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ANNEX

ANNEX

to the

COMMISSION DECISION

on the signature, on behalf of the European Union, of the Memorandum of Understanding on a Forest Partnership between the European Union and Mongolia

Memorandum of Understanding on a Forest Partnership

between Mongolia and the European Union

1. INTRODUCTION

1.1 Object and purpose

Mongolia and the **European Union (EU)**, hereinafter the "Partners", share a common responsibility in relation to the challenges posed to forests by climate change and development needs and aspire to enable forests to fulfil their economic, social and environmental role.

The Partners have already implemented several forest-related actions. Recognising the urgent need for **strategic and focused cooperation** and building on the strong engagement and motivation of the Mongolian government, the Partners now wish to **heighten their cooperation** on forest to make an important contribution to the UN 2030 Agenda's Sustainable Development Goals.

In this context, the Partners launch a partnership, hereinafter "**Forest Partnership**", in protection, restoration and sustainable management and use of forests aimed at:

- i) ENHANCING the role of Mongolian forests in sustainable and inclusive national development, and
- ii) ADDRESSING challenges related to deforestation, desertification, land degradation, climate change and loss of biodiversity.

1.2 Context

Forests are among the world's most productive ecosystems, biodiversity hosts and carbon storehouses, providing livelihoods, safety, and income to about one third of the world's population. Forests have a long history of responding to humanity's needs for food, fuel and building materials that has already resulted in the loss of one-third of the world's forest cover. Although 'peaked deforestation' seems to have passed, meeting the needs of a rising and urbanizing global population drives a further disappearance of an additional 10 million hectares of forests annually. The consequences are dire for the climate, as well as the planetary and human health, impeding the achievement of the UN 2030 Agenda for Sustainable Development.

Forest and other wooded land cover almost 11% (16.8 million ha) of Mongolia's national territory. The country has lost 180,000 ha of forests since 1990 and about 1.5 million ha of forests are severely degraded. Among the main underlying reasons are (i) the (excessive) livestock numbers, far beyond the carrying capacity of Mongolian pastures, (ii) the fast rate of permafrost soil melting, (iii) unsustainable use of forest resources like nut collection and unmanaged logging, (iv) forest fires and (v) changing rainfall patterns. Some of these reasons are caused by climate change, but the real danger is the combination of several of these factors in most forest areas of Mongolia.

The contribution of forestry to the GDP is only a mere 0.3%, indicating the enormous undervaluation of the sector. The GDP share, however, does not take (i) the informal sector, (ii) the indirect income generation and (iii) the ecosystem services provided by forests – on which agricultural systems depend - into account. The potential contribution of the forest sector to green employment is highly important, as forests, if managed sustainably, could generate more than 80,000 jobs.

In this wider context, Mongolia has committed to:

- REDUCING 16.9 million tonnes CO₂-eq - from the 2010 baseline - in its **Nationally Determined Contributions**;

- REDUCING deforestation by 31% and forest degradation by 25% by 2025, and increasing the area of sustainably managed and conserved forests from 6.5 to 9.8 million ha by 2030 as per the **REDD+ Strategy and Action Plan** (2017);
- ACHIEVING sustainable conservation of its nature, language, territorial integrity, and culture according to the long-term national development plan - **Vision 2050** - approved in 2020; and
- PLANTING one billion trees with national tree planting campaign implemented with public-private partnerships launched in 2021.
- MAINTAINING the long-term adaptive opportunities for vulnerable biodiversity to climate change by increasing special protected areas through the better management of protected areas' border and connectivity (Updated NDC 2020).

In addition, the **Vision 2050** states that Mongolia shall become a leading Asian country in terms of social development, economic growth, and citizens' quality of life. It defines a long-term development policy based on green growth where the country's economy and infrastructure will be developed based on its potential of natural resources and advantages of geographical location.

The **EU** stepped up its ambition and commitments to international action on environmental issues, including forests, climate change and biodiversity in the context of the **European Green Deal**¹. In its **own forest strategy**², the EU set forth its key priorities and actions based on the multifunctional role of forests and commits to protecting, restoring, and enlarging them, supporting their socio-economic functions and boosting a sustainable forest-based bioeconomy. In the **Communication 'Stepping up EU Action to Protect and Restore the World's Forests'**³, the EU committed to supporting partner to tackle deforestation in a partnership approach. **European Commission President Von der Leyen** reiterated the commitment to the partnership approach calling for high ambition coalitions and partnerships for fighting deforestation with like-minded partners⁴.

The Partners recall their international commitments to the UN 2030 Agenda for Sustainable Development, the Paris Agreement on Climate Change, the UN Convention on Biodiversity, the UN Convention to Combat desertification, and the New-York Declaration on Forests as well as their endorsement of the Glasgow Leaders Declaration on Forest and Land Use.

In view of the above, the Partners confirm their resolve to establish a **formal strategic dialogue and policy cooperation** both bilaterally and in international fora on key forest-related issues, such as conservation, governance, value chains, sustainable management and deforestation-free production. The strategic dialogue and policy cooperation should be implemented through this Forest Partnership.

1.3 Objective

The Forest Partnership should address the protection, restoration and sustainable management and use of Mongolia's forests, with a view to:

- (1) Increasing the **area** of protected, restored or sustainably managed forests
- (2) Enabling and increasing the number of forest related decent jobs
- (3) Reducing the annual **rate of deforestation** of natural forests
- (4) Promoting productive forest management

¹ https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

² [Forest strategy \(europa.eu\)](https://ec.europa.eu/forest-strategy_en)

³ [EU Communication \(2019\) on stepping up EU action to protect and restore the world's forests | European Commission \(europa.eu\)](https://ec.europa.eu/communication/2019/stepping-up-eu-action-to-protect-and-restore-the-worlds-forests_en)

⁴ https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_1655

- (5) Looking for ways to facilitate investment in legal and sustainable wood production and resulting trade between Mongolia and the EU

The above specific objectives are envisaged to be achieved based on a holistic and integrated approach to forests considering their multiple functions and avoiding promoting one over the others. On the one hand, the expansion of activities encroaching into forest lands should be reduced, while on the other hand, the resilience of forests should be strengthened through enhanced value chains for consumptive and non-consumptive forest products (wood, charcoal, non-wood forest products) and services (biodiversity, tourism, carbon sequestration and storage, water provisioning).

1.4 Approach

The Forest Partnership should be open, inclusive and transparent. To this end, the partners intend to:

- a) engage in **strategic and policy dialogue** on issues affecting forests and deforestation (e.g. intersectoral coordination, land tenure, land conversion and unsustainable land use, trade policies, environmental crime, fiscal incentives);
- b) involve **all relevant line ministries or Commission services** responsible for the key areas of intervention (e.g. for sustainable forest management, land use planning, climate change or economic development), European Commission services;
- c) provide **all relevant stakeholders** (private sector actors, social/non-state partners, local communities, indigenous peoples, youth, women, international public organisations, interested financial institutions and donors) with an opportunity to effectively participate in the planning and implementation of activities related to the Partnership. Adoption of a rights-based approach aims to promote social inclusion and equal opportunities for the most vulnerable groups;
- d) **develop capacities** of the forest sector stakeholders to deliver a resilient, effective and efficient forestry sector;
- e) **develop a certification system** for sustainably produced forest goods;
- f) **exchange** on their respective approach at the international level on forest-related issues;
- g) enhance the **involvement of scientific organisations** and networks in TVET and Higher education sectors and;
- h) communicate in **full transparency** about investments, actions, and results.

2. KEY WORKSTREAMS

In view of the above, the Partners intend to cooperate closely in the following building blocks:

(1) Improved governance and sustainable management of forests

There is a need to support Mongolia in revising the regulatory framework to facilitate a long-term sustainable use of forestry resources towards climate change adaptation and mitigation. At the same time the institutional and operational/administrative performance capacity of the Ministry of Environment and Tourism of Mongolia and Forest Agency and its inter-soum and soum units should be strengthened to ensure the adoption and enforcement of forests policies towards sustainable management, restoration, and protection of forests. This will require a shared and integrated long-term vision on forest protection, restoration and sustainable use based on an inclusive multi-stakeholder consultation process.

The Partnership should also engage with the Government of Mongolia in a policy dialogue on sustainable forestry, to address issues such as improving policy formulation for sustainable forest management with the support of digital tools and data such as Copernicus Land Monitoring Service, identifying forestry investment pathways for international and national businesses, exploring

bioenergy generation potential from wood, better implementation of sustainable forest-based value chains and promotion of a sustainable bio-economy. The forestry legislation and related legislature should integrate tools long-term planning documents (e.g., forest management plans), monitoring (forest inventories) and sustainable management prescriptions.

The partnership should encourage the implementation of the REDD+ National programme and forest adaptation measures, as well as the inclusion and implementation of forest sector-based mitigation activities as part of an updated NDC in order to promote sustainable financing and also to apply efficient solutions to climate change.

The Partnership should also encourage the intersectoral forest and agricultural (including livestock) policies with a view to limiting the over-grazing as defined in the National Livestock Program and solving land tenure issues.

(2) Sustainable forest management and forest-based value chains

There is a need for further technical assistance to and investment in the Mongolian Forest User Groups (FUGs) to integrate sustainable forest management into value chains, building on existing initiatives.

The partnership should support stakeholders, including women, who are actively engaged in reforestation, protection, production, and many other duties, but are less represented in decision-making processes.

Particular attention should be paid to data monitoring and data collection on forest resources and development, which is much needed to the members of the Forest Used Groups, small- and medium size processing companies to improve activity planning. Efforts to digitalize the value chains and build capacity on new technologies should be provided.

The Partnership should help identify market opportunities for non-wood products through forest and market information systems as well as the promotion of forest certification systems.

The Partnership should promote the Green job concept to national and local level, as one of the fundamentals to support decent jobs in the forestry sector.

(3) Reduction of deforestation and forest degradation

A shift from current expansive herding practices towards sustainable integrated forest management is needed to halt forestland degradation. Mongolian herders face difficulties in adapting their production systems to be more sustainable, effective and value-adding, to secure their livelihoods and resilience, without overexploiting the natural resources. Loss of traditional know-how on collective rangeland management, collapsing extension services, lack of market opportunities and dysfunctional value chains have contributed to an under-performing livestock sector. To cope with economic uncertainties herders have adopted a quantitative strategy, increasing their herds' size as a safety net for food and livelihoods. As of 2020, herd size is estimated at 80+ million while carrying capacity is estimated at about 45 million. Mongolian cashmere producers who are dependent on exports to Europe.

Where relevant, the Partnership could provide technical assistance or facilitate access to knowledge platforms with the aim to support pastoralists and low input agriculture commodity production in adopting nature based solutions such as sustainable soil and water technologies to reduce emissions, enhance biodiversity, improve soil fertility conservation, yield, profit optimisation, and product quality. Efforts could be provided to sensitization and awareness creation on (risks and consequences of) deforestation and forest degradation and its effects on production systems, notably regarding ecological factors such as pollination, soil protection and water.

(4) Conservation and restoration of natural forest

The actions to conserve the remaining Mongolian natural forests and to restore degraded ones should be accelerated. Mongolia should conduct conservation and restoration efforts in parallel with emerging value chains and should include local herders and their FUGs, who could get additional revenues from carbon and biodiversity offsets.

The Partnership should support the national commitment to planting 1 billion trees, through improving the current business environment and identifying different strategic opportunities for businesses to invest in the initiative (financial mechanisms, land tenure, regulatory framework). Technical assistance and capacity building should be provided to FUG to enable them to contribute to reforestation and restoration activities.

The partnership should promote strengthening of the agro-forest concept, focusing on creating synergies between climate change, biodiversity and land degradation.

In relation with the 1 billion tree initiative, as well as the carbon offsetting scheme, the Partnership should also support the implementation and carbon verification of government-led Jurisdictional and Nested REDD+ program in Mongolia as a complementary measure to broader strategies focused on avoiding and reducing emissions as part of net-zero targets, and to reverse negative impacts on nature and biodiversity.

3. INVESTMENTS

Acknowledging the contribution of the aforementioned work streams in achieving the objectives of this Forest Partnership, the Partners should cooperate on mobilising financial and investment instruments of main financing and investment organisations, while adhering to the EU's sustainable financing rules.

The Mongolian Forest sector is still highly dependent on public finance. Leverage of additional finance remains critical for value chain development, conservation, restoration, and sustainable expansion of plantation forests. Benefitting from the improvement of governance and enhancement of value chains, provided by this Partnership, and building on the debt and equity instruments proposed by Development Finance Institutions, the establishment of outgrower schemes will be stimulated, thereby allowing stakeholders to indirectly benefit from the finance.

The partnership will aim to remove obstacles to boost investments, particularly the lack of long-term greening loans and equity instruments, the limited knowledge of the forest sector to carry out required due diligence, or the lack of collateral: own capital, assets, land title. Together with European Development Financial Institutions, the Partnerships should explore opportunities to support bankable forest-related projects, especially from the EFSD⁵.

The Partnership seeks to remedy insufficient capacities of intermediaries, such as local banks and producer associations, that could be channelling finance (on-lending) to farmers, FUGs and MSMEs.

The Partnership should also explore other financial paths such as carbon and biodiversity offsetting schemes.

4. IMPLEMENTATION AND REPORTING

Within six months from the signature of the Forest Partnership, the Partners should develop a Roadmap based on the key work streams under Section 2 of this Memorandum.

The Partners should cooperate in a framework of Working Groups (one technical and one political) for discussing the implementation of the Memorandum by the Partners and respective actors (as specified in the Forest Partnership Roadmap or result framework), including the resolution of any issues in relation to the interpretation and implementation of this Memorandum.

The Technical Working Group should meet on a quarterly basis co-chaired by the Head of Cooperation of the EU Delegation and Director of Forest Agency of the Ministry of Environment and Tourism. The composition should be agreed when developing the Roadmap for the Forest Partnership.

⁵European Fund for Sustainable Development – Support Investments in Africa and the Neighborhood aimed to contribute to the goals of the United Nations 2030 Agenda for Sustainable Development, in particular poverty eradication, as well as address specific socioeconomic root causes of migration, including irregular migration, and to contribute to the sustainable reintegration of migrants returning to their countries of origin and to the strengthening of transit and host communities

The first meeting of the Working Group should be one month after the development of the Roadmap referred to in the previous paragraph.

The Political Working group should meet twice a year, co-chaired by the Head of the EU Delegation to Mongolia and the Minister of Environment and Tourism of Mongolia. The composition should be agreed when developing the Roadmap.

5. Format

This instrument is not intended to create rights or obligations under international or domestic law.

Nothing in this Memorandum shall represent a commitment of financing on the part of either Partner.

Furthermore, this Memorandum does not intend to represent any commitment from either Partner to give preferred treatment to the other Partner in any matter contained herein or otherwise.

The cooperation envisaged in this Memorandum should commence on the day after it has been signed by both Partners.

Signed at on in two copies, in English.

FOR THE GOVERNMENT OF MONGOLIA

FOR THE EUROPEAN UNION

Signature

Signature

X

X