drying up of the surface water supplies and degradation of permafrost. The forest area covers only abou 7.89% of the total land area. Extreme events such as droughts, sandstorms, and snowstorms are becoming more frequent and intense leading to significant economic loss[5]. The economy of Mongolia has a carbon intensity that is over 15 times higher than the global average, and its per-person greenhouse gas (GHG) emissions of 21 tons are among the highest in the world[6].

Assessment of rare and endangered species in the Red List using 2001 IUCN Red list categories and criteria revealed that 11 percent of plant species are going extinct due to habitat stress and overuse, 26 percent is at risk of extinction, 37 percent is vulnerable or at high risk of extinction in the wild and 15 percent is endangered[7].

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[3] 2022 annual livestock census; Statistical data portal at www.1212.mn
[4] Desertification Atlas of Mongolia, 2020
[5] Environmental Performance Review of Mongolia 2019-2020; https://met.gov.mn/articles/show/mongol-orny-bajgal-orchny-t-l-v-bajdlyn-tajlan-2019-2020-on/en
[6] https://www.climatelinks.org/resources/greenhouse-gas-emissions-factsheet-mongolia
[7] Mongolian Plant Red List, 2019

B.1.2. Mongolia's commitment to and engagement on protecting its biological diversity and preventing further loss.

Since Mongolia has ratified the Convention on Biological Diversity (CBD), various programmes and policies have been developed mainstreaming the issues of biodiversity. The first national biodiversity strategic action plan (NBSAP), the Biodiversity Conservation Action Plan was approved in 1996 covering 21 goals and 87 actions. Comprehensive reports on the implementation were developed in 1998[8], 2003[9], 2006[10], 2009[11], and 2014[12] and submitted to the CBD Secretariat. Implementation of the NBSAP was evaluated twice, and the latest evaluation conducted reported that the programme had a success of 96 percent of implementation. However, at Rio+20 conference it was reported that only half of the objectives on protecting the environment were achieved in Mongolia. After the 12th COP of CBD, the second NBSAP, the National Biodiversity Program 2015-2025 was developed in line with the new Aichi biodiversity targets and approved (Government Resolution No.325, August 04, 2015)[13]. The second NBSAP is a mid-term policy document outlining prompt implementation of state policy at the national and sectoral level, goals and targets to solve critical issues, budgetary concerns and funding sources, and various other implementation details. The full implementation of this national strategic action plan by all parties was expected to enable continuity and cohesion and promote stability between sectoral and cross-sectoral policy documents. The latest report on the implementation of the biodiversity action was developed in 2019[14]. The financial gap to the implementation of the NBSAP was estimated as 14 million US$ per annum. Since January 2023, the UNDP Country Office has been part of the Global Biodiversity Framework Early Action Support (GBF-EAS) project, a global initiative designed to provide fast-track support to governments for the rapid implementation of the Post-2020 Kunming-Montreal Global Biodiversity Framework (GBF). Under this initiative, the process of aligning the National Biodiversity Strategy and Action Plan (NBSAP) with the post-2020 GBF has commenced. In addition, the GEF-funded Umbrella Programme to Support NBSAP Updates and the Preparation of the Seventh National Report has been active since May 2024, continuing the NBSAP alignment process and supporting the development of Mongolia's 7th National Report to the CBD Secretariat.

B.1.3. Country's financial profile

Mongolia's economy continues to grow steadily, albeit unevenly, with the mining sector serving as the primary driver while the non-mining sector lags behind. On 12 December 2024, the State Great Khural approved the country's first-ever deficit-free state budget for 2025,

[8] CBD First National Report - Mongolia
[9] CBD Second National Report - Mongolia
[10] CBD Third National Report - Mongolia
[11] CBD Fourth National Report - Mongolia
[12] CBD Fifth National Report - Mongolia
[13] CBD Strategy and Action Plan - Mongolia (English version)
[14] Sixth National Report To The Convention On Biological Diversity (2015-2018) Ministry of Environment and Tourism of Mongolia. https://www.cbd.int/doc/nr/nr-06/mn-nr-06-en.pdf

projecting both revenue and expenditure at approximately 33.5 trillion Mongolian tugriks (around USD 9.8 billion), equivalent to 35.2% of GDP. In June 2025, both revenue and expenditure were revised downward by 2.3 trillion MNT, resulting in a balanced budget of 31.2 trillion MNT.

As part of its fiscal reforms, the Ministry of Finance increased the allocation under expenditure line 71413, funded through natural resource use fee revenues, from an average of USD 11 million to USD 20.9 million, signaling a strengthened commitment to environmental financing.

Mongolia is striving for a swift and effective transition to a green economy, aiming to boost funding for biodiversity conservation and ecosystem rehabilitation. To address the estimated USD 14 million annual biodiversity finance gap, the country recognizes the need for substantial structural and qualitative changes in its environmental finance framework.

As challenges related to biodiversity conservation, climate change mitigation and adaptation, and land degradation intensify, the government is increasingly focusing on environmental protection and rehabilitation measures. In May 2025, the Parliament's Environment, Food and Agriculture Standing Committee affirmed its full support for COP17 of the UNCCD, to be hosted in Ulaanbaatar in 2026. This includes advancing a robust environmental policy agenda: revising 12 environmental laws, enacting new climate legislation, expanding tree planting initiatives, formulating a long-term low-emission development strategy, increasing the coverage of protected areas, and improving water resource management. These efforts underscore Mongolia's growing prioritization of environmental protection in the face of accelerating biodiversity loss, climate change, and land degradation.[15]

B.2. National implementation context

The Biodiversity Finance Initiative (BIOFIN) aims to produce improved biodiversity and development outcomes and to contribute to filling the finance gap through the implementation of Biodiversity Finance Solutions. The BIOFIN programme in Mongolia is implementing three finance solutions which have the following two dimensions to finance national biodiversity goals:

- First, *finance green*: Increasing local funds and private finance toward conservation and restoration. This dimension covers *FS 1: Enforcement of Natural Resource Use Fee Law;* and *FS 2: Strengthening Billion Tree Fund to mobilize private finance for Nature based Solutions;*
- Second, *greening finance*: direct public financial flows away from projects/programmes with negative impacts on biodiversity and ecosystem services, and towards projects/programmes that mitigate negative impact or pursue positive environmental impacts as a co-benefit. This dimension covers *FS 3: Re-purposing biodiversity harmful subsidies.*

[15] https://montsame.mn/en/read/368617

To approach its work, the programme proposes the following objectives and milestones for each of FSs:

FS1: Enforcement of Natural Resource Use Fee Law – The finance solution aims to effectively implement the NRUF law to strengthen the impact of local budgets on biodiversity, promote sustainable natural resource management, and address climate change and land degradation. Effective implementation of the NRUF law will enable the mobilization of at least US$ 5-6 million annually, filling half of the current biodiversity financing gap. This contribution aligns with Mongolia's commitments to the Rio Conventions on Biodiversity, Climate Change, and Combating Desertification, as reflected in their NBSAP, NDC, and NAP. Additionally, result-based budgeting concept will be introduced in the environmental sector of Mongolia.

Components of the finance solution are:

1) Enhance legislation and policy;
2) Develop country-specific taxonomy with impact measurement; and
3) Develop an online environmental budget and expenditure database.

The following outputs and outcomes are expected under this finance solution.

Expected short-term outputs include:

- Enhanced stakeholder awareness in line with NRUF Law context;
- Strengthened capacities of key target actors on local environmental financing;
- Best practice guides, and knowledge products;

Expected long-term outcomes:

- Consistent legislation to operationalize the user pays principle;
- Publicly accessible online database for transparent tracking of environmental budgets and expenditure;
- Facilitated transition to result-based budgeting within the environmental sector;
- Improved institutional setup and capacities aligned with incorporating environmental costs in the decision-making processes;
- Increased funding for the protection and resilience of natural ecosystems ensured through effective implementation of NRUF law with additional 5-6 million USD annually.

FS2: Strengthening Billion Tree Fund to mobilize private finance for Nature based Solutions - The main objective of this finance solution is to support the Billion Tree Fund, by improving the mid-term grant mechanism, aligning with international standards and developing a new revenue mechanism through Bankable Nature-based Solutions, mobilizing at least US$ 500,000 annually with catalysing the additional US$ 1,000,000.

The "Billion Tree Fund", the climate and forest fund, was established in March 2022 by the Mongolian Bankers Association and Mongolian Sustainable Finance Association to fulfill the private sector commitments to the Billion Tree national campaign. Billion tree fund seeks

UNDP support to align its operations with international practice standards for Conservation Trust Funds and diversified funding options.

Components of the finance solution are:

1) Operationalize Billion Tree Fund; and
2) Ensuring the design on revenue-generating biodiversity-positive investment opportunities for the private sector.

Expected short-term outputs and results include:

- Tracking system of the Billion Tree Initiative investments including the maintenance of the planted trees at least for thirty years in the form of M&E framework developed;
- Mid-term grant program document with clear strategic priorities, KPIs and priority target sites with objective of ecosystem restoration approach;
- A corporate website maintaining fund operation transparency, and enabling online proposal application is developed;
- Fund operations are aligned with the international Practice Standards for CTFs for enhanced credibility and trust, improved governance, operational efficiency, resource mobilization and therefore a greater conservation impact;
- Feasibility studies on multiple revenue-generating options, such as voluntary carbon credit and biodiversity credit issuing (including a project-based MRV system), payment for ecosystem services (PES), and timber revenue from selective logging, were conducted; as a result, non-grant instruments for financial sustainability of BTF are developed and established.

Expected long-term outcomes:

- The best sustainable biodiversity practices or ecosystem restoration in tree-planting activities are ensured;
- A just transition for vulnerable groups, women, and local communities is ensured.

FS3: Re-purposing biodiversity harmful subsidies - The proposed solution will aim at reforming harmful subsidy practices through enabling condition in favor of environmentally sound subsidy programs with a view of contributing to the achievements towards Target 18[16] of Kunming-

[16] **TARGET 18** Identify by 2025, and eliminate, phase out or reform incentives, including subsidies, harmful for biodiversity, in a proportionate, just, fair, effective and equitable way, while substantially and progressively reducing them by at least 500 billion United States dollars per year by 2030, starting with the most harmful incentives, and scale up positive incentives for the conservation and sustainable use of biodiversity.

Montreal GBF, Goal 6.2.6[17] of the Vision-2050 Long-Term Development Policy, and Goal 12[18] of National Biodiversity Programme.

An inter-ministerial high-level task force should be established within the government to drive the reform process forward and maintain momentum through effective intersectoral coordination and policy support. Strategic partners are expected to include the Ministry of Economy and Development, Ministry of Finance, Ministry of Environment and Climate Change, Ministry of Food, Agriculture and Light Industry, as well as development partners, NGOs, and private sector entities.

The above-mentioned objective will be achieved through the following outputs and outcomes:

Expected short-term outputs include:

- Detailed inventory of biodiversity harmful subsidies;
- Gap analysis within the national system of designing subsidies;
- Multi-criteria impact assessment or in-depth review to assess financial, economic, and social aspects and biodiversity benefits to select options on re-design selected subsidy programs;
- Feasible redesign action plan (or roadmap defines baselines, targets and set out the concrete actions and deadlines, to be applied for monitoring, evaluation, and reporting on reform progress) including objective, indicators, intended effects, inevitable effects and strategy to avoid possible negative consequences. Each subsidy repurposed should include an M&E plan, with clear finance targets and milestones to identify potential areas of improvement;
- Budget, and communication and advocacy strategy Establishment of good governance practices for environmentally sound subsidy;
- Policy briefs for each prioritized subsidy, recommendations to implement redesign action plan;
- Knowledge products, capacity building programs andtraining materials for target groups.

Expected long-term outcomes:

- Negative financial flows into biodiversity and associated threats are reduced;
- An effective, efficient, and environmentally sound subsidy policy is in place.

The managements arrangement for the BIOFIN country programme remained the same without any major changes. However, UNDP Country Office is establishing a National Steering Committee (NSC) with the objective to strengthen partnership between representatives of all sectors emphasizing a whole-of-government and whole-of-society approaches in the implementation of the BIOFIN, GBF-EAS, and NBSAP projects. The role of NSC is to ensure

[17] **Goal 6.2.6**. Reduce subsidies for businesses that have a negative impact on ecosystems and biological diversity, support ecosystem services, and support conservation activities.

[18] **Goal 12.** Create a legal environment where subsidies or financial assistance are prohibited for use in agriculture, mineral resource extraction, infrastructure, energy, light industry, food manufacturing, and service industry projects and actions deemed to be harmful to or potentially harmful to biological diversity in accordance with environmental strategy evaluations.

that the use of the project grants to align NBSAP with the KMGBF and national development priorities will be a widely inclusive and participatory process at the country level.

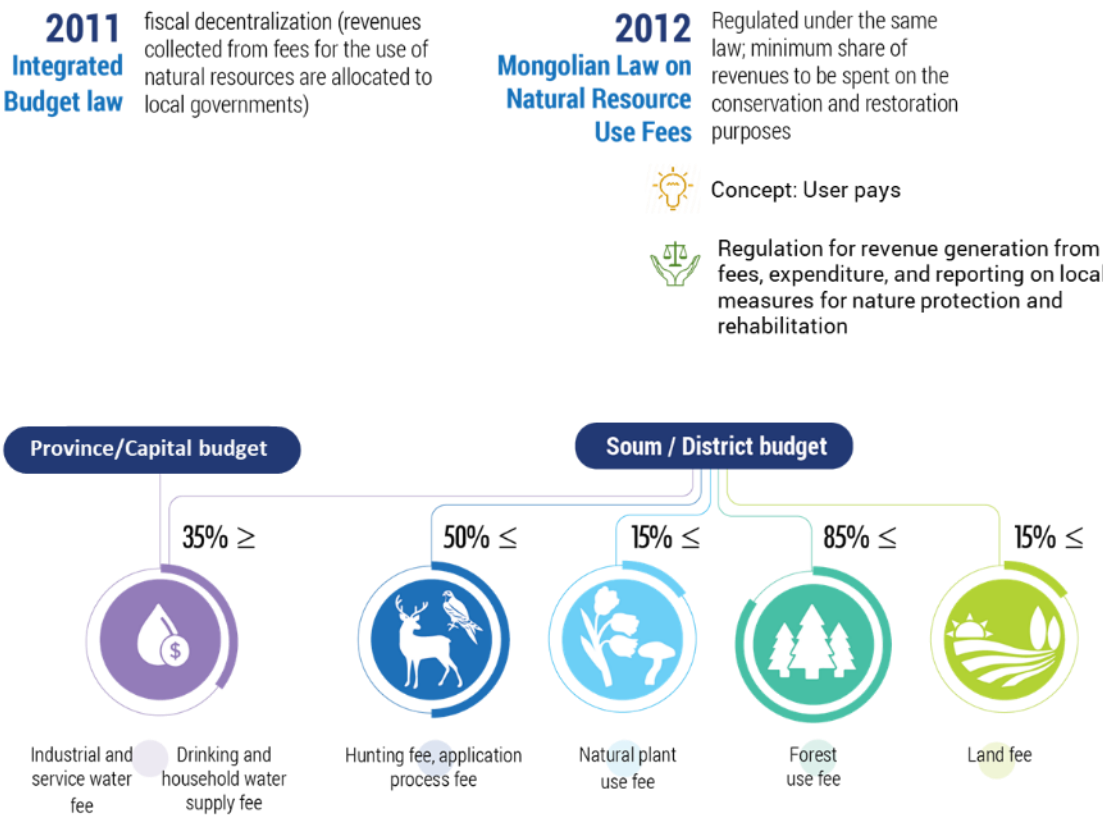
C. Overview of key results

C.1. Implementation of Finance Solutions

C.1.1. Finance solution 1: Enforcement of the implementation of Natural Resource Use Fees law.

The objective of this finance solution is to effectively implement the existing national law (2012 Mongolian Law on the Natural Resource Use Fees or NRUF law) (Figure 1) with a view of enhancing biodiversity impact of local budgets and promoting sustainable biodiversity management. The effective implementation of NRUF Law is expected to mobilize up to additional of US$ 5-6 million per annum to be spent on biodiversity conservation.

Figure 1. Natural resource use fees and their allocation to local budgets. The percentages shown reflects the minimum share of revenues to be spent for conservation, restoration, and rehabilitation measures of the resources.



Current fiscal legislation of local budgeting is a ground basis for the implementation of NRUF Law. Diverse actors involve in NRUF Law implementation over fiscal year cycle, covering the pre-planning, planning, approving, execution, and oversight of local environmental budgets as well as monitoring, evaluation, and learning from the implementation of NRUF law. The key stakeholders for this FS include:

- Ministry of Finance (MOF):
  - Division of Public Expenditure;
  - Division of Public Revenue;
- Ministry of Environment and Climate Change (MECC):
  - Department of Natural Resource Policy and Implementation,
  - Department of Monitoring, Evaluation, and Internal Audit,
  - Environmental Information Centre;
- State agencies:
  - General Department of Taxation, and
  - Mongolian National Audit Office;
- Governor offices in all 21 provinces and the Capital:
  - Department of Investment, and Developmenmt Policy Planning;
  - Department of Finance and Treasury;
  - Department of Taxation;
  - Department of Environment;
  - Department of Land Relations and Civil Construction;
  - Department of Monitoring and Evaluation;
- Governor offices in all 330 municipalities and 9 districts;
- Secretary offices of local legislatures:
  - Citizen's Representative Khural, the locally elected parliaments in all 21 provinces and the Capital city;
  - Citizen's Representative Khural in all 330 municipalities and 9 districts;
- Civil society organizations and NGOs:
  - Mongolian Association of Local Authorities;
  - Mongolian Environment Civil Council; and etc.

Furthermore, the Ministry of Economy and Development and the Cabinet Secretariat of the Government of Mongolia are crucial stakeholders to be considered further.

Progress towards finance, policy, and institutional results

Enforcing the Law on Natural Resource Use Fees has been a challenge for government bodies since its approval by Parliament in 2012. Both implementation assessment reports made by the National Audit Office and the UNDP BIOFIN team clearly indicate that the implementation of the Law on Natural Resource Use Fees has been insufficient due to inconsistencies in laws and regulations as well as lack of communication and cooperation among relevant government bodies.

A gap analysis in existing fiscal regulation and institutional frameworks governing NRUF Law implementation followed by the development of a revised version of a regulation, the supplementary document to the NRUF Law, with the technical assistance of the BIOFIN team

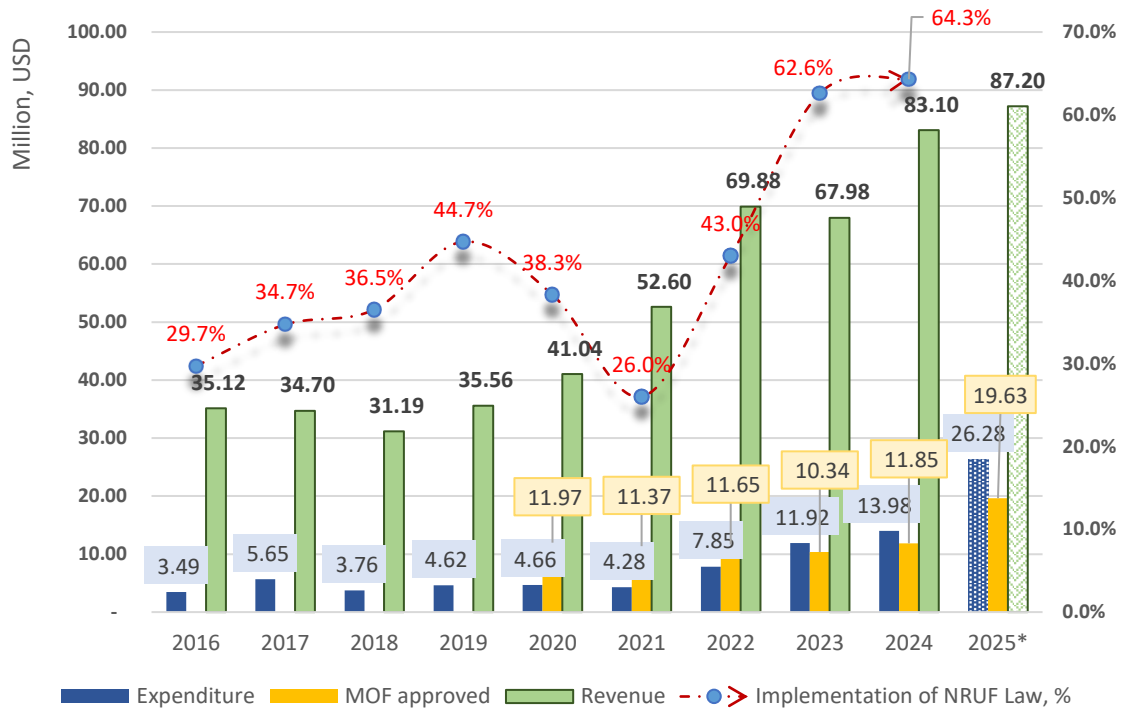
and its recent approval by the Government of Mongolia[19] could lead to an eminent implementation of the NRUF law. The development of a database[20] enabling public transparency of local environmental budgets and a series of activities to strengthen target actors on local environmental financing in line with NRUF Law context as well as permanent exercises on planning, reporting of execution, and monitoring/evaluation of local environmental budgets which took place nationwide since 2022 is the huge efforts paid by the BIOFIN team (**Annex 2**).

At present, the implementation of the NRUF Law for 2024 has been completed, the execution of the 2025 fiscal year is underway, and planning for the 2026 fiscal year is in progress:

A. Implementation of NRUF law in 2024

In March 2025, the Ministry of Environment and Climate Change concluded that the implementation rate of NRUF law in 2024 was **64.3%** (**Figure 3**; **Annex 3**).

Figure 3. Performance rate of NRUF law during 2016-2024



*Note:

Projection based on approved 2025 budgets

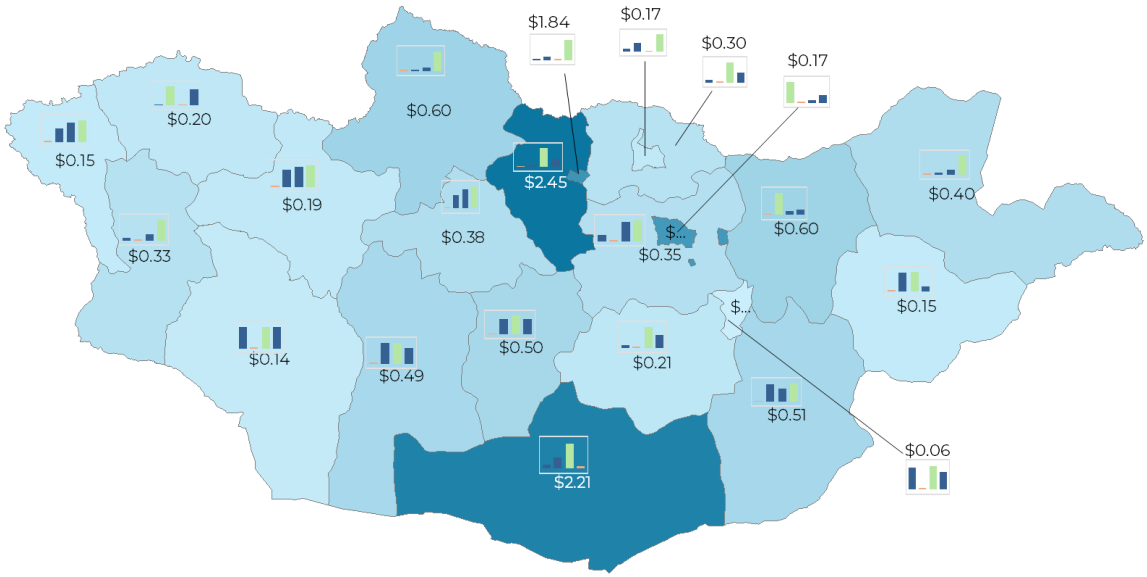
[19] 2022 Government Resolution No.2; Regulating revenue generation from use fees, expenditure, and reporting on local measures for nature protection and rehabilitation; https://legalinfo.mn/mn/detail?lawId=16390164586241&showType=1

[20] Database for environmental budget and expenditure; https://finance.eic.mn/

As of 31 December 2024, total revenue generated from the use of natural resources reached MNT 283,994.2 billion (equal to USD 83.1 million), while total environmental expenditure from NRUF revenue reached MNT 47,382.2 billion (US$ 13.98 million), a 217% rise compared to the baseline average between 2016 and 2021.

The changes in the implementation of the law by province are shown in Figure 4.

Figure 4. Changes in NRUF law implementation in each province till the end of 2024



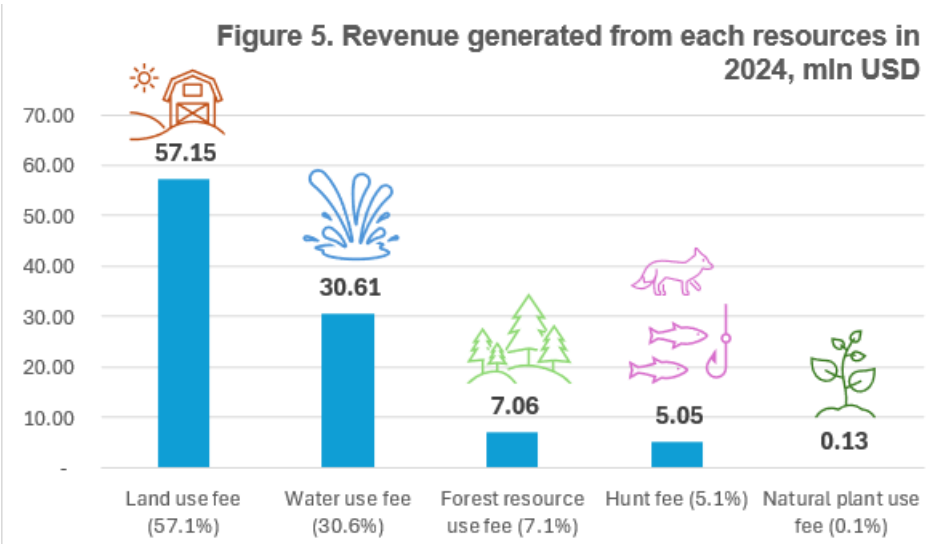
(a) Expenditure from each province in 2024

Provinces	Expenditure, NRUF Law, %			
	Average 2019-2021	2022	2023	2024
Arkhangai	**42.6**	80.1	71.2	109.7
Bayan-Ulgii	**1.7**	35.3	51.4	57.2
Bayankhongor	**14.2**	72.1	72.9	58.1
Bulgan	**48.2**	53.3	104.9	71.1
Gobi-Altai	**85.0**	26.4	85.3	84.8
Gobisumber	**86.0**	48.7	89.7	79.2
Darkhan-Uul	**39.1**	63.7	25.2	104.2
Dornogobi	**27.4**	93.1	76	96.8
Dornod	**42.3**	62.8	87.6	211.7
Dundgobi	**34.0**	21.1	115.1	80.1
Zavkhan	**23.0**	63.5	68.6	71.5
Orkhon	**17.7**	33.5	11.6	129.2
Uvurkhangai	**27.6**	73.6	84.4	72
Umnugobi	**54.6**	77.1	113.4	46.6
Sukhbaatar	**50.1**	97.5	101	62.9
Selenge	**19.8**	17.7	33.5	25.7
Tuv	**30.6**	20.9	49.6	50.8
Uvs	**69.4**	108.2	67.5	102.2
Ulaanbaatar	**46.8**	17.1	23.3	38.4
Khovd	**70.7**	31.8	71.2	169.1
Khuvsgul	**46.8**	29.7	40.3	97.1
Khentii	**27.4**	240.8	75.7	91.6
Total	**26**	**43.0**	**62.6**	**64.3**
Average	27.1	61.3	69.1	86.8

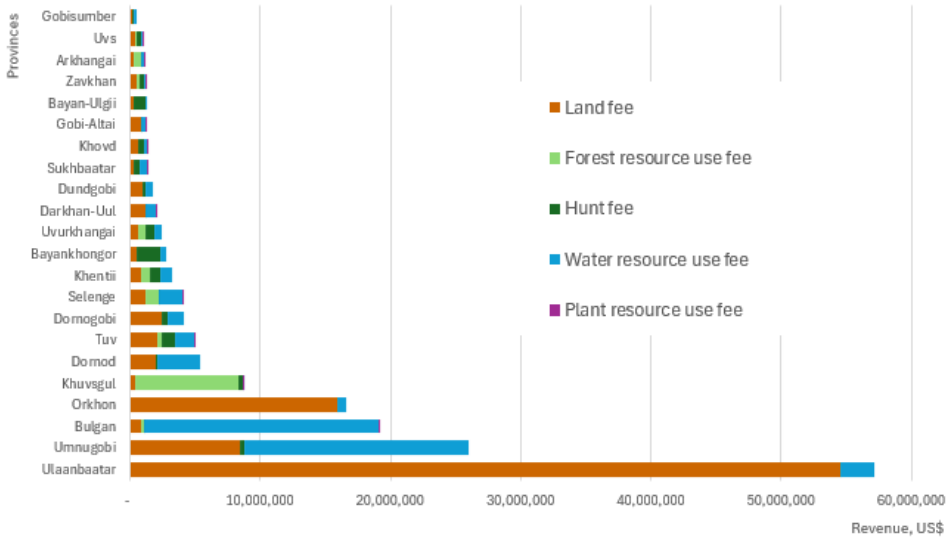
(b) Recent changes in NRUF law implementation compared with baseline between 2019 and 2021

In 2024, revenue from natural resource use was planned at 269.69 billion MNT, but by year-end, actual collection reached 283.99 billion MNT, achieving 105% of the target. Of this total, 57.1% came from land use fees, 30.6% from water use fees, and the remaining 12.2% from biodiversity-related fees, including the use of wildlife, plants, and forest resources (Figure 5). Of the 162.3 billion MNT collected from land use fees, 28% originated from state protected areas.

Majority of the water resource use fees are to be collected to Umnugobi and Bulgan provinces (Figure 5b) from the mining companies, i.e., Erdenet Mining Corporation, one of the largest copper mines in the world, as well as Oyu Tolgoi copper and gold mine operates by Rio Tinto. While the capital city of Ulaanbaatar collected majority of land use fees which compose 1/3 of the total revenues generated.



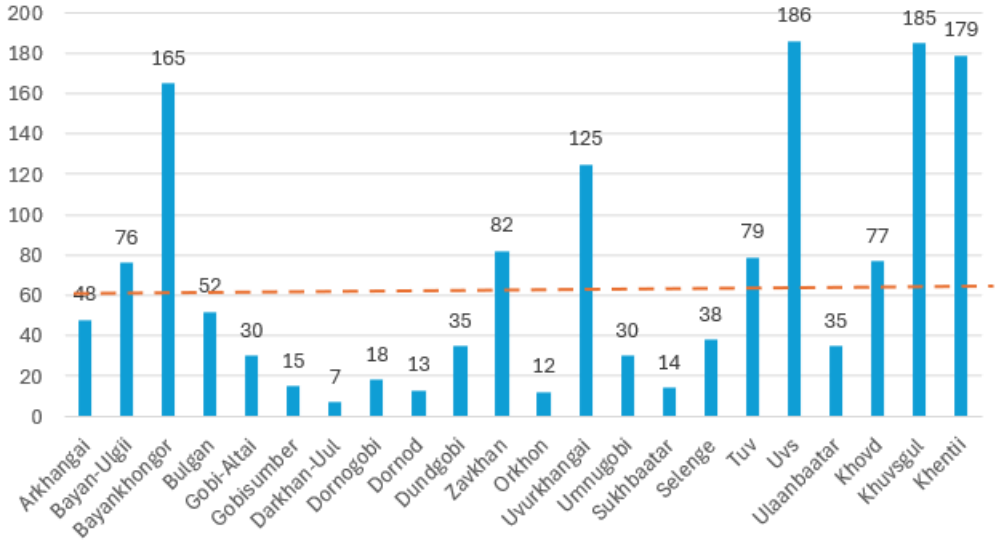
(a) Total revenue by resource



(b) Revenue composition of each province

Article 18.1 of the Law stipulates that a certain portion of the revenue generated from natural resource use fees must be allocated to environmental protection and rehabilitation measures. In 2024, a total of 1,501 such activities were implemented nationwide, funded by USD 13.98 million (Figure 6).

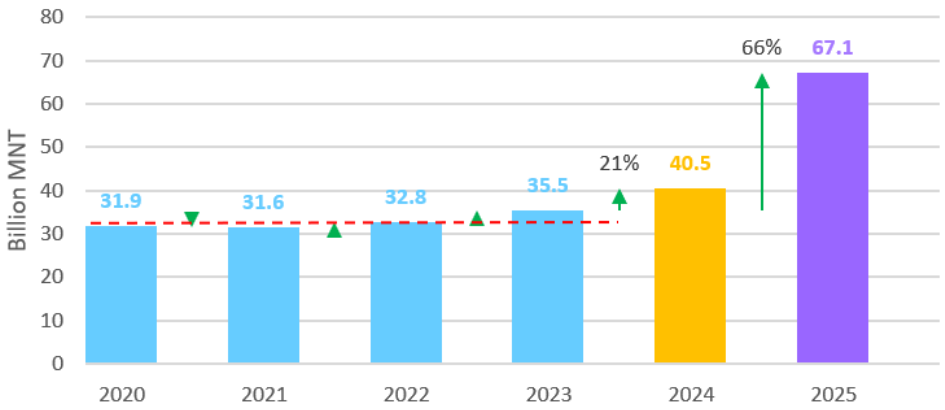
Figure 6. Number of conservation and restoration measures in 2024



B. Implementation of NRUF law in 2025

Since July 2023, the Ministry of Finance (MoF) has been actively supporting the enforcement of the Law on Natural Resource Use Fees (NRUF) not only through its bi-annual budget call circulars, but also by reviewing and approving dedicated budgets for environmental protection and natural resource rehabilitation. In accordance with Article 18.1 of the NRUF Law, the MoF approved an environmental protection and rehabilitation budget of USD 19.63 million for the 2025 fiscal year - a 66% increase compared to the same budget of the previous year of 2024 (Figure 7).

Figure 7. MoF approved budgets for environmental protection and natural resource rehabilitation



The budget approved by the Ministry of Finance (Table 1) reflects an increase in both revenue and expenditure based on the final budget resolutions adopted by aimags, the capital, municipalities, and districts at the end of 2024 for the 2025 fiscal year. A total of USD 87.2 million was planned to be collected, of which USD 26.3 million was allocated for environmental protection. Currently, the collection of revenue and the implementation of environmental protection and rehabilitation measures are underway in accordance with the approved budget.

Table 1. MoF approved local budgets for 2025 environmental protection and rehabilitation measures

Provinces	2024 budget (MoF approved)	2025 GBG proposal	2025 budget (MoF approved)
Arkhangai	0.12	0.08	0.10
Bayan-Ulgii	0.16	0.16	0.20
Bayankhongor	0.18	0.20	0.16
Bulgan	3.00	3.36	3.07
Gobi-Altai	0.04	0.10	0.12
Gobisumber	0.07	0.15	0.10
Darkhan-Uul	0.12	0.22	0.15
Dornogobi	0.33	0.60	0.39
Dornod	0.54	0.55	0.63
Dundgobi	0.09	0.16	0.17
Zavkhan	0.16	0.20	0.17
Orkhon	0.49	-	1.18
Uvurkhangai	0.16	0.26	0.23
Umnugobi	2.55	2.81	4.01
Sukhbaatar	0.09	0.13	0.26
Selenge	0.69	0.10	1.13
Tuv	0.41	0.71	0.78
Uvs	0.11	0.13	0.17
Ulaanbaatar	1.46	2.68	5.35
Khovd	0.26	0.47	0.24
Khuvsgul	0.50	0.80	0.72
Khentii	0.32	0.32	0.30
Local budget/817010 Environmental protection and rehabilitation measures	11.85	14.19	19.63

C. Planning for 2025

Since the approval of 2022 Government Resolution No.2 “Regulating revenue generation from use fees, expenditure, and reporting on local measures for nature protection and rehabilitation,” this is the first time the Ministry of Environment and Climate Change (MECC) has implemented the provision set out in Clause 2.3 of the regulation. According to this clause, “The central administrative body responsible for environmental issues shall review the proposals submitted under Clause 2.2 and determine the types and upper limits of natural

resources to be used, and submit this information to the Governors of aimags and the capital city by June 1 of each year."

In 2023, governors of aimags and the capital consolidated their proposals on the types and upper limits of natural resources to be used within their territories in 2024 and submitted them to MECC. However, due to legal inconsistencies and gaps, and the absence of prior implementation practice, the Ministry did not review the proposals and failed to determine and communicate the upper limits by the deadline set by the regulation. In contrast, for the current year, the Ministry of Environment and Climate Change has determined the types and upper limits of natural resources to be used in the 2026 fiscal year, based on the proposals submitted by local governments, in accordance with the regulation.

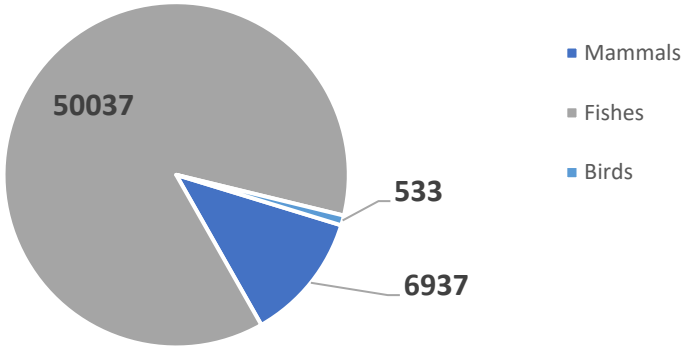
The 2022 compliance audit report by the National Audit Office on the implementation of the Law on Natural Resource Use Fees highlighted several common violations, including:

- The types and upper limits of resources approved were often delivered to local governments after the budget planning process due to legal inconsistencies;
- Some aimags approved resource types and quotas that exceeded the legal limits for subsistence hunting and collection;
- Governors of soums granted permits exceeding the limits approved by their respective aimag or capital city Citizens' Representative Khurals (local parliament).

Therefore, the fact that the competent authority has determined and communicated the types and upper limits of natural resources for the upcoming year represents a significant step forward in ensuring the protection and sustainable use of natural resources. This is especially important under current fiscal constraints (due to the sharp decline in coal prices, Mongolia is facing serious fiscal constraints as its national budget heavily relies on mining exports), as it allows resource use to be aligned with ecological carrying capacities and natural regeneration rates.

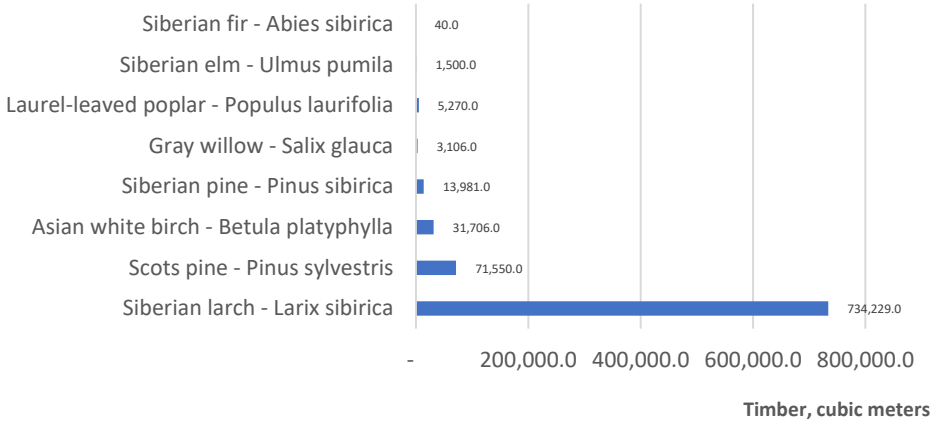
According to the upper limits, a total of 6,937 individual mammals, 50,037 individual fish, and 533 individual birds are planned to be utilized in the 2026 fiscal year from the territory of 11 provinces. Of this, 57% will be for subsistence hunting, and 43% for special purpose hunting (**Figure 8**).

Figure 8. Maximum number of individuals to be hunted in 2026



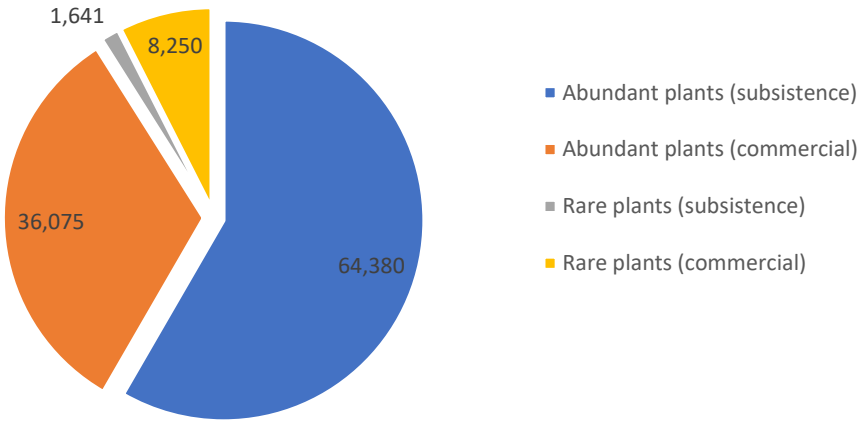
Out of the total 916,722.0 cubic meters of wood to be used for industrial and firewood purposes in 14 provinces, 85% will consist of Siberian larch (Figure 9).

Figure 9. Upper Limit of Timber Utilization in 2026



A total of 110,346 kg of 57 species of common and rare wild plants are planned to be used for subsistence and commercial purposes in 7 provinces, of which 58% accounts for the use of common plants for subsistence purposes (Figure 10).

Figure 10. Upper limits of natural plants to be utilized, Kg



On the other hand, the Ministry of Finance is supporting the budget planning process through its budget call circulars—adopting a results-based budgeting approach starting from the 2025 fiscal year. (See **Annex 4** for key provisions related to the enforcement of the Law on Natural Resource Use Fees in the 2026 budget call circular for local General Budget Governors.) With the introduction of the new expenditure classification, it is now possible to increase public spending and assess outcomes in alignment with national priority goals and targets, contributing to Mongolia's commitments under the Rio Conventions. By adopting the RBB approach and by updating the budget classification, the Ministry is making a significant contribution to the environmental sector, especially to the implementation of the Natural Resource Use Fees law.

To support the achievement of FS1's objective, the BIOFIN Mongolia team will continue providing technical assistance towards the following components:

I. Enhancing the legislation and policy

The Law on Natural Resource Use Fees, adopted in 2012, aims to promote the efficient and sustainable use of natural resources (plants, animals, forests, and water) and establish a financing mechanism for their protection and restoration. Unlike other tax laws, it regulates both taxation and fiscal affairs. However, under the Budget Law, only the Budget Law itself governs fiscal matters, including defining financing sources for local governments.

According to the Budget Law and General Tax Law, revenue from natural resource use fees is classified as local revenue. Dependency varies: in resource-rich aimags like Bulgan, such fees account for up to 41% of local revenue, while in places like Ulaanbaatar and Orkhon, the share is as low as 0.2%. Nationally, most local governments derive less than 5% of their revenue from these fees.

In 2022–2024, the National Audit Office and the UNDP-BIOFIN assessed the implementation of the law and related regulations. Both found that enforcement has been weak due to legal ambiguities, inconsistent regulations, and poor inter-agency coordination, leading to significant funding gaps for restoration and environmental goals. Left unaddressed, this gap risks worsening environmental degradation and increasing future costs. The law itself is insufficient in several areas, including the fee rates (which are low and not adjusted for inflation), organizational and fiscal management, accessibility of information, incentive mechanisms, and its effectiveness in promoting the sustainable use of natural resources.

Following the June 2024 Parliamentary elections, the Working Group was re-established in November 2024 under MECC, comprising representatives from MECC, UNDP, the Ministry of Finance, Ministry of Economic Development, General Department of Taxation, and Ministry of Agriculture and Light Industry. The first meeting of the re-formed Working Group took place in January 2025 to review progress and discuss next steps for the revised Bill.

According to the 2015 Law on Legislation, the right to initiate laws is vested in the President, Members of Parliament, and the Government. In this regard, UNDP-BIOFIN has finalized the following draft documents (available only in Mongolian; drafts did not enclosed in this report) in accordance with Article 8 of the Law on Legislation to submit to the working group responsible for preparing the revised version of the Law:

1. Asessment of the impacts resulting from the implementation of the current law;
2. Scoping study on legislative necessity and justification, as the revision involves substantive amendments;
3. A draft rationale for the proposed legislation;
4. The draft law itself and its accompanying explanatory notes;
5. Impact assessment of the draft law and associated implementation cost analysis;
6. Related draft amendments in other laws supporting justifications;
7. A model for a results-based incentive mechanism, considering that integrating the fiscal provisions into the Budget Law without earmarking poses a risk of reducing environmental expenditure levels.

The next step is for the working group to review these draft documents and finalize the draft concept of the law, which must be approved through a joint order of the Minister of Finance, the Minister of Justice and Internal Affairs, and the Minister of Environment and Climate Change. Following this, the draft legislation must be presented for public consultation to gather input from citizens, legal entities, and stakeholders whose rights and legitimate interests may be affected. Comments must also be collected from relevant government and non-governmental organizations, as well as professional and research institutions to reflect to the draft legislation. Once these steps are completed, the revised Bill and accompanying documents must be finalized in accordance with the requirements

set forth in the Law on Legislation and submitted to the Government within the first half of 2026.

II.Development of a country-specific taxonomy with impact measurement

Mongolia's public budget classification (Minister of Finance Order No7, 2015) is structured to ensure transparency and effective allocation of financial resources. The budget is categorized into several classifications, including:

- Economic Classification (revenues, expenditures, assets, liabilities, and financial commitments);
- Program Classification (groups expenditures by specific programs or projects, such as "Environmental Protection and Rehabilitation Measures"); and
- Functional Classification (categorizes expenditures by the purpose they serve, such as education, health, and environmental protection).

The Ministry of Finance oversees the budget process, ensuring that it aligns with the Medium-term Fiscal Framework Statement and adheres to fiscal stability requirements. Public participation in the budget process is also encouraged, although it has room for improvement.

Starting from 2025, several unused and inconsistent lines were removed, and several important ones were added. These amended functional and program classification were included in budget call circular for FY 2025 & 2026 (**Annex 4**).

While the Ministry of Finance uses programme and measure classifications for the purposes of budget planning and execution, the Ministry of Environment and Climate Change applies a more detailed classification of activities and expenditures based on the types of natural resources. Under the BIOFIN II project, UNDP consultants in Mongolia developed a highly detailed draft classification covering 6,600 biodiversity-related measures (consolidated to 569 after removing duplicates), categorized by biome, natural zones, ecosystems, plant types, soil types, and administrative boundaries. This detailed classification is still being piloted, the details were explained in the 2024 BIOFIN Mongolia Country Result Report.

Additionally, the Global BIOFIN team has developed the GLOBE (Global Biodiversity Expenditure Review Taxonomy) to support countries in conducting Biodiversity Expenditure Reviews (BERs). The GLOBE taxonomy includes: i) nine core categories of biodiversity-related expenditures; ii) a second- and third-level classification with definitions; iii) examples of eligible expenditures; and iv) guidance on determining the attribution rates or impact of each expenditure on biodiversity.

BIOFIN public finance expert has studied the above classifications and proposed and developed recommendations to improve the classification of environmental protection and rehabilitation expenditure, a proposal was made to revise the current classification

used in budget planning in line with international standards. The proposed option represents (Table 2) a hybrid model that aligns with:

- the **COFOG** (Classification of the Functions of Government) framework for government functions,
- the **GLOBE** taxonomy for biodiversity-related expenditures,
- the detailed classification developed under the BIOFIN II project in Mongolia for environmental protection and restoration measures, and
- the goals and expected outcomes set forth in Mongolia's long-term development policy documents related to environmental protection and rehabilitation.

Table 2. Proposed Classification of Budget Programmes and Purpose-Based Measures for Environmental Protection and Rehabilitation

No	Programme Classification (Proposed Revision)	Purpose–Measure Classification	Alignment with International Budget Expenditure Classifications	
			GLOBE - Global Biodiversity Expenditure taxonomy for the Public Sector – level 1	COFOG - Classification of Functions of Government – level 1, 2
1	Utilization of Genetic Resources and Benefit Sharing	1. Implementation of the Nagoya Protocol	Biofin Category 1. Access and Benefit Sharing	n/a
		2. Utilization and regulation of biological and genetic resources		
		3. Benefit sharing from the use of genetic resources		
2	Reducing and Eliminating Environmental Pollution and Degradation	4. Waste management	Biofin Category 6. Pollution Management	COFOG 7051. Waste Management, COFOG 7052. Waste Water Management, COFOG 7053. Pollution Abatement
		5. Soil pollution reduction, land degradation control, prevention from desertification		
		6. Air and ambient pollution control programmes		
		7. Protection from water pollution, wastewater recycling and treatment		
		8. Implementation of policies and governance for pollution reduction		
		9. Supporting green product producers and alternatives to pollution sources		
3	Protected Areas and Other	10. Management of state protected areas	Biofin Category 7. Protected Areas and	COFOG 7054. Protection of
		11. Management of locally protected areas		

	Conservation Measures	12. Conservation activities in adjacent ecosystems to protected areas	other conservation measure	Biodiversity and Landscape
		13. Designation of river headwaters as state protected zones		
4	Biodiversity and Species Conservation	14. Conservation of endangered and rare species of flora and fauna	Biofin Category 8. Restoration, Biofin Category 9. Sustainable use and biodiversity	
		15. Plant conservation /Protection from environmental impacts/		
		16. Support for domestication of rare and valuable plants		
5	Sustainable Use, Conservation, and Restoration of Natural Resources	17. Afforestation		
		18. Seedling and planting preparation		
		19. Pest and insect control in forests		
		20. Forest fire prevention and mitigation		
		21. Forest restoration		
		22. Forest maintenance and debris clearance		
		23. Wildlife breeding		
		24. Wildlife conservation and management		
		25. Wildlife reintroduction		
		26. Soil protection		
		27. Restoration of natural vegetation		
		28. Conservation of water and spring resources (springs, rivers, lakes)		
		29. Implementation of water resource management plans		
		30. Forest management /Sustainable forest management/		
6	Environmental Research and Information Access	31. Forest research	Biofin Category 2. Biodiversity awareness and Knowledge	COFOG 7055. R&D Environmental Protection
		32. Wildlife research		
		33. Water and spring research		
		34. Natural plant research		
		35. Land resource studies		
		36. Meteorological and environmental monitoring		
		37. Environmental education, outreach, and awareness		
7	Environmental Policy and Governance	38. Sector policy development and implementation	Biofin Category 5. Planning and Finance	COFOG 7056. Environmental Protection (not
		39. Policy implementation and management		

		40. Inspection and law enforcement		elsewhere classified)
8	Other Environmental Protection Measures (n.e.c.)	41. Other environmental protection measures not elsewhere classified	Biofin Category 3 & Biofin Category 4.	

The proposed programme and measure classification is not only aligned with internationally recognized systems but is also notable for its comprehensive coverage of both national and subnational mandates. In particular, its clear articulation of activities to be implemented at the local level for the sustainable use of natural resources closely aligns with classification options proposed by other UNDP consultants. It is therefore recommended that the overall structure, content principles, and design of this classification be gradually adapted and localized in phases.

The primary objective of classifications such as COFOG and GLOBE is to support the generation of standardized statistical indicators. In Mongolia's case, adopting such a framework would enable the presentation of overall budget allocations and expenditures related to environmental issues in a way that meets international statistical standards.

III.Development of an online environmental budget and expenditure database.

In line with the revised 2022 bylaw, the Environmental Budget and Expenditure Database was developed and launched at www.eic.mn/finance by the Ministry of Environment and Climate Change. Designed as a partial M&E tool, it enhances transparency in implementing the Natural Resource Use Fee (NRUF) Law across the country.

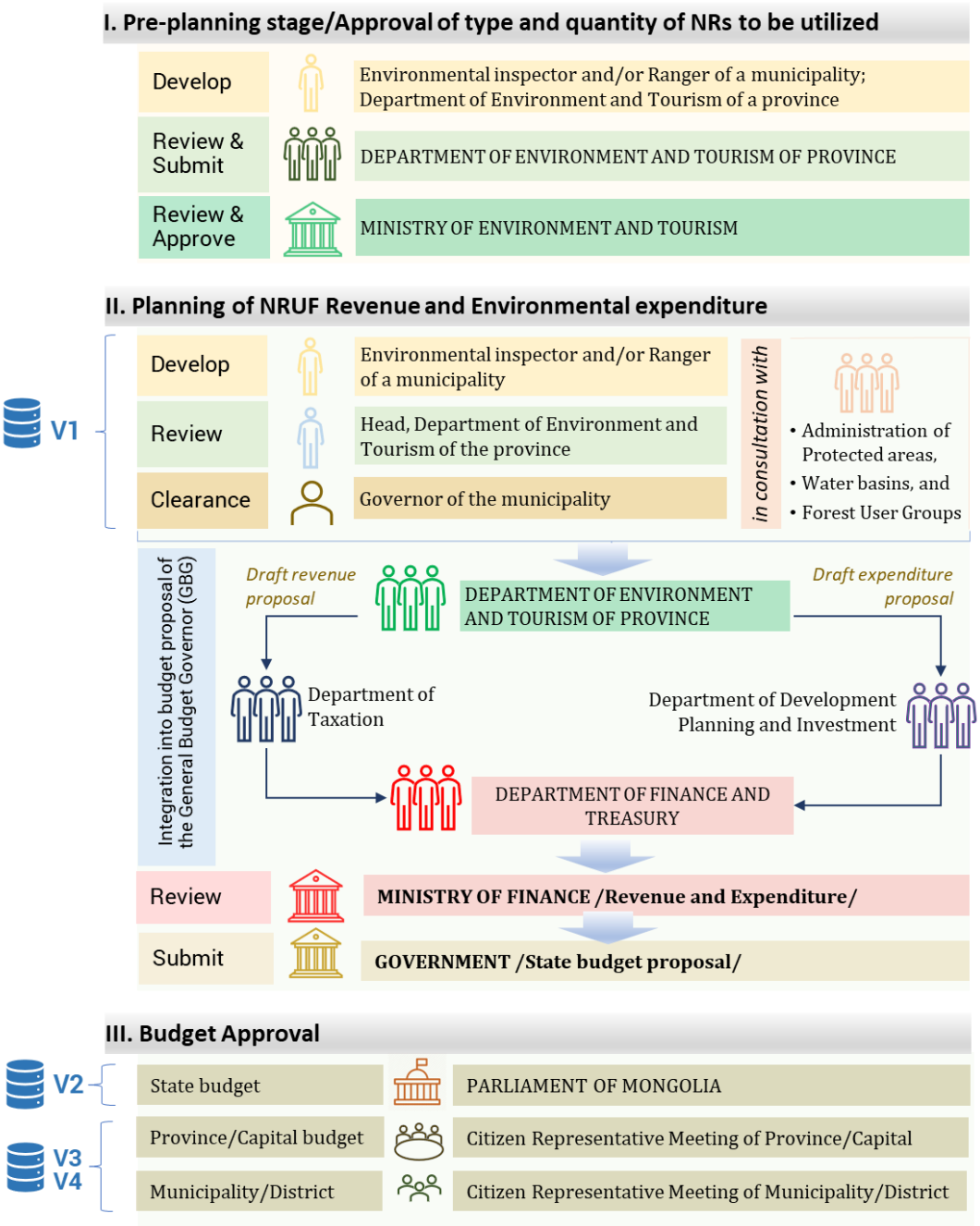
Since May 2022, UNDP-BIOFIN led field missions, stakeholder trainings, and nationwide online sessions to build local capacity. The platform supports environmental planning, budgeting, and reporting, and has been used effectively for FY2023–2024 planning and FY2022–2023 expenditure reporting.

However, based on operational feedback, some functions still require improvement. A reporting system is currently under development to transform database inputs into user-friendly reports, dashboards, and visual summaries. Key features will include:

- Reports: Structured, often graphical data summaries
- Dashboards: Visual displays of key metrics and trends

As illustrated in **Figure 11**, revenue and expenditure planning tied to national goals requires multi-stakeholder engagement. To strengthen transparency, from September 2024, local governments must upload their approved and revised budgets (V3 and V4) to validate and ensure the accuracy of the data.

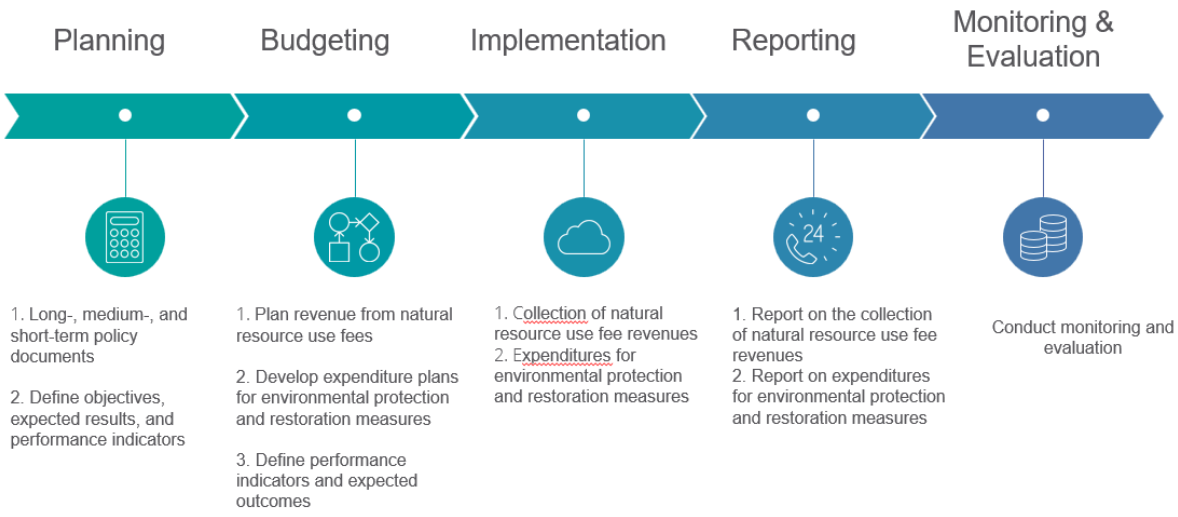
Figure 11. Stages in revenue and expenditure planning, approval of local budgets, and stakeholder engagement.



Starting from FY 2025, Mongolia is transitioning to **result-based budgeting (RBB)**. Previously, the country followed a more traditional budgeting process and the new RBB approach aligns national budgeting processes with long-term strategic plans and aims to improve public service delivery. The UNDP supported this transition through its

SDGBE projects[21] that enhance public finance management systems and promote results-oriented budget initiatives. Therefore, the database on environmental budget and expenditure shall contribute to all five steps in RBM in natural resource management (Figure 12).

Figure 12. Result-based management and Environmental Protection and Restoration Measures



The database will be completed in accordance with the 2010 Government Resolution No. 85[22], in collaboration with the NBSAP project, by incorporating environmental expenditures from the state budget, as well as international grant and loan projects. It is planned to be officially handed over to the Ministry of Environment and Climate Change by the second quarter of 2026.

D.Regional Capacity Building on Biodiversity, Environmental Planning, and Results-Based Budgetinraining workshops

Between April and June 2025, UNDP's biodiversity team led by UNDP Programme analyst, in collaboration with the Ministry of Environment and Climate Change, organized a regional capacity-building workshop on "Regional Development and Biodiversity." The workshop series was jointly supported by the GEF-funded "Support NBSAP Update and the 7th National Report" project and the "Biodiversity Finance Initiative (BIOFIN) Phase II", funded by the Governments of Germany and Canada.

[21] Project website: https://sdgbeproject.mn/en
[22] https://legalinfo.mn/mn/detail?lawId=202645&showType=1

The workshop brought together government officers working in environmental and development policy planning from 18 provinces across five development regions (Western, Eastern, Central, Northern, and Gobi). Participants assessed the current status and trends in biodiversity and ecosystem services, their impacts on human well-being and rural economies, and explored the links between biodiversity, climate change, water, food, and health.

A core focus of the workshop was strengthening provincial capacities for evidence-based and results-oriented environmental planning and budgeting, particularly at the local level. Using the DPSIR model (Drivers–Pressures–State–Impacts–Responses), participants analyzed how population growth, land use, resource extraction, and pollution affect biodiversity and ecosystem health, and how environmental degradation influences community livelihoods and development.

The sessions emphasized the need to:

- Identify driving forces and root causes of environmental pressure;
- Align provincial development and conservation actions with Mongolia's national biodiversity goals;
- Support the use of Natural Resource Use Fee (NRUF) revenues for targeted conservation and restoration actions;
- Integrate biodiversity data and indicators into the 7th National Report on Biodiversity and provincial planning frameworks.

The training also introduced participants to the Environmental Budget and Expenditure Database (www.eic.mn/finance), developed under BIOFIN and operational since 2022. It serves as a planning, monitoring, and reporting tool for NRUF implementation and has been used to support budgeting for FY2023–2024 and expenditure tracking for FY2022–2023. Local governments were trained to upload their approved and revised budgets (V3 and V4) to enhance transparency and data accuracy.

Furthermore, participants reviewed how local economies depend on natural resources and how conservation measures are planned using NRUF revenues. Provinces with high environmental dependence—through agriculture, mining, and tourism—recognized the urgency of adopting nature-positive approaches and emphasized the importance of cross-sectoral collaboration.

As a result, provincial stakeholders gained practical knowledge and tools to:

- Integrate biodiversity into development and budget processes;
- Improve data-driven planning and decision-making;
- Contribute effectively to Mongolia's 7th National Biodiversity Report and the implementation of the National Biodiversity Strategy and Action Plan (NBSAP) at the local level.

In summary:

In March 2025, the Ministry of Environment and Climate Change concluded that the implementation rate of NRUF law in 2024 was 64.3%. As of 31 December 2024, total revenue generated from the use of natural resources reached MNT 283,994.2 billion (equal to USD 83.1 million), while total environmental expenditure from NRUF revenue reached MNT 47,382.2 billion (US$ 13.98 million), a 217% rise compared to the baseline average between 2016 and 2021. In 2024, a total of 1,501 environmental protection and rehabilitation activities were implemented nationwide.

Since July 2023, the Ministry of Finance (MoF) has been actively supporting the enforcement of the Law on Natural Resource Use Fees (NRUF) not only through its bi-annual budget call circulars, but also by reviewing and approving dedicated budgets for environmental protection and natural resource rehabilitation. In accordance with Article 18.1 of the NRUF Law, the MoF approved an environmental protection and rehabilitation budget of USD 19.63 million for the 2025 fiscal year - a 66% increase compared to the same budget of the previous year of 2024.

The Ministry of Environment and Climate Change (MECC) has, for the first time, determined the types and upper limits of natural resources to be used in the upcoming 2026 fiscal year. Provinces shall not exceed these limits of utilization which is extremely important for sustainable utilization of natural resources.

1) Legislation and Policy Enhancement - UNDP-BIOFIN team has finalized all draft documents were finalized in accordance with Article 8 of the Law on Legislation to submit to the working group responsible for preparing the revised version of the NRUF Law.
2) Country-specific taxonomy with impact measurement – A new classification of Budget Programmes and Purpose-Based Measures for Environmental Protection and Rehabilitation was proposed aligning with the COFOG framework for government functions, the GLOBE taxonomy for biodiversity-related expenditures, the detailed classification developed under the BIOFIN II project in Mongolia for environmental protection and restoration measures, and the goals and expected outcomes set forth in Mongolia’s long-term development policy documents related to environmental protection and rehabilitation.
3) Online environmental budget and expenditure database – The database will be completed in accordance with the 2010 Government Resolution No. 85, in collaboration with the UNDP-NBSAP project, by incorporating environmental expenditures from the state budget, as well as international grant and loan projects. The complete set of environmental budget and expenditure shall contribute to all five steps in RBM in natural resource management aligning with the updated NBSAP.

C.1.2. Finance solution 2: Strengthening Billion Tree Fund to mobilize private finance for Nature based Solutions.

The main objective of this finance solution is to support the Billion Tree Fund, by improving the mid-term grant mechanism, aligning with international standards and developing a new revenue mechanism through Bankable Nature-based Solutions, mobilizing at least US$ 500,000 annually with catalyzing the additional US$ 1,000,000.

Key stakeholders/partners for this FS are:

- Ministry of Environment and Climate Change;
- Ministry of Finance;
- Mongolian Bank Association (MBA);
- Mongolian Sustainable Finance Association (MSFA);
- Billion Tree Fund;
- Private investors.

Progress towards finance, policy, and institutional results.

In 2022, a technical Working Group (WG) to support the establishment of NCTF was formed at MECC. A roadmap for establishing and operationalizing the NCTF developed from BIOFIN team, however, it was decided The Nature Conservancy (TNC) will lead the process within their Project Finance Permanence (PFP) programme to leverage US$178 million for the upcoming 15 years. BIOFIN FS1: Enforcement of the implementation of NRUF law result was used as the government in-kind contribution for the next 15 years and leveraged US$ 72 million from foreign donors. TNC and Mongolian government signed on an Agreement in May 2024.

Now, BIOFIN country team continues focusing on the domestic private sector, specifically the Billion Tree Fund (BTF). The BTF was established in response to the Presidential initiative to launch a national campaign to plant one billion trees by 2030 as part of Mongolia's commitment to the UN SDG, NDC as well to combat climate change and deforestation. Since the launch of the campaign, UNDP has been supporting Government of Mongolia on conducting technical feasibility, carrying out costing exercise and training workforces for implementing billion-tree national campaign (BTNC). Based upon findings from these studies, the National Strategy on BTNC is being finalized by the Ministry of Environment and Climate Change. As a continuation of this support, BIOFIN country team is carrying technical assistance to both BTNC and BTF considering as the private finance for large landscape nature-based solution.

On 9 October 2024, a due dilligence exercise on BTF which is necessary to engage with the private sector was completed succesfully and both parties are discussing the signing on a MoU.

Early December 2024, a draft project concept note for the Forest and Land Restoration programme submitted to the RESULT Asia-Pacific launch & First Investment Forum was co-organized by FAO, IUCN, ITTO, UNDP, and UNEP. The contributing partners were AFoCO, WWF, ACB, ADB, CI, UNEP-WCMC and UNESCAP. The objective of the Forum was

identifying opportunities/ collaboration modalities to strengthen investments under RESULT Asia-Pacific.

Outputs expected were:
1. Strategic priorities for upscaling FLR investments in the context of RESULT Asia- Pacific;
2. Share inspirational examples of upscaling restoration efforts in Asia-Pacific through innovative finance;
3. Ways for enhancing synergies across ongoing actions of RAIN partners.

The draft concept note will be strengthened and resubmitted to FAO before the end of the year.

Towards achieving FS2's intention, BIOFIN Mongolia team will continue its technical assistance for aligning BTF operations with the CFA conservation trust fund practices.

C.1.3. Finance solution 3: Re-purposing biodiversity harmful subsidies.

This solution aims to reform biodiversity harmful subsidy practices toward enabling condition in favor of environmentally sound subsidies. The FS will reduce negative finance flows into biodiversity, however, the exact amounts to be reduced will be estimated during the phase of in-depth assessment of existing harmful subsidy.

Key stakeholders for this FS are:

- Ministry of Environment and Climate Change;
- Ministry of Finance;
- Ministry of Food, Agriculture, and Light Industry; and
- Cabinet Secretariat of the Government of Mongolia.

BIOFIN country programme has completed the rapid screening of subsidies across key economic sectors and prioritized 2 subsidies in the agricultural sector by the beginning of the year. To support the whole process, the PIU has translated the step by step guide "Nature of Subsidies" developed by the global BIOFIN team in 2024 (**Annex 5**).

As part of this effort, the UNDP BIOFIN programme in Mongolia conducted a rapid screening of subsidies across key economic sectors and compiled a preliminary list of potentially harmful subsidies, based on OECD definitions. So far, 16 types of subsidies have been identified:

- Agriculture: 10
- Transport: 3
- Energy: 3

Investment-related subsidies are currently under further analysis. Consistent with global trends, the most impactful harmful subsidies were found in the agriculture, energy, and transport sectors.

Given its significant ecological footprint, the agriculture sector—particularly subsidies under MoFALI—was prioritized. In-depth assessments of two specific subsidies, milk and wheat, were launched to evaluate their cost-efficiency, policy effectiveness, and environmental impact relative to their intended objectives. These assessments are currently underway.

According to expert evaluations, subsidies for cashmere, wheat, wool, and milk have the most harmful effects on biodiversity and ecosystems. Additionally, a survey among herders in Arkhangai and Zavkhan provinces revealed that 80% of respondents support reforming subsidies to promote biodiversity conservation and sustainable agriculture.

Based on these findings—and aligned with MoFALI's strategic direction—an in-depth review of the milk subsidy is being conducted. Introduced in 2021 to increase cold-season milk supply, the scheme received MNT 37 billion from November 2022 to March 2025 (data from 2021 and early 2022 is under review).

Reforming harmful subsidies not only contributes to environmental protection but also:

- Improves public policy targeting
- Enhances the efficiency of public and private finance
- Supports achievement of the Sustainable Development Goals (SDGs)
- Helps Mongolia meet its international biodiversity commitments

Preliminary estimates show that from 2021 to 2024, the Government of Mongolia allocated over MNT 500 billion to potentially harmful agricultural subsidies. Despite data and capacity constraints, efforts are being made to adopt an evidence-based approach. This includes consultations with experts, research institutions, and university departments specializing in environmental protection, biology, and ecology.

Going forward, policy options for the phased redesign of agricultural subsidies, including implementation plans and monitoring frameworks, are under development. The goal is to shift harmful subsidies toward more sustainable or neutral alternatives, and eventually phase out those with the most negative impacts.

Opportunity for Reform Aligned with National Initiatives:

In parallel, the White Gold Initiative (WGI)—a four-year national program (2024–2028) launched under the leadership of the President of Mongolia—seeks to transform the livestock sector by supporting the value-added processing of animal-derived products such as wool, cashmere, and hide. This initiative has been reinforced through State Great Khural Resolution No. 63 (2024) and provides an unprecedented political momentum for aligning major agricultural subsidies such as wool, cashmere and hide subsidies (total financial value of these subsidies as much as MNT 788.9 billion or US$ 220.4 million only for FY 2025: working capital loan of MNT 300 billion, investment loan of MNT 488.9 billion, and loan interest subsidy of MNT 66.3 billion) with biodiversity goals.

In light of this opportunity, UNDP Mongolia is seeking a national consultant to provide technical support to the BIOFIN II team, particularly in the implementation of FS3, focusing on the repurposing of harmful agricultural subsidies. The consultant will work closely with the Office of the President, the Ministry of Food, Agriculture, and Light Industry (MOFALI), and other relevant stakeholders to support evidence-based subsidy reform planning, policy alignment, and the development of sustainable financing solutions that are consistent with biodiversity conservation, environmental protection, and economic transformation objectives.

To achieve FS3's intention, the program team will complete the in-depth assessment of the chosen subsidy programs effectiveness against their stated objectives, their cost-efficiency, and their environmental impacts. At least three further communication contents will be developed and a roadmap towards subsidy reform and/or greening public procurement will be designed as environmentally sound in consultation with pertinent stakeholders.

D. Social inclusion stories

The BIOFIN Mongolia Phase II programme's perspective is to ensure gender-balanced participation as well as public participation in environmental planning and budgeting.

FS1 requires technical assistance on revising NRUF and capacity development for its implementation. This work is included in both BIOFIN AWP 2025 and 2025 action plans of MECC. Within this framework, other environmental laws, and bylaws will be revised as well in relation to the potential changes in NRUF law. This process of improving legal frameworks shall follow the 2015 Law on Legislations. As regulated by this law, the Bill developed shall be discussed among citizens, representatives from legal entities and the general public whose rights and legitimate interests might be affected. The Bill shall be assessed against socio economic benefits, including gender dimensions before it goes into effective. Therefore, all the fiscal regulation documents, to be developed or revised under this finance solution proposal, will integrate gender dimension. Moreover, the capacity development pillar of the proposal will be based on training and workshops, where gender balance and social inclusion will be taken into account.

From January till the end of June 2025, the team did not produce any social inclusion stories. However, 1 short video and 3 stories on local measures on environmental protection and rehabilitation measures are under preparation. Following the local elections that took place in October 2024, over 70% of representatives in Citizens' Representative Khurals were newly appointed. In response, a simplified FAQ booklet consisting of 10 key questions and answers has been developed and prepared for print. Its purpose is to raise awareness among local decision-makers about the importance of implementing the Law on Natural Resource Use Fees and why greater attention to environmental issues at the local level is essential.

For FS2, environmental programs and policies will be far more successful if they respond to the needs of both men and women and recognize that different genders have the ability to influence in, participate in, and benefit from the private financing for biodiversity and climate

actions. Effective gender mainstreaming reduces or eliminates inequality by ensuring that women's concerns, and solutions to the barriers they face, are incorporated in the operation of the, for example, the Billion Tree Fund. Hence, BTF shall adopt a gender mainstreaming policy to promote gender equality in its' decision making and all operations. Moreover, a gender inclusive approach will be applied in making decisions on designing financially viable nature and land-based solutions.

For FS3, social and Environment Impact Screening of the project has been conducted, and no gender related risks or potential negative impacts have been identified. The process of adoption of any subsidiary legislation or regulatory acts shall follow 2015 General Administrative Law, which specifies that consequences of any regulatory acts shall be assessed against economic and social, including gender dimensions before it goes into effective. Therefore, all regulation documents, to be finalized under this finance solution proposal, will integrate gender dimension. Moreover, the project will undertake following activities:

- Assess the impact on equity of the existing subsidies scheme and proposed reform to integrate equity aspects in the incentives/subsidy to ensure that no one is left behind; and
- Develop an inclusive stakeholder engagement plan and ensure a gender inclusive decision making, consultations and capacity building/workshops.
- Gender inclusion will be considered during the design of all capacity building activities.

Furthermore, 22nd May is international day for Biological Diversity. And 2021-2030 is the UN Decade on Ecosystem Restoration. 15th Conference of Parties to the Convention on Biological Diversity was held in Montreal, Canada to agree on new global biodiversity targets until 2030. The new strategy the "Kunming-Montreal Global Biodiversity Framework[23]" was designed to achieve a world that is "Living in harmony with nature" by 2050. The post-2020 GBF has four main goals, including Biodiversity Finance. To increase public understanding and awareness, UNDP biodiversity team organized a series of seminars under the theme of "Regional development and Biodiversity" in collaboration with MECC. Side events targeted herders, beneficiaries of subsidy programmes, private companies, forest user groups, and local communities.

E. Lessons learned and adaptive measures:

The enforcement of the implementation of Natural Resource Use Fees law, the most achieved finance solution, faces the greatest hindrances. Weaknesses in human capacity, especially at

[23] https://prod.drupal.www.infra.cbd.int/sites/default/files/2022-12/221222-CBD-PressRelease-COP15-Final.pdf

municipality level, lack of appropriate practice, policy incoherence, and the structure and interconnection of public institutions are the few examples. All training activities targeting municipality level personnel seem to be less efficient. Since the 2012 NRUF law and its only regulation did not clearly define the procedures in line with fiscal frameworks, different practices were settled and have been followed by the subnational governments. To solve this, the newly revised regulation and the publicly accessible database enabled the standard templates to be applied at stages of planning, reporting and oversight on fiscal year local environmental budgets. However, most of the remote training efforts from BIOFIN team turned out to be less efficient than in-class trainings and parallel awareness raising meetings and discussions targeting relevant stakeholders and decision makers on-site. Then the activities aimed at strengthening local governments not only required more time, human, and financial resources than initially planned, but also such demand tends to grow bigger. It required extensive efforts; however, it was feasible to increase implementation of the national NRUF law by awareness raising and training activities, constant exercise on planning, execution, and reporting with the help of revised procedural guideline and web-based system. To enable sustainability of the project's achievements, it is crucial to engage with longer-term training programs, maintain enabled transparency of environmental budgets and expenditures and set inter-operability of the database with other databases. The team is currently targeting ongoing short-term training programs of the respective institutes such as the National Academy of Governance in 2025. Training modules on the basic understanding of local fiscal framework need to be produced and disseminated. Mid-term training programs will be considered further; however, such action requires more challenging efforts since the program shall be approved by the government resolution.

During currently ongoing reporting, programme team is able to observe a common situation that municipality had weak capacity to carry out conservation and rehabilitation measures and could not execute their planned activities. Local parliament's approved budget cannot help in this situation. This point should be considered further regarding how to solve this complex issue.

Most of the local governments used to ignore uploading their approved budgets to a government system dedicated to such documents (www.khural.mn); different data retrieved from different systems are usually not publicly accessible and not comparable resulting in the difficulty to monitor the progress and measure implementation of the law properly.

On the other end, motivation of the local mentors/trainers prepared by BIOFIN would be a leverage to let them engage more with municipality officers and decision makers. Thus:

- In-class training and whole-of-government approach to cover all relevant stakeholders are the most efficient ways to leverage the good implementation practice of the NRUF law.

- The country-specific taxonomy with impact measurement system of conservation and restoration measures for result-based budgeting allows budgeting actors to identify eligible activities aligned with conservation and restoration goals.
- There is no distinct MEL guideline to measure the implementation and efficiency of the budget expenditures. This gap shall be filled with a new guideline, to which the project team shall offer technical assistance.

For finance solution 3, the biggest challenges were around the scarcity of important data required for the baseline studies.

In general,

- Further support from MECC will be strongly appreciated; and
- Strong engagement from the Ministry of Finance is crucial for successful implementation of whole project.

To proceed to the success, the team will consider the followings in 2025:

- Continued exercise on environmental planning and budgeting;
- Special focus on lesser performing provinces and the capital city;
- Result based planning, budgeting, and Monitoring, evaluation and learning are the efficient methodologies for better outcome and impact of the NRUF law implementation;
- Revision of the Law on NRUF in line with international best practices;
- Awareness raising and knowledge products;
- Designing financially viable nature and land-based solutions; and
- Accelerate re-purposing biodiversity harmful subsidies.

F. Risks

F.1. Programmatic risks (risks *to* the programme)

[*This sub-section should list the risks faced by the programme. Before listing the risks, provide a brief (one to two sentences should suffice) overview of the overall risk status and highlight any major changes from the previous report Then list the risks (**'implementation' countries, consider listing FS-specific risks**), using your existing risk register or adopting the template provided below (feel free to submit the risk register as a separate additional annex, if you wish.*]

The risks and mitigation strategy (the management response) in terms of political, strategic, organizational, and operational perspectives were identified during national consultation and summarized in **Table 1.**

Table 1: Risks register for BIOFIN Mongolia

#	Description	Date Identified	Type	Impact & Probability	Countermeasures / Mngt response	Owner	Submitted, updated by	Last Update	Status
	Enter a brief description of the risk	*When was the risk first identified?*	*Environmental Financial Operational Organizational Political Regulatory Strategic Other* *(In Atlas, select from list)*	*Describe the potential effect on the project if this risk were to occur* *Enter probability on a scale from 1 (low) to 5 (high)* *P =* *Enter impact on a scale from 1 (low) to 5 (high)* *I =*	*What actions have been taken/will be taken to counter this risk?*	*Who has been appointed to keep an eye on this risk?*	*Who submitted the risk?*	*When was the status of the risk last checked?*	*For example: no longer relevant (i.e., P and/or I would = 0, if 0 was an option), reducing, increasing, no change*
1	Election-related turnover in government leadership and structures could impact key government partners, resulting in delays in implementation of all programme activities.	Dec 2023 during the completion of SESP report.	Strategic – Change/turnover in government	Impact: 3 Likelihood: 4 Significance: Moderate	**Management measures**: Project will be closely monitoring the changes and actively engage with the incoming leadership to ensure that they are on board as quickly as possible. Engage with long-term training programs, and short-term refreshing sessions in collaboration with governmental training organization for civil servants and public administrative.	Tserennyam Lundaa	Tserennyam Lundaa	Dec 2023	Since the parliamentary election is June 2024, no change has been observed.
2	The database on environmental budgeting and expenditures has been operating solely with the support of the project, including human resources, as relevant government counterparts do not have the capacity and resources to takeover, resulting in the risk to fade away or being nonoperational over the time.	Dec 2023 during the completion of SESP report.	Operational – Capacities of partners	Impact: 3 Likelihood: 4 Significance: Moderate	**Management measures:** Project will need to 1) develop and implement a plan to handover the database to relevant government agency, 2) keep technical support, and 3) enable data exchange functions with other governmental, but stronger platforms such as tax or fiscal systems	Tserennyam Lundaa	Tserennyam Lundaa	Dec 2023	No change
3	In accordance to 2020 Law on Administrative and Territorial Units of Mongolia, any resolution or decisions of the respective level Khural, shall be annulled or amended only by that Khural; and Khurals shall not be accountable on any of their decisions. This implies that main risk on NRUF Law implementation embedded at budget approval stages, where	Dec 2023 during the completion of SESP report.	Organizational - Accountability	Impact: 3 Likelihood: 4 Significance: High	**Management measures:** However, BIOFIN will address member competence through locating trainers, in charge of strengthening members knowledge on relevance of NRUF Law enforcement.	Tserennyam Lundaa	Tserennyam Lundaa	Dec 2023	No change

#	Description	Date Identified	Type	Impact & Probability	Countermeasures / Mngt response	Owner	Submitted, updated by	Last Update	Status
	Khurals has the power to make decision on approving any budgets, that contravene with NRUF Law, although the sound budgets were submitted. This obstacle is interlinked to either competence of Khural members or political reasons. The political reasons lay on the priorities of local needs, where social protection is more requested than conservation.								
4	In 2023, almost all activities planned for creation and strengthening of CTF was decelerated due to the parallel initiative from another organization.	September 2022	Operational - Responsiveness to audit and evaluations (Delays in the conduct of and implementation of recommendations)	Impact: 3 Likelihood: 4 Significance: Moderate	**Management measure:** Design of bankable biodiversity, climate and land solutions using innovative market instruments such as carbon credit is currently ongoing. In parallel, the country programme team is supporting BTF which is private sector initiative to fulfill BTNC.	Tserennyam Lundaa	Tserennyam Lundaa	Dec 2023	No change

F.2. Social and environmental risks (*of* the programme)

The BIOFIN country programme does not generate additional social and environmental risks. Indeed, the programme works to mitigate existing risks by integrating UNDP's programming principles for strengthening social and environmental sustainability (SESP), and the programme is directly aligned with Standard 1 of the project-level standards therein, viz., Biodiversity Conservation and Sustainable Natural Resource Management.

List of annexes and related notes

The following annexes are included in this report:

Annex 1: Indicator Tracking Table (in Excel)

The Indicator Tracking Table provides an up-to-date snapshot (subject to the availability of related data) of progress made towards the BIOFIN country programme's M&E indicator targets.

Annex 2: All BIOFIN activity participants

It is a cumulative list of trainings, field missions, meetings, and number of participants from May 2022 till the end of June 2025

Annex 3: NRUF law performance report FY 2024

This is Ministry of Environment and Climate Change report on the NRUF law implementation in 2024 (available only in Mongolian).

Annex 4: Ministry of Finance 2026 budget call circular for General Budget Governors

Key provisions related to the enforcement of the implementation of the Law on Natural Resource Use Fees are translated into English and displayed in this annex. The original budget call circular is accessible here.

Annex 5: “Nature of Subsidies” A step-by-step guide to repurpose subsidies harmful to biodiversity and improve their impacts on people and nature

Mongolian translation of a guide developed by the global BIOFIN team in 2024 to support the reform actions in the country. It is not a final version; further, but minor polishing is still needed before printing.





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The Biodiversity Finance Initiative