



Mongolia: Strengthening Health Security Program (Subprogram 1)

Project Name	Strengthening Health Security Program (Subprogram 1)	
Project Number	54228-001	
Country	Mongolia	
Project Status	Approved	
Project Type / Modality of Assistance	Loan	
Source of Funding / Amount	Loan 4056-MON: Strengthening Health Security Program	
	Ordinary capital resources	US\$ 100.00 million
Strategic Agendas	Inclusive economic growth	
Drivers of Change	Governance and capacity development	
Sector / Subsector	Health - Disease control of communicable disease - Health sector development and reform - Health system development	
Gender Equity and Mainstreaming	Effective gender mainstreaming	
Description	<p>The proposed program aims to strengthen the health sector's response to the coronavirus disease (COVID-19) pandemic and expedite the medium-term reforms that will strengthen the health system and help Mongolia become better prepared to respond to future health crises. The program's design draws on the operational knowledge that the Asian Development Bank (ADB) has gained through its engagement in the health sector in Mongolia since 1993. Through a strategic, coordinated, and well-sequenced set of policy actions, the program will facilitate both immediate and critical medium-term reforms. The provision of a \$100 million loan will directly contribute to address the urgent financing needs of the Government of Mongolia. Four reform areas identified under the program will focus on (i) strengthening planning and preparedness of the health sector, and ensuring the availability of critical medicines and emergency supplies; (ii) improving national pharmaceutical regulation, and increasing hospital autonomy and good governance; (iii) enhancing procurement in the health sector to increase efficiency, and establishing a single purchaser for health services; and (iv) safeguarding fiscal sustainability of the government over the medium term (3-5 years).</p>	

Project Rationale and Linkage to Country/Regional Strategy

Deep economic contraction because of COVID-19. Mongolia's economy contracted by 5.3% in 2020 year-over-year (YoY) reflecting the severe impact of COVID-19 on the Mongolian economy. The mining industry contracted by 9.4% in 2020 because of substantially lower export demand. This spilled over to other sectors, with only agriculture and manufacturing not contracting. On the demand side, private consumption, government consumption, and net exports all grew, but investment dragged growth down significantly by 19.1 percentage points. In 2020, the current account deficit fell by 73.3% YoY to 4.4% of gross domestic product (GDP), though the financial account surplus shrank by 48.1% YoY to 10.6% of GDP, resulting in a balance-of-payments surplus of \$787 million. Revenues will fall by 16.8% for 2020, while expenditure will rise by 5.1%. Compared to the pre-COVID-19 plan, the overall fiscal balance will deteriorate to 9.9% of the GDP and the structural fiscal balance will deteriorate to 12.5% of the GDP.

Government remains committed to macroeconomic reform. According to the International Monetary Fund (IMF) assessment letter, Mongolia continues to face three key macroeconomic challenges: (i) high public debt, (ii) low foreign exchange reserves, and (iii) insufficient capital buffers in banks. On the fiscal side, the government reduced the debt-to-GDP ratio from 109.1% in 2016 to 79.1% in 2019. Fiscal pressures because of COVID-19 will increase debt by 14.5 percentage points in 2020, but the downward trajectory of the debt-to-GDP ratio will return with the resumption of growth in 2021. Further, under reform area 4 of the program, the government has committed to reduce the structural deficit to 5.1% in 2021, in line with the fiscal consolidation plans under the Fiscal Stability Law, 2010. Gross reserves increased from 2.8 months of goods and services imports at the end of 2016 to 5.8 months at the end of 2019. According to the IMF, the level of reserves is sufficient to limit the risk of a capital account crisis, but risks relating to upcoming debt repayments remain. The recapitalization of the banking sector remains an outstanding issue and has been made worse by the COVID-19 pandemic. The appropriate measures taken by the Bank of Mongolia to respond to the pressures of the COVID-19 pandemic did limit the burden on firms and households, but it will be important to exit from these measures carefully as the COVID-19 pandemic recedes, closely monitor capital adequacy in selected banks, and act decisively if banks face liquidity pressures again.

Decisive response to COVID-19 pandemic initially prevented large-scale community transmission. The government initiated stringent emergency measures to prevent the spread of the COVID-19 pandemic in Mongolia. These measures included international and national travel restrictions; the closure of nonessential businesses; public awareness campaigns focused on containing the spread of the virus; preparation of hospitals to manage emergencies in the event of a surge in infected patients; restrictions on public gatherings, meetings, and celebrations; and the closure of schools. These actions delayed community spread, and Mongolia only recorded the first case of locally transmitted COVID-19 on 11 November 2020. As of 28 February 2021, the total number of cases was 2,907, of which 414 were imported, with 4 deaths. Since 12 November 2020, the country has initiated several national lockdowns as the government undertakes contact tracing, testing, and containment policies. The most recent lockdown ended on 23 February 2021.

Significant progress in improving health outcomes in recent years. The average life expectancy at birth increased to 70 years in 2018, up from 69 in 2016. Mongolia achieved its Millennium Development Goal targets in 2015 for maternal and child mortality. The infant mortality rate decreased to 14 per 1,000 live births in 2018 from 16 per 1,000 live births in 2015, and the under-5 mortality rate decreased to 16 per 1,000 live births in 2018 from 19 per 1,000 live births in 2015. Similarly, the maternal mortality ratio decreased to 45 per 100,000 live births in 2017 from 51 per 100,000 live births in 2013.

Community transmission is straining the health sector. The government estimates about 60% of the population is at high risk of infection. A surge in infections would result in a shortage of quarantine facilities, necessary equipment, drugs, and other essential resources. A 2017 World Health Organization evaluation concluded that Mongolia's core capacities relating to pandemic preparedness are limited, suggesting Mongolia is ill prepared for a surge of COVID-19 or a similar pandemic. Mongolia's National Emergency Management Agency has a disaster management plan, but this plan does not clearly define the roles and responsibilities of other involved national agencies. The evaluation concluded that Mongolia remains vulnerable to emerging diseases and public health emergencies, and challenges exist in the national system's readiness to respond to large-scale and complex events in an effective and coordinated way. Systemic health sector constraints are also further amplified during health crises. Under reform area 1, several policy actions are introduced to strengthen Mongolia's immediate response capacity in relation to COVID-19 pandemic and possible similar future health crises. A number of health sector inefficiencies persist that affect the quality of health services provided.

COVID-19 pandemic accentuates ineffective and inefficient governance arrangements around public hospitals that weaken treatment capacities. Rigid line-item budgeting in public hospitals is an important source of inefficiency in the management and financing of hospitals. Input-based budgeting is poorly linked to the actual costs and volume of services, and hospitals are unable to manage their human resources or reallocate funds between cost categories without first requesting approvals from the Ministry of Health (MOH) and Ministry of Finance (MOF). Savings at the end of the fiscal year (December) are automatically returned to MOF, discouraging hospital managers from pursuing efficiency gains. Such systemic issues limit effective and efficient hospital treatment as the COVID-19 pandemic continues. Reform area 2 includes several policy actions that will strengthen existing governance arrangements in the health sector. Another area that leads to inefficient governance arrangements in the health sector is the absence of an effectively regulated pharmaceutical sector.

Expensive and poor-quality medicines, and their inappropriate use, affect health security. The prevalence of substandard (10.1%), unregistered (4.3%), and falsified (0.8%) medicines in Mongolia is one of the highest in the world. Pharmaceutical regulation is also highly fragmented. Functions such as licensing and registration, pricing, quality control, market surveillance and control, inspection and enforcement, implementation of an integrated regulatory information system, and enforcing rational drug use are implemented by different agencies instead of one single drug regulatory authority, leading to poor coordination and increased inefficiencies. Pharmaceutical regulation inefficiencies also create significant constraints as Mongolia prepares to rollout COVID-19 vaccines. The procurement of medicines in public hospitals is also decentralized, with each hospital being responsible for its own purchasing and drug budgets. This system increases unit costs of medicines in public hospitals and leads to quality and efficiency constraints in the pharmaceutical sector, which affects health security. Procurement efficiency gains and better pharmaceutical regulation in the health sector need to be addressed through various policy reforms.

Health financing constraints amplified during pandemics. There are three main sources of health financing: (i) state budget, (ii) social health insurance, and (iii) out-of-pocket expenditure (OPE). This multi-payer system creates inefficiencies and increases administrative costs. In addition, although 90% of the population is covered by social health insurance, the benefit package is limited, with social health insurance covering mainly inpatient services. Because of the gaps in service coverage, OPE accounts for 32% of total health costs, of which one-third are for medicines, because of high prices and inappropriate use. This inadequate and inefficient financing system leads to higher health system costs and hinders Mongolia's ability to respond to the COVID-19 pandemic. Several policy reforms are needed to significantly streamline financing arrangements in the health sector.

Impact	Health outcomes in Mongolia improved
Project Outcome	
Description of Outcome	Quality and delivery of health services improved
Progress Toward Outcome	
Implementation Progress	
Description of Project Outputs	
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	Nation-wide
Safeguard Categories	
Environment	C
Involuntary Resettlement	C
Indigenous Peoples	C
Summary of Environmental and Social Aspects	
Environmental Aspects	No adverse environmental impacts under ADB's Safeguard Policy Statement (2009) have been identified.
Involuntary Resettlement	No adverse involuntary resettlement impacts under ADB's Safeguard Policy Statement (2009) have been identified.
Indigenous Peoples	No adverse indigenous peoples impacts under ADB's Safeguard Policy Statement (2009) have been identified.
Stakeholder Communication, Participation, and Consultation	

During Project Design	Program preparation involved consultation with key stakeholders.
During Project Implementation	The stakeholders will continuously be engaged during the implementation.

Business Opportunities	
Consulting Services	Engagement of consulting services is not envisaged.
Procurement	Procurement of goods and works is not envisaged.

Responsible ADB Officer	Nigam, Jayati
Responsible ADB Department	East Asia Department
Responsible ADB Division	Urban and Social Sectors Division, EARD
Executing Agencies	Ministry of Finance (formerly Ministry of Finance and Economy) S.Danzangiin Gudamj 5/1, Zasgiin Gazriin II Bair, Ulaanbaatar 15160 Mongolia

Timetable	
Concept Clearance	11 Mar 2022
Fact Finding	01 Sep 2020 to 06 Oct 2020
MRM	22 Jan 2021
Approval	30 Mar 2021
Last Review Mission	-
Last PDS Update	30 Mar 2021

Loan 4056-MON

	Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)		Date	ADB	Others	Net Percentage
Project Cost	100.00		Cumulative Contract Awards			
ADB	100.00		-	0.00	0.00	%
Counterpart	0.00		Cumulative Disbursements			
Cofinancing	0.00		-	0.00	0.00	%

Project Page	https://www.adb.org/projects/54228-001/main
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