



Report and Recommendation of the President to the Board of Directors

Project Number: 54228-001
March 2021

Proposed Programmatic Approach and Policy- Based Loan for Subprogram 1 Mongolia: Strengthening Health Security Program

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Access to Information Policy.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 March 2021)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.00035
\$1.00	=	MNT2,845.4

ABBREVIATIONS

ADB	–	Asian Development Bank
APVAX	–	Asia Pacific Vaccine Access Facility
COVAX	–	COVID-19 Vaccines Global Access
COVID-19	–	coronavirus disease
GDP	–	gross domestic product
GRB	–	gender-responsive budgeting
HIF	–	Health Insurance Fund
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
MOH	–	Ministry of Health
NDRP	–	National Disaster Response Plan
OPE	–	out-of-pocket expenditure
TA	–	technical assistance
UN	–	United Nations
YoY	–	year-over-year

NOTE

In this report, “\$” refers to United States dollars.

Vice-President	Ahmed M. Saeed, Operations 2
Director General	James P. Lynch, East Asia Department (EARD)
Deputy Director General	M. Teresa Kho, EARD
Directors	Xiaoqin Fan; Public Management, Financial Sector, and Regional Cooperation Division (EAPF); EARD Sangay Penjor, Urban and Social Sectors Division (EASS), EARD Pavit Ramachandran, Mongolia Resident Mission (MNRM), EARD
Team leaders	Altantuya Jigjidsuren, Senior Social Sector Officer, MNRM, EARD Declan Magee, Senior Country Economist, MNRM, EARD Jayati Nigam, Health Specialist, EASS, EARD Hans van Rijn, Principal Public Management Specialist, EAPF, EARD
Team members	Tahmeen Ahmad; Financial Management Specialist; Public Financial Management Division; Procurement, Portfolio and Financial Management Department (PPFD) Tsolmon Begzsuren, Senior Social Development Officer (Gender), MNRM, EARD Ruth Benigno, Associate Project Analyst, EASS, EARD Unurjargal Dalaikhuu, Regional Cooperation Officer, MNRM, EARD

Marga C. Domingo-Morales, Senior Results Management Officer, Office of the Director General (EAOD), EARD
Rouselle Lavado, Senior Health Specialist, Social Sector Division, Central and West Asia Department
Veronica Mendizabal Joffre, Social Development Specialist (Gender and Development), EAOD, EARD
Kaukab Hassan Naqvi, Senior Economist, Economic Analysis and Operational Support Division, Economic Research and Regional Cooperation Department
Katherine Miriam P. Ozoa, Associate Project Analyst, EASS, EARD
Hyun Chol Park, Senior Financial Control Specialist, Loan and Grant Disbursement Section, Controller's Department
Ongonsar Purev, Senior Environment Officer, MNRM, EARD
Aysha Qadir, Principal Counsel, Office of the General Counsel
Hanif A. Rahemtulla; Principal Public Management Specialist; Governance Thematic Group, Office of the Cluster Head (SDTC); Sustainable Development and Climate Change Department (SDCC)
Viswanathan Ramasubramanian, Senior Safeguards Specialist (Resettlement), EASS, EARD
Bold Sandagdorj, Senior Economics Officer, MNRM, EARD
Shotaro Sasaki, Senior Environment Specialist, EASS, EARD
Malika Shagzatova; Social Development Specialist (Gender and Development); Gender Equity Thematic Group, SDTC; SDCC
Gohar Tadevosyan, Senior Social Development Specialist (Safeguards), EASS, EARD
Deepak Taneja, Principal Treasury Specialist, Client Solutions Division, Treasury Department
Hiet T.H. Tran, Senior Procurement Specialist, Procurement Division 2, PPF
Wendy M. Walker; Chief of Social Development Thematic Group; Social Development Thematic Group, SDTC; SDCC
Guoliang Wu; Principal Results Management Specialist; Results Management and Aid Effectiveness Division; Strategy, Policy and Partnerships Department
Eduardo P. Banzon, Principal Health Specialist, Human and Social Development Division, Southeast Asia Department

Peer reviewer

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
PROGRAM AT A GLANCE	
I. THE PROPOSAL	1
II. PROGRAM AND RATIONALE	1
A. Background and Development Constraints	1
B. Policy Reform and ADB's Value Addition	3
C. Impacts of the Reform	7
D. Development Financing Needs and Budget Support	8
E. Implementation Arrangements	9
III. DUE DILIGENCE	9
IV. ASSURANCES AND CONDITIONS	11
V. RECOMMENDATION	11
APPENDIXES	
1. Design and Monitoring Framework	12
2. List of Linked Documents	14
3. Development Policy Letter	15
4. Policy Matrix	17

PROGRAM AT A GLANCE

1. Basic Data		Project Number: 54228-001	
Project Name	Strengthening Health Security Program (Subprogram 1)	Department/Division	EARD/EASS,EAPF and MNRM
Country	Mongolia	Executing Agency	Ministry of Finance (formerly Ministry of Finance and Economy)
Borrower	Government of Mongolia		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=54228-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=54228-001-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Health	Disease control of communicable disease		20.00
	Health sector development and reform		40.00
	Health system development		40.00
	Total		100.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Strengthening governance and institutional capacity			
		ADB Financing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.4		Effective gender mainstreaming (EGM)	✓
SDG 3.3, 3.4, 3.8, 3.d			
SDG 5.6		Poverty Targeting	
SDG 10.2		General Intervention on Poverty	✓
4. Risk Categorization:	Complex		
5. Safeguard Categorization	Environment: C	Involuntary Resettlement: C	Indigenous Peoples: C
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		100.00	
Sovereign Programmatic Approach Policy-Based Lending (Regular Loan):		100.00	
Ordinary capital resources			
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		100.00	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed programmatic approach for the Strengthening Health Security Program, and (ii) a proposed policy-based loan to Mongolia for subprogram 1 of the Strengthening Health Security Program.

2. 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).

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Deep economic contraction because of COVID-19.** The 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.

4. **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.¹ 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 (para. 21), 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

¹ IMF Assessment Letter (accessible from the list of linked documents in Appendix 2).

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, ensure there is a transparent assessment of risks facing the banking sector, and act decisively if banks face liquidity pressures again.

5. 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. Since 23 February 2021, the government has begun the vaccine rollout, prioritizing health workers and the most at risk populations. Mongolia is securing vaccines from a combination of sources, including the COVID-19 Vaccines Global Access (COVAX).²

6. 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 2016.³ 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.

7. 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.⁴ 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 (para. 18), several policy actions are introduced to strengthen Mongolia's immediate

² The Government of Mongolia has received vaccine donations from the Government of India and the Government of the People's Republic of China. Mongolia joined COVAX facility in July 2020 and will receive vaccines in the first round of allocations.

³ In 2016, female life expectancy was 73.5 years and male life expectancy was 65.3 years. By 2018, female life expectancy was 73.9 and male life expectancy was 65.6 years. World Bank. [World Bank Indicators](#) (accessed 20 November 2020).

⁴ World Health Organization. 2017. [Joint External Evaluation of International Health Regulation Core Capacities of Mongolia](#). Geneva.

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.

8. 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.⁵ Such systemic issues limit effective and efficient hospital treatment as the COVID-19 pandemic continues. Reform area 2 (para.19) 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.

9. 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.⁶ 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 inefficiencies also lead to significant constraints as Mongolia rolls out its COVID-19 vaccination program. 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.

10. 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.

B. Policy Reform and ADB's Value Addition

11. Government initiatives and recent reforms. The government developed the Action Plan for Implementation of the State Policy on Health, 2020–2026 (health sector master plan) with the

⁵ In Mongolia, the fiscal year coincides with the calendar year.

⁶ ADB. 2015. *Improving Access to Affordable Medicines in Public Hospitals*. Consultant's report. Manila (TA 8967-MON).

support of ADB in 2020.⁷ This plan defines immediate and medium-term policy objectives and strategies for the health sector under eight policy directions and includes ambitious plans to strengthen health security. The policy directions address (i) public health; (ii) medical services; (iii) human resources development; (iv) health care financing; (v) health technology; (vi) pharmaceuticals; (vii) information and communication technology; and (viii) sector management, organizational arrangements, and transparency. The government is implementing the health sector master plan through programs and policies on prevention and early detection of the most common diseases, public health emergency preparedness and response, efficient regulation and rational use of medicines, medicine price regulation, establishment of an integrated health information management system, greater autonomy for public hospitals, and private health sector regulation.

12. ADB's value addition and lessons. ADB is one of Mongolia's long-standing and key partners in the health sector. Investments have supported the government in critical health system reforms to (i) shift priorities from hospital-based curative services to more efficient and cost-effective primary health care; (ii) improve health financing system to support universal health coverage and increase financial protection of people; (iii) rationalize the hospital sector and provide more autonomy for public hospitals to increase efficiency and quality of care; and (iv) improve patients' safety through optimization of health services and provision of medicines.⁸ With ADB's policy support, the government has developed important health sector policy documents and amended respective laws and regulations. The program will build on lessons and achievements from past ADB projects in the health sector, such as the need to strengthen primary health care, rationalize hospital services, strengthen policies around health financing mechanisms, and improve social health insurance, all of which are closely aligned with the State Policy on Health, 2017–2026 and the ADB-supported health sector master plan (footnote 7).

13. ADB's response to the COVID-19 pandemic. ADB's support to Mongolia regarding the COVID-19 pandemic includes the following rapid response measures: reallocation of \$1.4 million under an existing health sector operation to support the procurement of emergency health equipment, a small-scale technical assistance (TA) project for emergency response systems, and \$2.5 million in grant support from the Asia Pacific Disaster Response Facility (including \$1.5 million from the Government of Japan) to support further procurement of emergency medical equipment. It also includes short- and medium-term responses, including a \$30 million loan to support disease control in the health sector, a \$26.4 million loan to strengthen social protection measures for vulnerable groups, and TA resources to strengthen the capacity of the domestic violence response in the country. ADB also repurposed \$24 million under ADB's support to the Credit Guarantee Fund to directly support small- and medium-sized enterprises in distress. In addition, \$100 million was provided under ADB's Comprehensive Response to the COVID-19 Pandemic to support the government to manage the economic impact and respond to the health and social protection needs the pandemic has created. To facilitate the purchase of screening equipment at selected border crossing points, \$75,000 was reallocated from ADB's Regional

⁷ ADB supported the Government of Mongolia with institutional and human resource capacity to develop the health sector's strategic priorities until 2027, in accordance with Mongolia's commitments to achieve health-related targets under the Mongolia Sustainable Development Vision 2030. (State Great Khural. 2016. *Mongolia Sustainable Development Vision 2030*. Ulaanbaatar; and ADB. [Mongolia: Development of the Health Sector Master Plan, 2019–2027](#)).

⁸ ADB. [Mongolia: Improving Access to Health Services for Disadvantaged Groups Investment Program](#); ADB. Mongolia: [Improving Health Care Financing for Universal Health Coverage](#). ADB. [Mongolia: Strengthening Hospital Autonomy](#); ADB. [Mongolia: Improving Access to Affordable Medicines in Public Hospitals](#); ADB. Mongolia: Fifth Health sector Development Project; and ADB. [Mongolia: Fourth Health Sector Development Project](#).

Improvement of Border Services project.⁹ Finally, in response to an urgent government request, ADB is considering a vaccine support project, to be financed from its Asia Pacific Vaccine Access Facility (APVAX).¹⁰ While most of ADB's response to COVID-19 has focused on mitigating the pandemic's economic, fiscal, and social impacts, the proposed program has an explicit focus on the health sector, thus complementing earlier support efforts.

14. **Alignment with Strategy 2030.** The program is aligned with ADB's country partnership strategy for Mongolia, 2017–2020 and ADB's Strategy 2030 operational priority 1 (addressing remaining poverty and reducing inequalities), with the aim of enhancing human capital and achieving better health care for all.¹¹ The program is also aligned with Strategy 2030 operational priorities 2 (accelerating progress in gender equality) and 6 (strengthening governance and institutional capacity), and is included in ADB's country operations business plan 2021 for Mongolia.¹²

15. **Development partner coordination.** A joint health sector task force led by the United Nations (UN) and MOH is coordinating the COVID-19 emergency response actions. Task force members include ADB, European Commission, nongovernment organizations, specialized UN agencies, and the World Bank. This task force also has the mandate to coordinate international assistance to the health sector. So far, most assistance has been provided by ADB and various bilateral agencies, with the Government of Japan providing testing equipment and UN agencies financing the purchase of protective equipment for the National Emergency Management Agency. The World Bank approved a loan to support the purchase of medical equipment.¹³ The program complements these efforts by focusing on immediate and medium-term governance and financing constraints in the health sector, while at the same time responding to financing needs.

16. **Impact on women.** Despite the largely successful control of the spread of COVID-19, the onset of the pandemic has clearly highlighted Mongolia's limited capacity to immediately and effectively respond to outbreaks of infectious diseases. It has also demonstrated that women are facing greater hardship because of the increased burden of unpaid care work and their predominant role in health care (82% of health care workers are women). Moreover, the crisis has exacerbated gender-based violence, as evidenced by the increase of hotline calls and women resorting to shelters. The reform measures under this program will address health system inefficiencies with an explicit focus on gender aspects. Finally, gender-responsive budgeting (GRB) at the decentralized hospital level will complement ongoing work in this area being undertaken by the World Bank and the Canadian International Development Agency.

⁹ ADB. [Mongolia: Fifth Health Sector Development Project](#); ADB. [Mongolia: Regional Improvement of Border Services](#); ADB. [Mongolia: COVID-19 Emergency Response Project](#); ADB. [Mongolia: COVID-19 Emergency Response - Phase 2](#); ADB. [Mongolia: Support for Improving the Preparedness and Response to Novel Coronavirus Outbreak](#); ADB. [Mongolia: Fifth Health Sector Development Project \(Emergency Assistance Loan for Additional Financing\)](#); ADB. [Mongolia: Shock-Responsive Social Protection Project](#); ADB. [Mongolia: COVID-19 Rapid Response Program](#); ADB. [Mongolia: Supporting the Credit Guarantee System for Economic Diversification and Employment Project](#); and ADB. [Mongolia: Regional Improvement of Border Services](#).

¹⁰ The APVAX is an ADB-financed resource envelope for support to developing member countries as they procure and deliver COVID-19 vaccines. ADB. 2020. [ADB's Support to Enhance COVID-19 Vaccine Access](#). Manila.

¹¹ ADB. 2017. [Country Partnership Strategy: Mongolia, 2017–2020—Sustaining Inclusive Growth in a Period of Economic Difficulty](#). Manila; and ADB. 2019. [Strategy 2030 Operational Plan for Priority 1: Addressing Remaining Poverty and Reducing Inequalities, 2019–2024](#). Manila.

¹² ADB. 2019. [Strategy 2030 Operational Plan for Priority 2: Accelerating Progress in Gender Equality, 2019–2024](#). Manila; ADB. 2019. [Strategy 2030 Operational Plan for Priority 6: Strengthening Governance and Institutional Capacity, 2019–2024](#). Manila; and ADB. 2020. [Country Operations Business Plan: Mongolia 2021](#). Manila.

¹³ World Bank. 2020. [Mongolia COVID-19 Emergency Response and Health System Preparedness Project](#). Washington, DC.

17. **Policy reforms.** The programmatic approach consists of two subprograms, each with a single tranche. There are seven policy actions in each subprogram to achieve four reform objectives: (i) health sector preparedness and response to COVID-19 pandemic strengthened, (ii) governance of health sector operations improved, (iii) sustainability and efficiency of health sector resources improved, and (iv) medium-term fiscal stability enhanced.

18. **Reform area 1: health sector preparedness and response to COVID-19 pandemic strengthened.** Reform area 1 focuses on strengthening planning capacity and preparedness of the health sector, including the availability of critical medicines and emergency supplies. Policy actions under the subprograms are as follows:

- (i) **Subprogram 1.** Under subprogram 1, the government developed an integrated incident management system that consolidates and coordinates across multiple systems and organizational structures during health emergencies. The government also updated the National Disaster Response Plan (NDRP) for the health sector and prepared a gender-specific needs analysis of the NDRP for the COVID-19 pandemic for the health sector.¹⁴ The government also approved a national plan for the establishment of a fully functional centralized stockpile of medicines and emergency supplies in the event of future health emergencies.
- (ii) **Subprogram 2.** Under subprogram 2, the government will develop an inter-sectoral management information database that will facilitate data sharing during disasters. This may include information such as (a) inter-sector data collection, (b) mapping of available resources, (c) stockpile data, and (d) capacity requirements. The MOH will issue an implementation report on gender related activities carried out in connection with the NDRP. Under subprogram 2, the government will also develop and approve regulations to operationalize the stockpile. A fully functional centralized stockpile will require regulations and protocols, institutional assignments and responsibilities, and budgetary and staffing allocations.

19. **Reform area 2: governance of health sector operations improved.** Reform area 2 aims to strengthen national pharmaceutical regulation and increase hospital autonomy and good governance. Policy actions under the subprograms are follows:

- (i) **Subprogram 1.** Under subprogram 1, the government improved the governance and efficiency of public hospitals and the pharmaceutical sector. Under this subprogram, the government ratified an amendment to the Medicines and Medical Devices Law, 2010 that enabled the establishment of a single pharmaceutical authority. The government has also piloted increased managerial and financial autonomy in three public hospitals, including the introduction of performance-based contracting of services. The pilot included the development of training modules on gender analysis and GRB for the hospital management and finance staff to help promote gender inclusive health care services in public hospitals.
- (ii) **Subprogram 2.** Subprogram 2 will establish a single national pharmaceutical regulatory authority, allocate sufficient budget, and approve the charter for this new authority. It will also extend the hospital autonomy pilot to at least five additional hospitals. Capacity building sessions on the training modules for gender analysis and GRB developed under subprogram 1 will be held in at least five public

¹⁴ This may also include disaggregated data by sex, geographic location, and age.

hospitals. The program will also provide implementation support to hospitals on GRB and prepare a report that will document progress.

20. **Reform area 3: sustainability and efficiency of health sector resources improved.** Reform area 3 aims to enhance procurement in the health sector to increase efficiency and establish a single purchaser for health services. Policy actions under the subprograms are as follows:

- (i) **Subprogram 1.** Under subprogram 1, the government established a pooled procurement arrangement, which reduced the cost of drugs and generated savings through bulk purchases. To improve health system efficiency, the government expanded an existing pilot on the pooled procurement of essential medicines and medical devices by increasing the number of items procured under the framework agreement from 17 to 35. To help ensure the sustainability of the health system, the Parliament of Mongolia amended the key legislation to enable the Health Insurance Fund (HIF) to become a single purchaser of health services. To guide the phased transfer of funds to the HIF, a gender- and age-differential baseline analysis of health care service recipients was conducted.
- (ii) **Subprogram 2.** Under subprogram 2, the government will further expand the pooled procurement of essential medicines and include 10% of budgeted medicines under the prequalification framework agreement. The government has also committed to the phased transfer of funds from the state budget to the HIF. In doing so, the government shall integrate the results of gender- and age-differential analysis of health care service recipients in the planning and budgeting related to the phased transfer of funds.

21. **Reform area 4: medium-term fiscal stability enhanced.** Under reform area 4, the government has committed to safeguard fiscal sustainability over the medium term. Policy actions under the subprograms are as follows:

- (i) **Subprogram 1.** The government has approved a structural deficit of 5.1% in 2021, which returns Mongolia to a fiscally sustainable trajectory. This means Mongolia has returned to its pre-COVID-19 fiscal trajectory with only a 1-year time lapse.
- (ii) **Subprogram 2.** Under subprogram 2, the government will further decrease the structural deficit to 3.6% in 2022. This will be complemented by revisions to the “Regulation for Planning, Financing, Monitoring, and Reporting for Public Investment Projects and Activities,” and an upgrade of the public investment management information system. Both measures will cut the excessive red tape and realize significant efficiency gains in the execution of the capital budget.

C. Impacts of the Reform

22. The main development objective of the policy reform is to improve health outcomes in Mongolia through improvements in the quality and delivery of health services.¹⁵ The policy actions under subprogram 1 contributed to the overall objective to strengthen the government’s immediate capacity to respond to the COVID-19 pandemic. Subprogram 2 will introduce medium-term reforms that will strengthen key health systems as well as governance and financing arrangements. In addition, Mongolia’s COVID-19 vaccine deployment plan includes ensuring high regulatory standards for vaccine quality and comprehensive policies to support adequate governance and pharmacovigilance mechanisms, both of which are areas that will be strengthened through pharmaceutical regulation under reform area 2. The implementation of reform area 2 is closely

¹⁵ Government of Mongolia. 2016. *State Policy on Health, 2017–2026*. Ulaanbaatar.

linked with the proposed ADB APVAX support to procure COVID-19 vaccines and Mongolia's medium- and long-term vaccine rollout efforts. The main economic impact of the program is improved health security mitigating the adverse effects of COVID-19, avoiding future economic and social losses. A more sustainable, better coordinated, and more efficient health system will improve access, targeting, and gender considerations in health. Poor and vulnerable communities will benefit, and poverty will be alleviated. Improved health outcomes and a more resilient population will also induce greater private investment in the health sector and health insurance.¹⁶

D. Development Financing Needs and Budget Support

23. According to the Fiscal Stability Law, 2010 the government must finance the structural deficit, which was 12.5% in 2020, resulting in financing needs of \$1,701 million. The government will fund this through domestic financing (\$412 million), external borrowing (\$1,077 million), and other financing (\$211 million), including withdrawal from the Stabilization Fund. The government obtained \$263 million in project financing and \$815 million in policy-based financing to meet external financing needs. In 2021, revenues are expected to increase by 22.4% and expenditures expected to fall by 4.3%, leaving a financing need of 5.1% of the GDP. Subprogram 1 will make up 13.2% of the 2021 total financing gap. This will allow the government to maintain a stable level of domestic financing while gradually reducing the overall amount of external borrowing received in 2020, which was provided by ADB, the Asian Infrastructure Investment Bank, the European Union, the Government of Japan, the IMF, and the World Bank. Table 1 provides a summary of the financing needs.

Table 1: Revised Budget Forecasts and Domestic Financing Needs

Item	2020		2021		2021	
	Approved (Pre-COVID-19) (\$ million) ^a	Share of GDP (%)	Amended Budget (\$ million) ^a	Share of GDP (%)	Budget Proposal (\$ million) ^a	Share of GDP (%)
1. Gross revenues	4,526.3	31.7	3,764.7	27.7	4,608.4	31.1
2. Total expenditures	4,867.6	34.1	5,114.9	37.7	4,895.3	33.0
3. Structural revenue	4,139.6	29.0	3,414.4	25.1	4,139.6	27.9
4. Structural balance ^b	(728.0)	(5.1)	(1,700.5)	(12.5)	(755.7)	(5.1)
5. Financing gap ^c	728.0	5.1	1,700.5	12.5	755.7	5.1
6. Net change in cash	0.0	0.0	0.0	0.0	52.9	0.4
7. Domestic financing	(57.2)	0.4	411.7	3.0	422.5	2.9
(i) Bonds	(57.2)	0.4	327.3	2.4	422.5	2.9
(ii) Loans	0.0	0.0	84.4	0.6	0.0	0.0
8. External financing	616.9	4.3	1,077.4	7.9	225.6	1.5
(i) Project loans	172.2	1.2	262.7	1.9	121.7	0.8
(ii) Program loans	444.7	3.1	814.7	6.0	103.9	0.7
9. Other financing	0.3	0.0	158.9	1.2	0.0	0.0
10. Stabilization Fund	168.0	1.2	52.5	0.4	54.7	0.4

() = negative, COVID-19 = coronavirus disease, GDP = gross domestic product.

^a Converted using the spot exchange rate as of 6 November 2020.

^b The structural deficit, which refers to the difference between structural revenue (gross revenue adjusted for the cyclicity of mineral revenue) and total expenditure, must be financed according to the Fiscal Stability Law, 2010 and the Budget Law, 2011.

^c The sum of the net change in cash, domestic financing, external financing, other financing, and flows from the Stabilization Fund will equal the financing gap.

Sources: Asian Development Bank estimates; and Government of Mongolia, Ministry of Finance estimates.

24. The government has requested a regular loan of \$100 million from ADB's ordinary capital resources to help finance subprogram 1. The loan will have a 15-year term, including a grace

¹⁶ The design and monitoring framework is in Appendix 1.

period of 3 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement. Based on the straight-line method, the average maturity is 10.9 years, and there is no maturity premium payable to ADB. Subprogram 2, with an indicative amount of \$100 million, will also come from ADB's ordinary capital resources.

E. Implementation Arrangements

25. The MOF will serve as the executing agency and will establish a working group to oversee and coordinate the implementation of the program. The MOH will be the implementing agency. ADB will assess implementation based on progress reports submitted by the MOF and will field missions to confirm the fulfillment of policy actions for subprograms 1 and 2. ADB and development partners will coordinate to prevent duplication of activities during implementation.

26. Subprogram 1 will be disbursed upon loan effectiveness and is linked to the full compliance of the prior actions, as set out in the policy matrix (Appendix 4). The programmatic approach will be implemented over a period of 25 months. Subprogram 1 will be implemented from 1 May 2020 to 14 May 2021 and subprogram 2 will be implemented from 15 May 2021 to 30 June 2022.¹⁷ The proceeds of the policy-based loan will be withdrawn in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

III. DUE DILIGENCE

27. **Economic.** Avoidable costs of a future pandemic similar to the COVID-19 pandemic range from \$16.0 million to \$196.7 million annually. The expected value of economic benefits of better preparedness and prevention would be at least \$16.0 million per year, well above the estimated investment of \$5.6 million needed per year for prevention and control. Further, potential efficiency savings of \$16.7 million per year will fully offset this needed investment.

28. **Safeguards.** No adverse environmental, indigenous peoples, and involuntary resettlement impacts under ADB's Safeguard Policy Statement (2009) have been identified. The program will not have any differentiated impacts on ethnic groups, as none of the reforms will target specific ethnic groups. The program is categorized C for environment, indigenous peoples, and involuntary resettlement.

29. **Social, poverty, and gender.** Despite solid economic growth from 2017–2019, impacts on poverty reduction have not kept pace and 28.4% of the population remain below the poverty line (\$66.4 per month). Children remain among the most vulnerable (42.0% of poor people are children under the age of 15). Poverty concentration is growing in urban areas, with reductions in rural areas attributable to increased demand for livestock and price increases. The 14.9% of people living just above the poverty line are highly vulnerable to shocks. The program will address affordability of medicines, which is a leading cause of OPE, especially for the poor. It will also address the poor quality of medicines, since 32% of OPE goes to drugs that are often substandard.¹⁸ In addition, the program will increase the financial and managerial independence of public hospitals, which will improve the quality of services provided and patient satisfaction.¹⁹

¹⁷ List of Ineligible Items (accessible from the list of linked documents in Appendix 2).

¹⁸ World Bank. [Out-of-Pocket Expenditure \(% of Current Health Expenditure\)-Mongolia](#) (accessed 27 October 2020).

¹⁹ Government of Mongolia, National Statistics Office of Mongolia; and World Bank. 2020. [Mongolia Poverty Update 2018](#). Ulaanbaatar.

30. The program is categorized *effective gender mainstreaming*. Women are being affected by the COVID-19 pandemic in multiple ways. Quarantine measures and school closures have increased unpaid household and care work, the bulk of which is traditionally carried out by women (para. 16). The program will initiate the preparation of a gender-specific analysis of the NDRP for the health sector. The findings of this report will be adopted by the MOH and will shape disaster planning in the health sector in the future.

31. The program will ensure that some of the most significant reforms in the health sector—the decentralization of budget and managerial authority to hospitals, and the reform of health service financing—will have gender considerations at their core. The introduction of GRB at the hospital level offers an opportunity to broaden GRB across the public sector. This program will result in the development of a training module on GRB, which will be used in hospitals that will get increased budget authority. This offers a unique opportunity to operationalize GRB in Mongolia, and subprogram 2 will train hospital staff on GRB and monitor its implementation.

32. **Governance.** Mongolia has strong financial management legislation, governance structures, and public financial management systems, including a treasury single account, a unified chart of accounts, and an integrated government debt and financial management information system. There remain areas for improvement related to efficiency, effectiveness, and transparency of public financial management.²⁰ To address these, the MOF adopted a reform strategy, supported by ADB, the European Union, the IMF, and the World Bank.²¹ Over the medium term, ADB will continue to stay engaged.²² The revised Public Procurement Law, adopted in 2013, introduced significant changes in the public procurement system, with local governments given more responsibility for procurement. The revised law includes provisions to make procurement processes more transparent and participative. Implementation of these ambitious reforms is ongoing. The Public Procurement Law was amended in 2019 with the aim to strengthen transparency and accountability. ADB supported the preparation of the amended law through TA support.²³ Major risks and mitigating measures are summarized in Table 2 and described in detail in the risk assessment and risk management plan.²⁴

Table 2: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Public financial management	
High level of budget proposals based on overestimated revenue forecasts leads to deterioration of budget credibility.	ADB is assisting the government to strengthen its budget planning, execution, and monitoring as well as the sound forecasting of revenue sources. ^a
Low capital–output ratios because of inefficiencies in public expenditure management.	ADB will address this in a proposed public finance-focused technical assistance project, with a dedicated component to support improvements in expenditure management. ^b
Procurement	
Limited use of the GPA and fragmentation of procurement functions across administration may lead to misprocurement and distract	ADB provides technical assistance to central procurement entities such as the GPA and to local procurement units, uses these entities for procurement under ADB-funded projects to the

²⁰ World Bank. 2018. *Mongolia—Public Expenditure Review (Volume 2): Growing Without Undue Borrowing—Enhancing Efficiency of Spending and Revenue*. Washington, DC.

²¹ Since 2018, the Strengthening Governance in Mongolia Project, funded under the European Union Trust Fund with the World Bank, has supported the government’s efforts to improve fiscal discipline, public financial management, and transparency and accountability for strengthened governance in Mongolia.

²² ADB. *Mongolia: Strengthening Information and Communication Technology Systems for Efficient and Transparent Public Investment and Tax Administration Project*. This ongoing project will be complemented by a TA project focused on improving efficiencies in public expenditure management and strengthening tax data analysis.

²³ ADB. *Mongolia: Strengthening of Public Procurement for Improved Project Implementation*.

²⁴ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risks	Mitigation Measures
ministries from focusing on their core policy functions. Lack of sector expertise in the GPA may slow down procurement.	maximum extent possible, and advocates the use of the GPA in suitable forums. ^c
Vulnerability to corruption	
Vulnerability to corruption can undermine accountability throughout the economic and political sphere.	ADB supports the strengthening of institutions that are vital for Mongolia's integrity system (such as the Mongolian National Audit Office) and citizens' participation in monitoring budget-financed activities. ADB also facilitates an active role for Mongolia in international anticorruption initiatives. ^d

ADB = Asian Development Bank, GPA = Government Procurement Agency.

^a ADB. [Mongolia: Strengthening Information and Communication Technology Systems for Efficient and Transparent Public Investment and Tax Administration Project](#).

^b ADB. [Mongolia: Support for Effective Public Sector Management](#).

^c ADB. [Mongolia: Strengthening Public Procurement for Improved Project Implementation](#).

^d ADB. [Mongolia: Strengthening the Supreme Audit Function](#); and ADB. [Mongolia: Transparency and Efficiency in Public Financial Management](#). Mongolia is a member of the Anti-Corruption Initiative for Asia Pacific, supported by

ADB and the Organisation for Economic Co-operation and Development. [Anti-Corruption Initiative for Asia-Pacific](#).

Source: ADB.

33. **Corruption.** Major corruption risks include weak institutions and enforcement, lack of capacity of integrity institutions, political interference, lack of transparency and accountability, and conflict of interest. Mongolia has an active anticorruption strategy and is an active member of the Anti-Corruption Initiative for Asia Pacific, which is supported by ADB and the Organisation for Economic Co-operation and Development.²⁵ ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government.

IV. ASSURANCES AND CONDITIONS

34. The government has assured ADB that implementation of the program shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan agreement. No disbursement shall be made unless ADB is satisfied that the government has completed the policy actions specified in the policy matrix relating to the program.

V. RECOMMENDATION

35. I am satisfied that the proposed programmatic approach and policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the programmatic approach for the Strengthening Health Security Program, and
- (ii) the loan of \$100,000,000 to Mongolia for subprogram 1 of the Strengthening Health Security Program, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Masatsugu Asakawa
President

15 March 2021

²⁵ [Anti-Corruption Initiative for Asia-Pacific](#).

DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective Health outcomes in Mongolia improved (State Policy on Health, 2017–2026) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Effect of the Reform Quality and delivery of health services improved	By 2023: a. National incident management system for health emergencies operational (2020 baseline: not applicable) b. Procurement prices for select medicines in public hospitals decreased by at least 30% (2020 baseline: 0%) c. At least 80% of selected hospitals operating autonomously with improved financial management and human resources (2020 baseline: 0%)	a.–c. MOH report	Unforeseen exogenous shocks derail the economy
Reform Areas under Subprogram 1 1. Health sector preparedness and response to COVID-19 pandemic strengthened 2. Governance of health sector operations improved 3. Sustainability and efficiency of health sector resources improved	Key Policy Actions By 2021: 1.1. Single integrated incident management system that consolidates and integrates across existing multiple systems and structures for prevention, preparedness, and response to the COVID-19 pandemic established (2020 baseline: not established) 1.2. Updated NDRP for the health sector (2020 baseline: plan not updated) 1.3. Gender-specific needs analysis of the NDRP for the COVID-19 pandemic for the health sector endorsed by the MOH (2020 baseline: not prepared) 2.1. Financial and managerial autonomy in three pilot public hospitals, including development of training modules on gender analysis and gender-responsive budgeting for delivery in pilot hospitals to ensure inclusive health care services, implemented (2020 baseline: not applicable) 3.1. Procurement of medicines expanding from 17 items to 35 items under the framework agreement approved to improve efficiency and reduce costs of essential medicines and medical supplies (2020 baseline: Not approved) 3.2. Amendments to the Health Insurance Law, 2016 to enable transforming the national health insurance as a single purchaser of health services ratified, and gender- and age-differential baseline analysis of health care service recipients undertaken (2020 baseline: no amendments to the Health Insurance Law, 2016; no gender- and age-differential baseline analysis)	1.1. Order of the Minister of Health confirming the development of the incident management system 1.2. Approved updated NDRP by the Minister of Health 1.3 Report on the gender-specific needs analysis of the NDRP for the COVID-19 pandemic endorsed by the MOH 2.1. 2021 state budget allocating funds to HIF for performance-based contracting of three pilot public hospitals and training modules on gender analysis and gender-responsive budgeting 3.1. Order of the Minister of Health to the Government Procurement Agency instructing them to procure at least 35 items under the framework agreement, and report of the Government Procurement Agency 3.2. Amendments to the Health Insurance Law, 2016 duly ratified by the Parliament of Mongolia; 2021 state budget, showing transfer of funds to the HIF; and baseline gender- and age-differential analysis of health care service recipients	Reduced political commitment to health sector reforms

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
4. Medium-term fiscal stability enhanced	4.1. The 2021 state budget demonstrated that the structural deficit is less than or equivalent to 5.1% to be consistent with the medium-term fiscal framework and to show gradual reduction of fiscal deficit in line with the Fiscal Stability Law, 2010 (2020 baseline: 12.5%)	4.1. Amendments to the general government 2021 medium-term fiscal framework and budget projections for 2022–2023	
Budget Support Asian Development Bank: Subprogram 1: \$100 million (ordinary capital resources loan) Subprogram 2: \$100 million (indicative) (ordinary capital resources loan)			

COVID-19 = coronavirus disease, HIF = Health Insurance Fund, MOH = Ministry of Health, NDRP = National Disaster Response Plan.

^a Government of Mongolia. 2016. *State Policy on Health, 2017–2026*. Ulaanbaatar.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=54228-001-3>

1. Loan Agreement
2. Sector Assessment (Summary): Health
3. Contribution to Strategy 2030 Operational Priorities
4. Development Coordination
5. Country Economic Indicators
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Risk Assessment and Risk Management Plan
9. List of Ineligible Items
10. Program Economic Assessment
11. Gender Action Plan

Supplementary Documents

12. Safeguard Assessment Matrix
13. Summary Debt Sustainability Analysis

DEVELOPMENT POLICY LETTER



MINISTER OF FINANCE OF MONGOLIA

15160 S.Danzangiin gudamj 5/1,
Zasgiin gazriin II bair, Chingeltei duureg,
Ulaanbaatar, MONGOLIA
Tel/Fax:(976-51) 26-02-47, <http://www.mof.gov.mn>

Date 10.02.2021
Ref. 10-1/527

Masatsugu Asakawa
President
Asian Development Bank

Dear President Asakawa,

**Subject: Mongolia – Strengthening Health Security Program
Development Policy Letter**

First of all, on behalf of the Government of Mongolia, I would like to express my deepest gratitude to the Asian Development Bank (ADB) for the commitment and dedication in assisting its developing member countries to prevent and combat the novel coronavirus disease (COVID-19) pandemic. ADB has provided first-hand support to the Government in preparing and responding to the COVID-19 pandemic by addressing immediate public health needs and through policy interventions to mitigate the negative socioeconomic impacts on the people of Mongolia.

Mongolia encountered its first local transmission case on November 10, 2020. Since then, the total cases have reached 2,120 and 43,183 which are under quarantine and observation, respectively. Although, the Government is taking necessary actions to restrict the outbreak in Mongolia by announcing semi to full lockdown nationwide, there continues to be high risk of an outbreak in the next few months. In case of a larger outbreak, with most vulnerable groups living under the poverty line (28.4%) and about 20% of the population identified as at high risk of infection, a surge in infections would result in a shortage of quarantine facilities, essential equipment, drugs and resources. Mongolia's core capacities relating to the pandemic preparedness are limited, which may compromise our responsiveness to a surge of COVID-19 cases or a similar pandemic.

The COVID-19 pandemic continues to pose a serious public health threat in Mongolia. The country is planning to go into a strict national lockdown as the Government undertakes contact tracing, testing, and containment policies over the period of 10 days between February 11-23, 2021. As of February 10, from the 2,120 cases, 410 are imported, with two deaths.

Moreover, the country is experiencing a deep economic contraction as a result of the COVID-19 pandemic. The economy contracted by 7.3% in the first three quarters of 2020 year-over-year (YoY). Compared to the pre-COVID-19 plan, the overall and structural fiscal balances have deteriorated to 9.9% and 12.5% of the GDP, respectively.

In order to strengthen the public health system and mitigate negative socioeconomic impacts of the COVID-19 pandemic on the people of Mongolia, the Government is undertaking necessary reform measures. In this context, we request the assistance of ADB in the amount of USD 100 million through the Strengthening Health Security Program (Program) to ensure that the public health sector operations are strengthened.

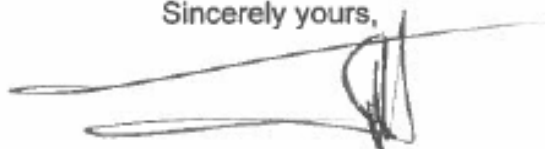
with improved efficiency, governance and sustainability of health sector resources to prepare and respond to the COVID-19 pandemic while maintaining the overall health sector performance.

The Government has updated its Health Sector Disaster Response Plan and introduced integrated Incident Management System to ensure the COVID-19 response measures are coordinated and resources are efficiently utilized. In addition, the Government has taken health sector reform measures towards improving the quality and availability of drugs and medical supplies, strengthening health services through increased hospital autonomy, and improving performance-based health sector financing schemes.

Notwithstanding the worsening conditions as a result of the pandemic, the Government remains committed to macroeconomic reform. In the 2021 General Budget, we have committed to limiting the fiscal deficit to 5.1% of the GDP to ensure that we quickly return to the path of fiscal sustainability that we have pursued in 2017-2019, which is in line with the fiscal reforms identified under the Program.

Mr President, the Government is fully committed to steering Mongolia out of this unprecedented global crisis. Strengthening the responsiveness of our health sector, both in the immediate and medium term, will be essential to achieving this. We would like to thank ADB for working closely with the Government in developing this Program and look forward to our close and continued cooperation.

Sincerely yours,

A handwritten signature in black ink, appearing to be 'B. JAVKHLAN', written over a horizontal line.

B.JAVKHLAN

POLICY MATRIX

Reform Area	Subprogram 1 Implementation period: 1 May 2020–14 May 2021 Policy Actions	Subprogram 2 Implementation period: 15 May 2021–30 June 2022 Indicative Policy Actions
1. Health sector preparedness and response to COVID-19 pandemic strengthened	<p>Policy Action 1: To ensure effective and coherent coordination and response of the health sector to the COVID-19 pandemic, the Borrower (i) developed an integrated incident management system to coordinate across multiple systems and organizational structures during health emergencies; (ii) updated the National Disaster Response Plan (NDRP); and (iii) prepared a gender-specific needs analysis of the NDRP for the COVID-19 pandemic for the health sector.</p> <p>Compliance documents:</p> <ol style="list-style-type: none"> 1. Order of the Minister of Health confirming the development of the incident management system. 2. Approved updated NDRP by the Minister of Health. 3. Report on the gender-specific needs analysis of the NDRP for the COVID-19 Pandemic endorsed by Minister of Health. 	<p>Policy Action 8: To support the effective implementation of the NDRP, including the gender-responsive Disaster Response Plan, and cross-sectoral coordination, the Borrower shall develop an inter-sectoral management information database.</p> <p>Compliance documents:</p> <ol style="list-style-type: none"> 1. Order of the Deputy Prime Minister confirming the development of the inter-sectoral management information database. 2. Letter from the Minister of Health attaching an implementation report on the gender related activities carried out in connection with the Disaster Response Plan as detailed in the Report on Gender-specific needs analysis of the NDRP.
	<p>Policy Action 2: To improve the availability of critical medical and emergency supplies, the Borrower developed and approved a plan for the establishment of a national storage facility for medicines, medical devices, equipment, and disinfectants in case of emergencies.</p> <p>Compliance documents:</p> <ol style="list-style-type: none"> 1. Order of the Minister of Health approving the plan for the establishment of a national storage facility. 2. The approved plan for the establishment of a national storage facility by the Minister of Health. 3. Law on the Prevention and the Reduction of the Negative Socioeconomic Impacts of the COVID-19 Pandemic. 	<p>Policy Action 9: To improve the availability of critical medical and emergency supplies, the Borrower shall develop and approve the regulation on the logistics of the national emergency stock, including the list of medicines, medical devices, equipment and disinfectants, their storage, disposal, shelf life, and replenishment.</p> <p>Compliance documents:</p> <ol style="list-style-type: none"> 1. Order of the Minister of Health approving the regulation on the logistics of the national emergency stock. 2. The approved regulation on the logistics of the national emergency stock by the Minister of Health.

Reform Area	Subprogram 1 Implementation period: 1 May 2020–14 May 2021 Policy Actions	Subprogram 2 Implementation period: 15 May 2021–30 June 2022 Indicative Policy Actions
	4. Letter from the Minister of Health clarifying the support extended by ADB under subprogram 1 for reforms under policy action 2.	
2. Governance of health sector operations improved	<p>Policy Action 3: To improve the quality and availability of medicines, the Borrower ratified the amended Law on Medicines and Medical Devices empowering the Ministry of Health to establish a dedicated National Pharmaceutical Regulatory Authority.</p> <p>Compliance document: Amended Law on Medicines and Medical Devices.</p>	<p>Policy Action 10:</p> <ol style="list-style-type: none"> 1. The Cabinet shall approve the establishment of the National Pharmaceutical Regulatory Authority. 2. The Borrower shall, in the State Budget for 2021, allocate sufficient funds to the Ministry of Health for the establishment, staffing, office and operations of the National Pharmaceutical Regulatory Authority. 3. The Ministry of Health shall approve the charter documents of the National Pharmaceutical Regulatory Authority. <p>Compliance documents:</p> <ol style="list-style-type: none"> 1. Government Resolution approving the establishment of the National Pharmaceutical Regulatory Authority. 2. Ministerial Order by the Minister of Health evidencing allocation of sufficient funds for the establishment, staffing, office, and operations of the National Pharmaceutical Regulatory Authority. 3. Ministerial Order by the Minister of Health approving the charter documents of the National Pharmaceutical Regulatory Authority.
	<p>Policy Action 4: To increase the quality of gender inclusive hospital-based health care services and client satisfaction, the Borrower (i) initiated the financial autonomy in three pilot public hospitals; and (ii) developed a training module on conducting gender analysis and gender-responsive budgeting for delivery in pilot hospitals to ensure gender inclusive health care services.</p>	<p>Policy Action 11: The Borrower shall (i) approve an action plan to rollout the financial autonomy in at least five additional public hospitals; and (ii) conduct capacity building sessions in at least five public hospitals on gender analysis and gender-responsive budgeting to support hospital-based gender inclusive health care services.</p>

Reform Area	Subprogram 1 Implementation period: 1 May 2020–14 May 2021 Policy Actions	Subprogram 2 Implementation period: 15 May 2021–30 June 2022 Indicative Policy Actions
	<p>Compliance documents:</p> <ol style="list-style-type: none"> 2021 State Budget allocating funds to Health Insurance Fund for performance-based contracting of three pilot public hospitals. Training modules on gender analysis and gender-responsive budgeting. 	<p>Compliance documents:</p> <ol style="list-style-type: none"> Ministerial Order by the Minister of Health approving the action plan for the rollout of the increased autonomy of at least five additional public hospitals. Report of the Ministry of Health evidencing capacity building sessions on gender analysis and gender-responsive budgeting held in at least five public hospitals, including sex-disaggregated data/activities.
3. Sustainability and efficiency of health sector resources improved	<p>Policy Action 5: To improve efficiency and reduce costs of essential medicines and medical supplies, the Borrower approved and expanded the procurement of medicines from 17 to at least 35 items under the Framework Agreement.</p> <p>Compliance documents:</p> <ol style="list-style-type: none"> Order of the Minister of Health to the Government Procurement Agency instructing them to procure at least 35 items under the Framework Agreement. Report of the Government Procurement Agency. 	<p>Policy Action 12: To realize further efficiency and cost gains, the Borrower shall approve the procurement of at least 10% of budgeted medicines and medical supplies in public hospitals under the Prequalification and Framework Agreement.</p> <p>Compliance document: Letter of Minister of Health confirming the procurement of at least 10% of budgeted medicines and medical supplies in public hospitals under the Prequalification and Framework Agreement with attached Annual Report of the Government Procurement Agency.</p>
	<p>Policy Action 6: To increase the health and financial protection of people (i) the Parliament of Mongolia ratified amendments to the Health Insurance Law, 2016 to enable transforming the national health insurance as a single purchaser of health services; (ii) the Borrower incorporated phased transfer of funds in the 2021 State Budget to the Health Insurance Fund; and (iii) the Borrower undertook gender- and age-differential baseline analysis of health care service recipients.</p> <p>Compliance documents:</p> <ol style="list-style-type: none"> Amendments to the Health Insurance Law, 2016 duly ratified by the Parliament of Mongolia. 	<p>Policy Action 13: The Borrower shall (i) incorporate phased transfer of funds in the draft 2022 State Budget to the Health Insurance Fund, and (ii) integrate the results of gender- and age-differential analysis of health care service recipients in the planning and budgeting related to the transfer of funds.</p> <p>Compliance documents:</p> <ol style="list-style-type: none"> Draft 2022 State Budget showing proposed transfer of funds to the Health Insurance Fund. Letter from the Ministry of Health attaching the gender and age-differential considerations integrated in the planning and budgeting related to the transfer of funds.

Reform Area	Subprogram 1 Implementation period: 1 May 2020–14 May 2021 Policy Actions	Subprogram 2 Implementation period: 15 May 2021–30 June 2022 Indicative Policy Actions
	2. 2021 State Budget, showing transfer of funds to the Health Insurance Fund. 3. Baseline gender- and age-differential analysis of health care service recipients.	
4. Medium-term fiscal stability enhanced	<p>Policy Action 7: To be consistent with the medium-term fiscal framework and to show gradual reduction of fiscal deficit in line with the Fiscal Stability Law, the 2021 State Budget demonstrated that the structural deficit is less than or equivalent to 5.1%, unless the 2021 State Budget is amended due to factors specified in Sections 8.1 and 8.2 of the Fiscal Stability Law and Section 34.1 of the Budget Law, resulting in a structural deficit higher than 5.1%.</p> <p>Compliance documents:</p> <ol style="list-style-type: none"> 1. Amendments to the General Government Budget 2021. 2. Medium-Term Fiscal Framework and Budget Projections for 2022–2023. 3. State Budget for 2021. 4. Social Insurance Fund Budget for 2021. 5. Health Insurance Fund Budget for 2021. 6. Explanatory Note indicating how the structural deficit is calculated using the State Budget for 2021, the Social Insurance Fund Budget for 2021, and the Health Insurance Fund Budget for 2021. 	<p>Policy Action 14:</p> <ol style="list-style-type: none"> 1. To be consistent with the medium-term fiscal framework and to show gradual reduction of fiscal deficit in line with the Fiscal Stability Law, the proposed 2022 State Budget shall demonstrate that the structural deficit is less than or equivalent to 3.6%, unless the 2022 State Budget is amended due to factors specified in Sections 8.1 and 8.2 of the Fiscal Stability Law and Section 34.1 of the Budget Law, resulting in a structural deficit higher than 3.6%. 2. To ensure efficiency gains and transparency in the execution of the capital budget by reducing the time required to authorize and make payments to contractors from 20 days to 7 days (a 65% reduction), the Ministry of Finance shall approve the revision of the “Regulation for Planning, Financing, Monitoring and Reporting for Public Investment Projects and Activities,” and undertake a corresponding upgrade of the Public Investment Management Information System. <p>Compliance documents:</p> <ol style="list-style-type: none"> 1. 2022 State Budget. 2. Medium-Term Fiscal Framework. 3. Ministerial Order of the Minister of Finance approving the revised “Regulation for Planning, Financing, Monitoring and Reporting for Public Investment Projects and Activities.” 4. Letter of Confirmation for the upgrade of the Public Investment Management Information System, including a Briefing Report on the Implementation.

Source: Asian Development Bank.