

**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 24 April 2024<sup>1</sup>

**MONGOLIA**

**DARKHAN HOSPITAL**

*[Redacted in line with the EBRD's Access to Information Policy]*

*[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]*

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<sup>1</sup> As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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## ABBREVIATIONS / CURRENCY CONVERSIONS

ADB	Asian Development Bank
AESR	Annual Environmental and Social Reports
CESMP	Construction Environmental and Social Management Plan
DALY	Disability Adjusted Life Years
DGH	Darkhan-Uul General Hospital
EDGE	Excellence in Design for Greater Efficiencies
EHS	Environment, Health and Safety
EIRR	Economic Internal Rate of Return
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESMP	Environmental and Social Management Plan
ESMS	Environmental and Social Management System
ESP	Environmental and Social Policy
EU	European Union
GBVH	Gender-Based Violence and Harassment
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Greenhouse Gas
HR	Human Resources
HVAC	Heating, Ventilation, and Air Conditioning
IAAC	Independent Authority Against Corruption
IFI	International Financial Institution
IMF	International Monetary Fund
ISO	International Organisation for Standardisation
IT	Information Technology
MDBs	Multilateral Development Banks
MNT	Mongolian Tugrik
MoH	Ministry of Health
MRI	Magnetic Resonance Imaging
MEI	Municipal and Environmental Infrastructure
NTS	Non-Technical Summary
O&M	Operation and Maintenance
PIP	Priority Investment Programme
PIU	Project Implementation Unit
PEP	Politically Exposed Person
PP&R	EBRD's Procurement Policies and Rules
SEP	Stakeholder Engagement Plan
S&P	Standard & Poor's
TI	Transition Impact
TC	Technical Cooperation

### CURRENCY CONVERSION

(as of 23.02.2024)

USD 1 = MNT 3,440

EUR 1 = USD 1.0859

## PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Government of Mongolia (the “Borrower”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to the Borrower in the amount of up to *USD 43.2 million* (EUR 39.8 million) for the benefit of the Ministry of Health of Mongolia. The facility is proposed to be co-financed by a capital grant in the amount of up to EUR 5 million from the Shareholders Special Fund (the “SSF”) Work Plan for 2023-2024.

The operation will enable the Government of Mongolia to design, build and equip a new energy efficient general hospital with a capacity of around 250 beds in Darkhan, Mongolia (the “Project”). The Project is one of the EU’s Global Gateway flagship projects for 2024.

The expected transition impact of the Project will come from “Green” quality by improving resource efficiency of the new hospital buildings and from the “Inclusive” quality by enhancing access to quality healthcare services for the local population. The Project qualifies for 80 per cent GET from achieving a green building certification.

Pre-signing TC support for the Project’s due diligence has been funded by the Sustainable Infrastructure Fund (“SIF”) and procurement advisory support has been funded by the Government of Japan through the Japan-EBRD Cooperation Fund (“JECF”). Post-signing TC to support the Project’s implementation will be financed by the JECF and TC support for construction supervision is proposed to be financed by an international donor, SIF or the SSF.

I am satisfied that the operation is consistent with the Bank’s Strategy for Mongolia, the Green Economy Transition Approach 2021-2025, the MEI Sector Strategy, the Strategy for the Promotion of Gender Equality, the Equality of Opportunity Strategy and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan and the SSF grant substantially on the terms of the attached Report.

**Odile Renaud-Basso**

## BOARD DECISION SHEET

MONGOLIA – DARKHAN HOSPITAL – DTM 53423	
<b>Transaction / Board Decision</b>	Board approval <sup>2</sup> is sought for a sovereign loan of up to USD 43.2 million (EUR 39.8 million) in favour of the Government of Mongolia to design, build and equip a new energy efficient general hospital with a capacity of around 250 beds in Darkhan, Mongolia (the “Project”). Board approval is also sought for the use of the EBRD Shareholders Special Fund (the “SSF”) 2023-2024 Work Plan funds in the amount of up to EUR 5 million for investment grant.
<b>Client</b>	Government of Mongolia is the Borrower.
<b>Main Elements of the Proposal</b>	<ul style="list-style-type: none"> <li>– <u>Transition impact</u>. Primary Quality – Green. The Project improves resource efficiency of the new hospital buildings by introducing green building certification and incorporating climate change adaptation solutions to the Project design. Secondary Quality – Inclusive. The Project enhances access to quality healthcare services for the local population through the introduction of advanced diagnostics technologies and treatments for leading causes of death in the country. The hospital will also incorporate universal design principles to strengthen accessibility of the healthcare facilities for people with all abilities.</li> <li>– <u>Additionality</u>. <i>Financing Structure</i>: The Bank will reduce the funding gap for financing new public regional healthcare facilities in Mongolia. <i>Risk mitigation</i>: The Project will mitigate carbon transition risk by reducing primary energy consumption and GHG emissions by 32 per cent and include a set of design measures to mitigate physical transition risks. <i>Standard-setting</i>: The Project will achieve compliance with an internationally recognised green building scheme and aims to be the first EDGE certified public building in the country. <i>Gender SMART</i>: The investment will promote improved access to quality healthcare for women by introducing a GBVH awareness campaign, playrooms with dedicated staff to take care of children accompanying patients and breastfeeding-friendly spaces.</li> <li>– <u>Sound banking</u>. The transaction is a sovereign loan to the Government of Mongolia. The Bank’s Standard Terms and Conditions apply.</li> </ul>
<b>Key Risks</b>	<p><u>Borrower’s creditworthiness</u>: Mongolia is a creditworthy borrower, rated B/stable by S&amp;P, B/stable by Fitch, and B3/stable by Moody’s. Mongolia’s economy remains sensitive to commodity prices and demand shocks, however, abundant mineral resources ensure its high medium-term growth potential.</p> <p><u>Cost overrun risk</u>: The Bank’s PP&amp;R and a “design and build” contract will be used to mitigate risks of overruns and ensure the expected completion timing is met.</p>
<b>Strategic Fit Summary</b>	The Project promotes high resource efficiency and climate resilience in buildings. It is one of the EU’s Global Gateway flagship projects for 2024. It is aligned with (i) the Green Economy Transition Approach 2021-2025, (ii) the MEI Sector Strategy, (iii) the Strategy for the Promotion of Gender Equality, (iv) Equality of Opportunity Strategy, and (v) the Country Strategy for Mongolia and is considered aligned with the goals of the Paris Agreement.

<sup>2</sup> Article 27 of the AEB provides the basis for this decision.

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	A sovereign loan of up to USD 43.2 (EUR 39.8 million) to the Government of Mongolia (the “Borrower” or the “Client”) for the benefit of the Ministry of Health (the “MoH” or the “Project Executing Agency”). The loan will be co-financed by a capital grant of up to EUR 5 million from the SSF 2023-2024 Work Plan. The Project will be implemented by the MoH through a Project Implementation Unit (PIU) and funded by the Client.
<b>Existing Exposure</b>	To Mongolia: EUR 241 million of sovereign portfolio (6 projects). Operating assets are EUR 93 million.
<b>Maturity / Exit / Repayment</b>	The loan tenor is 18 years [REDACTED].
<b>Potential AMI eligible financing</b>	None.
<b>Use of Proceeds – Description</b>	The loan and capital grant proceeds will be used to finance design and construction, including procurement and installation of selected medical equipment related to civil works, of a new general hospital with a capacity of around 250 beds in Darkhan, Mongolia. The Project implementation arrangements and procurement plan are presented in Annex 3.
<b>Investment Plan</b>	[REDACTED]
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	<ul style="list-style-type: none"> <li>• Government of Mongolia as the Borrower</li> <li>• Ministry of Health as the Project Executing Agency</li> <li>• Darkhan-Uul Province as the Project Originator</li> <li>• Darkhan-Uul General Hospital as the Project Company</li> </ul>
<b>Conditions to subscription / disbursement</b>	<ul style="list-style-type: none"> <li>• [REDACTED]</li> </ul>
<b>Key Covenants</b>	<ul style="list-style-type: none"> <li>• [REDACTED]</li> </ul>
<b>Security / Guarantees</b>	Sovereign loan.
<b>Other material agreements</b>	None.
<b>Associated Donor Funded TC and Blended Concessional Finance</b>	<p><b>A. Technical Cooperation (TC)</b></p> <p><u>Pre-signing:</u></p> <ul style="list-style-type: none"> <li>• <b>TC 1: Feasibility Study</b> [REDACTED] funded by Sustainable Infrastructure Fund (SIF).</li> <li>• <b>TC 2: Individual Procurement Advisor</b> to assist the Project Executing Agency with advance procurement of the PIS consultant [REDACTED] funded by Government of Japan through the Japan – EBRD Cooperation Fund (JECF).</li> </ul> <p><u>Post-signing:</u></p> <ul style="list-style-type: none"> <li>• <b>TC 3: Project Implementation Support</b> to assist the Project Executing Agency and the PIU with the Project’s implementation [REDACTED] funded by the JECF.</li> <li>• <b>TC 4: Construction Supervision Consultancy</b> to assist with the construction supervision [REDACTED] proposed for funding to international donors, SIF or the SSF.</li> </ul> <p><b>Client contributions:</b></p> <p>In line with the Bank’s client contributions policy, dated 1 January 2021, cash contributions will not be provided considering the Client’s public ownership, as well as its inability to make such contribution due to the lack of funding in the public budget. However, a parallel contribution to the Project will be expected</p>

	<p>from the Client through the payment of operating and administrative costs of the PIU of around USD 500,000.</p> <p><b>B. Blended Concessional Finance</b></p> <p>The Project is proposed to be co-financed by an investment grant of EUR 5 million from the SSF 2023-2024 Work Plan. The SSF Co-investment grant fiche is attached as Annex 5.</p>
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[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

Development of human capital is among the top strategic priorities of Mongolia. Improving quality and access to healthcare and reducing mortality from cardiovascular diseases and cancer is one of clear objectives included in the country's Long-Term Development Policy (Vision 2050). It is also one of key United Nations appeals under Sustainable Development Goal 3 "Good Health and Well-Being" calling for a reduction of premature mortality from non-communicable diseases by one third by 2030. [REDACTED]. According to the World Health Organisation the probability of dying between the ages of 30 and 70 years due to cardiovascular, cancer, diabetes, and chronic respiratory diseases for an average Mongolian is 30 per cent while the global average is just 18 per cent.

Among many factors impacting good health, access to modern and efficient healthcare services is a crucial one. [REDACTED].

The Government of Mongolia recognises the need to invest more into critical regional healthcare infrastructure to ensure its sustainability, while improving the quality and efficiency of its services. Therefore, the Ministry of Health (the "MoH") wants to develop a new model regional hospital that can then be replicated across the country. It has selected the Darkhan Province (the "Province") to pioneer such initiative.

The Province is among two most densely populated regions of the country while there is only one medical institution, the Darkhan General Hospital (the "DGH" or the "Project Company"), that provides comprehensive medical services to the population free of charge.

The DGH facilities were built in 1972-1978 based on a Soviet standard and are now completely outdated. The condition and layout of the DGH buildings and departments does not allow for the provision of quality high-tech medical services. In particular, the hospital does not have MRI and angiography machines critical for diagnostics of leading causes of death in the country such as cardiovascular diseases, trauma, strokes, malignant neoplasms. Patients who require such services must attend specialised hospitals in Ulaanbaatar which is 250 km away from Darkhan.

The DGH facilities require substantial renovation. As such renovation cannot be carried out without interrupting the hospital's activities, the MoH opted for building a new energy efficient 250-bed general hospital in vicinity of the DGH on a vacant 5 ha land plot. The new hospital will feature new high-tech equipment, including MRI, angiographs, and X-rays.

The design of the Project will be resource efficient and meet the requirements of international environmental certification scheme EDGE. The Project will achieve annual primary energy savings of 32 per cent (or 38,920 GJ) compared with minimal national requirements for buildings' energy performance. By reducing energy consumption, the Project will avoid extra investment into heat generation and distribution and release extra energy to the private sector in Darkhan.

This makes the Project consistent with the Bank's Green Economy Transition Approach 2021-2025 and its "green buildings" thematic area aim to "accelerate the decarbonisation of buildings". The Project is one of the EU's Global Gateway flagship projects for 2024.



The Project is also consistent with the MEI Sector Strategy specific objectives, including “to increase access to essential municipal infrastructure focused on quality, resource efficiency, reduced environmental impact” through investments in “energy efficiency measures in public and residential buildings”, the Equality of Opportunity Strategy and the Strategy for the Promotion of Gender Equality.

The investment will promote equality of opportunity for the population in the Province by enhancing access to quality healthcare services by introducing high-end diagnostics technologies and treatments for leading causes of death in the country. The Project will also promote improved access to quality healthcare for women by introducing a GBVH awareness campaign, playrooms with dedicated staff to take care of children accompanying patients and breastfeeding-friendly spaces.

The Project will reduce regional disparities and unlock economic development of the Province by attracting internal migrants seeking accessible and modern social infrastructure not available in the regions and overstretched in the overcrowded capital city of Ulaanbaatar. The Project aligns well with the Country Strategy for Mongolia as it focuses on “improving quality, efficiency, and environmental sustainability of municipal infrastructure”.

To date, the Bank has only provided finance in the health sector through loans made to private sector counterparties (with the exception of Turkey Hospital Equipment Emergency Response project. The Bank has also provided loans to public sector entities to fund energy efficiency investments in hospital buildings (e.g., Energy Efficient Refurbishment of Zenica Hospital, Moldova Buildings Energy Efficiency, Pristina Public Buildings and Prizren Public Buildings Energy Efficiency).

In contrast to loans to private borrowers, loans to public sector entities, including EBRD’s sovereign member states, are generally permissible under Article 11.1(v) of the Agreement Establishing the Bank (the “AEB”), which permits loans “*for the reconstruction or development of infrastructure...necessary for private sector development and the transition to a market-oriented economy.*”

The Project involves the construction of a hospital building and therefore the development of a physical health care asset traditionally thought of as infrastructure. Under Article 11.1(v) of the AEB, such infrastructure must also advance private sector development and transition. Although it is ultimately up to the Board of Directors to decide which infrastructure that could advance private sector development should be funded by the Bank and which should be funded by other sources, the presence of a link between the Bank’s investment and its objectives to advance private sector development is supported by the following:

- Enhanced access to quality healthcare will boost productivity of human capital, reduce absenteeism, and cultivate a more resilient workforce. The new hospital will be the only hospital in the Province and will replace the currently outdated hospital facilities of Darkhan General Hospital. Good quality healthcare is crucial for the development of the private sector of the Province which contributes around 58 per cent to the Province’s GDP. The Project on its own will generate around 200 direct temporary jobs for engineers, managers and workers. In addition, private sector suppliers (for cleaning, catering and IT services) and private businesses servicing the Project employees (such as cafes and shops) are expected to hire staff.

- Engaging an experienced “design and build” contractor will move the risks of budget overruns and delays to a private party, ensuring that key development objectives of the Project are achieved. This will also facilitate knowledge transfer and skills development in the local market for works and services, as international private contractors are likely to partner with local design and construction companies.
- In addition, the Project will introduce a first regional public certified building in accordance with the international sustainable certification scheme (EDGE) in Mongolia. EDGE certification ensures that the Project performs at least 20 per cent better than the national standards in energy, water, and embodied energy in materials. The Project will contribute to Mongolia’s climate change mitigation targets by delivering primary energy savings of 38,920 GJ/year. Such considerable energy savings would result in increased energy availability for the private sector.

This Project also contributes to many UN Sustainable Development Goals (SDGs), namely: *SDG 3: Good Health and Well-being, SDG 5: Gender Equality, SDG 6: Clean Water and Sanitation, SDG 7: Affordable and Clean Energy, SDG 9: Industry, Innovation and Infrastructure, SDG 11: Sustainable Cities and Communities, SDG 12: Responsible Consumption and Production, SDG 13: Climate Action, and SDG 17: Partnerships for the SDGs.*

## 1.2 TRANSITION IMPACT

The table below sets out the TI Objectives and details of the project.

### Primary Quality: Green

Obj. No.	Objective	Details
1.1	The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance exceeds 50 per cent.	Investments in new buildings achieving adequate levels of certification are eligible for 100 per cent GET share. However, proceeds dedicated to the purchase of medical equipment are not assessed GET eligible, therefore, the Project’s GET share is 80 per cent.
1.2	The project introduces green products or technologies which are innovative at the client-level, and which meet a higher GET Handbook defined environmental standard applied in other countries of operation than the national threshold.	The Project will introduce a first regional public certified building in accordance with international sustainable certification scheme (EDGE) in Mongolia and will achieve energy performance Class A in accordance with national legislation (two levels higher than the baseline Class C). EDGE certification ensures that the Project performs at least 20 per cent better than the national standards in energy, water, and embodied energy in materials. The Project will contribute to Mongolia’s climate change mitigation targets by delivering primary energy savings of 38,920 GJ/year.

### Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	<i>AVAILABILITY:</i> The Project broadens service coverage to new users, strengthening economic participation with demonstrably high need and robust effectiveness	To promote access to quality healthcare services, the Project will facilitate the design and construction of a new 250-bed general hospital in Darkhan, featuring currently absent advanced diagnostics equipment in the region, including MRI and angiograph machines, broadening service coverage for 104,000 residents.

		Enhanced access to quality healthcare in the region will boost productivity and human capital by elevating the general health of the population, reducing absenteeism, and cultivating a more resilient workforce.
2.2	<b>AVAILABILITY:</b> The Project delivers inclusive business policies, practices or standards at the client level with verifiable commitment within 1-2 distinct behavioural change areas	The Project will also feature one behavioural change under inclusive design and delivery. The design of the new hospital will follow universal design principles to ensure accessibility of facilities for people of all ages and ability, including people with disabilities and individuals with reduced mobility. The inclusive design of the hospital will serve as a blueprint for future regional hospitals in the country.

**Delivery risks:** Delivery risks to transition impact relate to: (i) physical implementation of the Project, and (i) implementation of the ESAP actions and recommendations. These risks are mitigated by providing donor-funded technical assistance to the PIU to close the experience and capacity gaps in procurement, E&S reporting and to ensure tight construction supervision.

### 1.3 ADDITIONALITY

Identified triggers	Description
No triggers identified.	n/a
Additionality sources	Description of additionality sources
<b>Financing Structure:</b> - EBRD investment is needed to close the <b>funding gap</b> . At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them. - EBRD offers financing that is not available in the market from commercial sources on reasonable <b>terms and conditions</b> , e.g. a longer grace period. Such financing is necessary to structure the project.	<p>EBRD will address the funding gap for financing new public healthcare regional facilities in Mongolia. To date, all new public hospital facilities were built in the capital Ulaanbaatar. These include four hospitals and teaching centers built in 2012-2021 and financed by IFIs and donors (including WB, ADB and governments of Japan and the Republic of Korea). However, there is an acute need to upgrade or modernise regional healthcare infrastructure. Therefore the Bank's involvement complements other IFI and donor funding by broadening geographical reach and contributing to a more inclusive healthcare provision in Mongolia.</p> <p>EBRD will provide a loan with an 18-year tenor [REDACTED].. Such terms are not currently available from commercial banks.</p>
<b>Risk mitigation:</b> - EBRD helps the client to mitigate <b>carbon transition risks</b> and take climate action, such as to move along a low carbon transition pathway. - EBRD helps the client to mitigate <b>physical transition risks</b> and take climate action, such as to identify and manage physical climate risks and build resilience to them	<p>The Project will contribute to Mongolia's climate change mitigation targets by delivering primary energy savings of 38,920 GJ/year and reducing GHG emissions by 12,736 tCO<sub>2</sub>e/year (32 per cent reduction).</p> <p>The Project site is exposed to such physical transition risks, as flash floods and extreme temperature events. To mitigate these risks a set of adaptation measures has been introduced in the Project's design including advanced indoor temperature and air quality control systems, landscaping, on-site drainage infrastructure. For details please refer to Annex 2.</p>
<b>Standard-setting:</b> - Client seeks/makes use of EBRD expertise over <b>energy and resource efficiency and climate resilience financing</b> via provision of energy and climate audits,	<p>The Project is targeting EDGE certification, which will constitute an outstanding achievement given that this could be the first public regional building in Mongolia to obtain such a certification.</p> <p>Application of the EBRD PP&amp;R with the support of a dedicated PPAD Project Implementation Advisor helps the</p>

<p>minimum <i>performance</i> standards of technologies, climate-related strategies and policies, monitoring, reporting and verification (MRV) systems etc.</p> <p>- Client seeks/makes use of EBRD expertise on <b>best international procurement standards</b>.</p> <p>- GENDER SMART: Client seeks/makes use of EBRD expertise for the adoption of <b>gender standards and/or equal opportunities action plans</b></p>	<p>Borrower implement the Project efficiently and achieve most economically advantageous long-term outcomes.</p> <p>The Client will introduce a capacity building and awareness campaign in the hospital on preventing and mitigating GBVH risks for healthcare workers and patients, including bystander intervention and the use of grievance mechanisms. Furthermore, the Project will introduce specific actions to improve access to healthcare services for women through <b>i)</b> stakeholder engagement prior to the design stage with balanced representation of male and female participants, and underserved segments of the population (i.e. people with disabilities, single mothers), to evaluate their needs and incorporate them to the design of the hospital facility, <b>ii)</b> support parents and carers by introducing two playrooms in the paediatric department and <b>iii)</b> arrange breastfeeding-friendly spaces to provide privacy for breastfeeding mothers. The design and location of such spaces will be decided based on the information collected throughout the stakeholder engagement process.</p>
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#### 1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Fiscal/Macro-economic risk	<i>Mid / High</i>	Mongolia's political environment is dynamic and determined by multi-party democratic competition. The country's economic growth (4.8 per cent in 2022) is highly reliant on its mineral exports, and is likely to continue in the medium term supported by expanding mining projects and demand from China. Its public debt remains high (64.5 per cent of GDP in 2022) but manageable provided the Government keeps adhering to a prudent fiscal policy (fiscal balance was positive in 2022) and retains access to capital markets (as evidenced by successful refinancings of all sovereign debt maturing in 2023-2024).
Implementation risk	<i>Mid / High</i>	The MoH has completed four construction projects financed by IFI's in the past 5 years. However, its capacity to manage large complex greenfield construction remains limited. A dedicated PIU will be established under the MoH and international consultants will support the PIU with procurement, reporting and construction supervision. Application of EBRD PP&R and the Bank's prior review of the key procurement documentation should ensure selection of experienced and creditworthy contractors. A concept design of the new hospital has been prepared. Land is allocated and confirmed suitable for the Project.
Cost over-run risk	<i>High / Mid</i>	The Project costs have been estimated by an independent consultant as part of the feasibility study completed in 2023 and are up to date. However, due to a long-term construction period of 4-5 years and remote location of the Project future cost escalation is possible. A turnkey D&B contract with one single contractor will be tendered to mitigate cost overrun risks.

## 2. MEASURING / MONITORING SUCCESS

### Transition Impact Monitoring Indicators

#### *Primary Quality: Green*

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	New or updated GET technology or product leading to resource efficiency introduced [Covenanted]	Green building certification “EDGE Certified” received	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Energy intensity (KWh/m2)	At least 20% reduction in specific energy consumption achieved.	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Water use (m3/year)	At least 20% reduction in water consumption achieved.	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Primary energy saved (GJ/year)	At least 20% reduction in primary energy consumption achieved.	[REDACTED]	[REDACTED]	[REDACTED]
1.5	CO <sub>2</sub> e emissions reduced (tonnes/year)	At least 20% reduction in Scope 2 CO <sub>2</sub> e emission achieved.	[REDACTED]	[REDACTED]	[REDACTED]

#### *Secondary Quality: Inclusive*

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	Expanded access to infrastructure	New hospital facilities are commissioned offering better quality of healthcare services and access to advanced high-tech diagnostics locally.	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Number of individuals with improved access to healthcare	Number of beneficiaries with access to new/improved healthcare services upon project completion.	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Practices of the relevant stakeholder improved (inclusive infrastructure services/design)	The design of the new hospital will follow universal design principles. The inclusive design of the hospital will serve as a blueprint for future regional hospitals in the country.	[REDACTED]	[REDACTED]	[REDACTED]

#### **Additional Indicators**

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Gender SMART	Practices of the relevant stakeholder improved (inclusive infrastructure services/design)	The Project will improve access to healthcare services for women through i) incorporating their preferences into the design of the hospital, ii) introducing two playrooms in the paediatric department with appointed professionals to care for children and iii) arranging breastfeeding-friendly spaces.	[REDACTED]	[REDACTED]	[REDACTED]
Gender SMART	Practices of the relevant stakeholder improved (addressing violence, harassment and bullying risks)	The Project will introduce a capacity building and awareness campaign in the hospital on the topic of preventing and mitigating GBVH risks, including bystander intervention and the use of grievance mechanisms.	[REDACTED]	[REDACTED]	[REDACTED]



### 3. KEY PARTIES

#### 3.1 BORROWER

The Bank will extend the loan to the Government of Mongolia. This will be the Bank's seventh sovereign project in the country. The Project will be financed under the USD 300 million Framework Agreement (the "FA") signed between the Bank and the Government of Mongolia on 9 April 2019 and it will fully utilise the remaining available headroom under the FA.

#### 3.2 PROJECT IMPLEMENTING AGENCY

The Project will be implemented by the MoH through a dedicated PIU. It will be established and funded by the MoH. It will oversee the Project implementation and reporting until physical completion of the Project. The MoH will also finance, procure or provide in kind additional medical and hospital equipment required for the Project's facilities to be fully operational. Upon commissioning the new hospital facilities will be handed over to the Project Company.

#### 3.3 DARKHAN-UUL PROVINCE

The Darkhan-Uul Province is interested in the Project as it will improve quality and availability of health care services in the region. It will be responsible for providing the required associated infrastructure for the Project, such as power, heat and water supply networks, access road and drainage channel. Under national laws the Province can also provide funding to the Project Company from the local budget in case of need (to supplement the funding it receives from the state Health Insurance Fund (the "HIF")). [REDACTED].

#### 3.4 PROJECT COMPANY

The Darkhan-Uul General Hospital is a state-owned legal entity. Currently, the hospital has a 400-bed capacity and employs over 500 medical and civil service staff. In 2021 the hospital registered 211,000 visits and 17,000 admissions, including 2,500 admissions from neighbouring regions. The DGH is fully funded by public funds, and from 2022 the sole source of the financing comes from the HIF, as well as grant aid and own income. [REDACTED].

The DGH is the current owner of the land plot allocated for the Project. Upon the commissioning of the new hospital the DGH will become the asset holder of the new facilities. The DGH will be responsible for providing medical services, operating and maintaining the hospital buildings. The existing facilities of the DGH will be decommissioned, demolished or repurposed, except for the recently built maternity ward.

### 4. MARKET CONTEXT

The healthcare system of Mongolia is organised in line with the administrative structure of the country with community health workers (feldsher) at bag level, rural soum hospitals (4-15 beds), provincial-level secondary hospitals (150-200 beds), and tertiary care hospitals located in Ulaanbaatar. All individuals have access to the primary health care level with the state taking responsibility for care provision and its funding. Secondary and tertiary health services are delivered by regional and district general hospitals, respectively.

Financing of healthcare comes from the HIF. It pulls funding from the state budget and mandatory insurance payments paid by citizens and companies. It acts as a single purchaser of healthcare services from both public and private providers. From 2022 all provincial hospitals (including the DGH) have been fully transferred to a fee-for-service scheme, with nearly all their revenue now coming from the HIF.

Capital investment into modernising healthcare facilities remain to be funded from the state budget. The Government of Mongolia has been attracting foreign aid / international funding for such investments. To date, all new public hospital facilities were built in Ulaanbaatar. These include four hospitals and teaching centres built in 2012-2021 and financed by IFIs and donors (including WB, ADB and governments of Japan and the Republic of Korea). However, the need for modernisation of healthcare facilities in the regions remains acute.

## **5. FINANCIAL / ECONOMIC ANALYSIS**

### **5.1 FINANCIAL AND ECONOMIC ANALYSIS**

[REDACTED]

### **5.2 SENSITIVITY ANALYSIS**

[REDACTED]

### **5.3 PROJECTED PROFITABILITY FOR THE BANK**

[REDACTED]

## **6. OTHER KEY CONSIDERATIONS**

### **6.1 ENVIRONMENT**

Categorised B (ESP 2019) and Low-Medium Risk as the Environmental and Social (E&S) risks associated with financing the design, construction and equipment outfitting of a 250-bed capacity general hospital on a greenfield site will predominantly be site-specific and readily addressed through mitigation measures in the Project's Environmental and Social Management Plans (ESMPs).

The new hospital will have healthcare benefits by relieving capacity constraints on the current Darkhan-Uul Province General Hospital which is adjacent to the Project site. It will also provide diagnostic and treatment services currently unavailable to the catchment population. The concept design of the hospital has been based on specifications of a newly built secondary care model hospital in Ulaanbaatar adopting international standards for the use of high-tech diagnostic procedures and low-invasive treatment methods, creation of a patient-friendly hospital environment and focus on patient safety. Darkhan-Uul Province General Hospital will move into the new hospital and be committed to E&S obligations through a management agreement with the MoH. In compliance with national law, a general environmental impact assessment screening will be submitted in H1 2024. Following this, it is expected the Project will require a detailed environmental impact assessment approval from the Ministry of Environment and Tourism of Mongolia.

Environmental and Social Due Diligence (ESDD) has been carried out by an independent consultant confirming the main E&S impacts relate to temporary construction risks including noise, traffic and health & safety which will be mitigated through appropriate measures in a Construction Environmental and Social Management Plan (CESMP). E&S requirements will be transferred to the construction contractors through contractual obligations. Worker accommodation will not be required, and the Client will be committed to developing its Human Resources (HR) Policy to comply with the Bank's performance requirements for labour and working conditions. A Non-Technical Summary and Stakeholder Engagement Plan to be disclosed will manage engagement activities and establish a community grievance mechanism. Stakeholders will be engaged to mitigate the impacts of disturbance, community health and safety and enhance economic opportunities during construction and operation. No resettlement or economic displacement is expected.

The proposed hospital will adopt a range of energy efficiency measures and be certified as a Class A facility based on the national building thermal performance code and be committed to EDGE certification. The new hospital will have suitable cleaning and disinfection units and sewage will be treated at the city's wastewater treatment plant, which is modern and compliant with IFI requirements. The Project does not have sensitive biodiversity receptors and is not in proximity to designated areas. The area to the west of the Project site is planned to be a green area (a park zone) and opportunities for the Project to benefit this are being explored. Flood protection channels in the Project area have deteriorated. These will be restored and restructured based on recommendations from an additional hydrological study. No significant cultural heritage impacts are expected although there will be a chance finds procedure in place.

An Environmental and Social Action Plan (ESAP) has been agreed with the Client and it will require the Client to meet the Bank's Performance Requirements (PR's). This will include provisions to create an Environmental and Social Management System (ESMS) aligned to ISO standards.

There are several new or refurbished associated facilities for main and backup power lines, heating supply lines, and water supply lines, as well as a sewage pipeline; a telecommunication cable; two access roads to the Project site; and reconstruction of the existing municipal flood protection network near the Project site. No significant negative impacts of these have been identified and potential impacts are assessed as minor after mitigation. Darkhan-Uul Province will be responsible for the associated facilities. This commitment will be included in the management agreement with Darkhan-Uul Hospital and the Ministry of Health to ensure commitment to E&S obligations. The area to the east of the Project site will be subject to a residential development and mitigations at the design stage will be assessed including appropriate scheduling of construction activity to reduce cumulative impacts. Two alternative hospital concept structures meet the national legislation and good international practice.

ESAP implementation will be monitored through regular ESAP updates during construction, Annual Environmental and Social Reports (AESR) and site visits, if necessary.

## **6.2 INTEGRITY**

In conjunction with OCCO, integrity due diligence was undertaken on the Ministry of Finance, the Ministry of Health of Mongolia, the Governor's Office of Darkhan-Uul Province, the Darkhan General Hospital and other relevant parties, including senior management and officials of the aforementioned parties relevant to the Project. [REDACTED].

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

## **6.3 OTHER ISSUES**

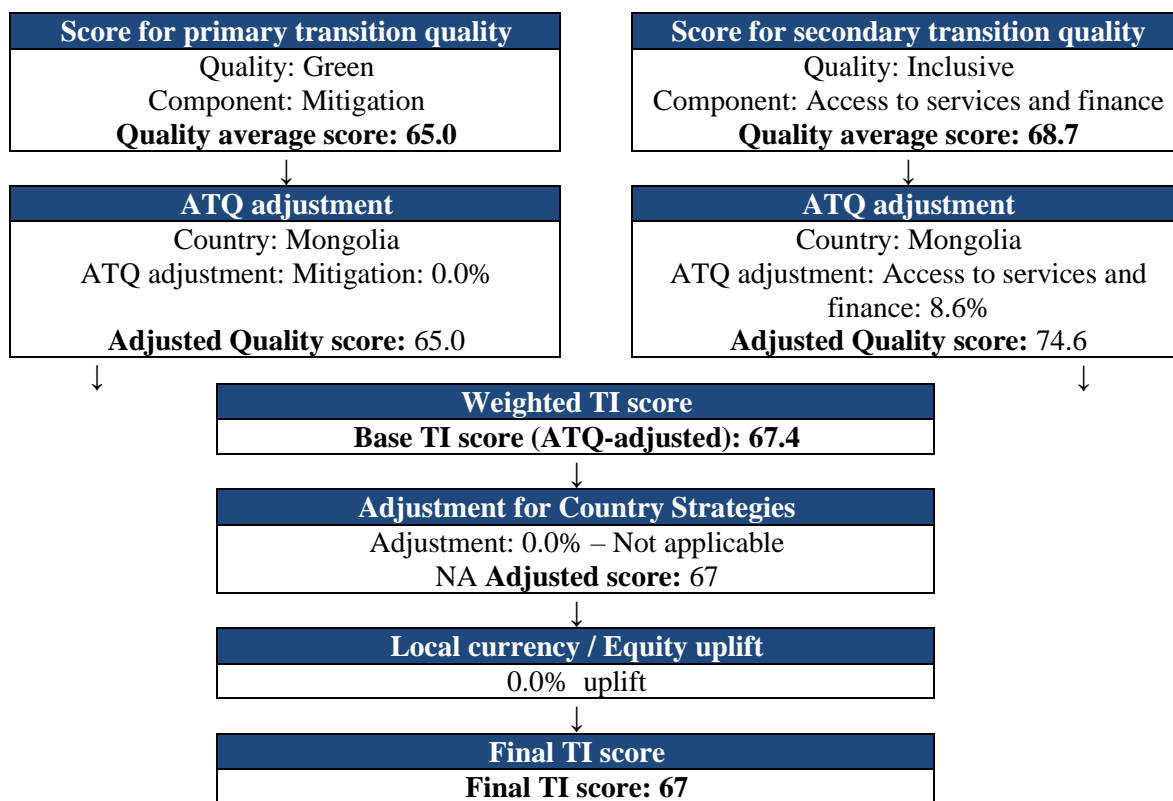
A co-investment grant of EUR 5 million is required to fill in the current funding gap for the Project and assists the Borrower with maintaining public debt at sustainable level in line with the IMF requirements. The use of grant will support adoption of enhanced resource measures necessary to achieve EDGE-certification for the Project and make high-tech diagnostics accessible for the local population of the Province. The use of the investment grant in this Project will not distort the market, but reduce regional disparities in healthcare provision in Mongolia.



**ANNEXES TO OPERATION REPORT**

ANNEX 1	TRANSITION IMPACT SCORING CHART
ANNEX 2	GREEN ASSESSMENT
ANNEX 3	PROJECT IMPLEMENTATION
ANNEX 4	PROJECT EIRR
ANNEX 5	SSF CO-INVESTMENT GRANT FICHE

## ANNEX 1 – TRANSITION IMPACT SCORING CHART



## ANNEX 2 – GREEN ASSESSMENT

### SUMMARY

- The Project entails a sovereign loan to Mongolia for the construction of green building certified hospital facilities for around 250 beds in the city of Darkhan, Mongolia.
- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement**.
- The Project is attributed **80 per cent GET**.
- Climate-related financial risks have been assessed resulting from **CT score** of 2 and **PC score** of 2.

### PARIS ALIGNMENT ASSESSMENT

#### *For Direct finance projects*

#### *Alignment with the mitigation goals of Paris Agreement -General screening*

The Project is determined as aligned with the mitigation goals of the Paris Agreement based on the application of the Bank's Paris alignment approach for direct finance.

- The Project's activity is **included** in the 'MDBs' 'aligned list' under the category 'buildings'.
- There are **no** activities included in the 'non-aligned list'.
- Applicable additional or specific conditions associated with the 'aligned' project/economic activity **have** been met (green building certification "EDGE Certified").

#### *Alignment with the adaptation goals of Paris Agreement*

The Project is determined as aligned with the adaptation goals of the Paris Agreement as it satisfies all three steps of the assessment. All material physical climate risks such as extreme heat, flash floods, and wildfires have been addressed. The Project incorporates adaptation measures to ensure assets and users are resilient to such risks: (i) advanced heating, ventilation, and air conditioning (HVAC) systems with an automated control for the indoor air temperature, (ii) construction of on-site drainage infrastructure and fire-fighting strips, and (iii) development and implementation of an Operations Emergency Preparedness and Response Plan, considering, *inter alia*, natural hazards.

### GET ATTRIBUTION

The Project is attributed 80 per cent GET. This share has been calculated in line with the GET guidance for new buildings.

- The Project is attributed climate and environment GET finance. The proceeds dedicated to the construction of a green building certified hospital facilities qualify for 100 per cent GET climate and 40 per cent GET environment, since the building will be designed and constructed in line with the requirements of green building certification EDGE Certified level.<sup>3</sup> The building will also achieve energy performance Class A in accordance with national regulations (two classes above the minimum requirement of Class C).

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<sup>3</sup> This level of certification corresponds to reduction of energy, water consumption and embodied carbon by at least 20% compared to national minimum requirements.

- [REDACTED]The main estimated GET impacts expected out of the investment are:
  - Climate change mitigation (GET climate):
    - primary energy savings and related scope 2 GHG emissions reduction of approximately 32 per cent.
  - Climate change adaptation (GET climate):
    - increased resilience to extreme temperatures, a relevant trend at regional level, thanks to advanced indoor temperature and air quality control systems and landscaping measures, positively impacting the health of the hospital users;
    - increased water availability of 4,430 m<sup>3</sup>/year (22 per cent reduction) in a context of projected increase in drought and water scarcity risk (currently low), thanks to efficient sanitary equipment;
    - reduced damage to the hospital's structure and reduced disruption to its operations in case of flash floods and wildfires, thanks to physical risk mitigation measures introduced as a result of the due diligence findings.
  - Sustainable use and protection of water and marine resources (GET environment):
    - substantial quantified water savings compared to the baseline building, as mentioned above.

## ANNEX 3 – PROJECT IMPLEMENTATION

### Procurement classification – *Public [sovereign]*

[REDACTED]

The Client's procurement and implementation capacity has been assessed by the Feasibility Study Consultant as well as discussed by the Bank's operational team during a meeting with the Client in November 2023. The Ministry of Health (the Project Executing Agency) has a previous experience of implementing IFI funded projects. In particular, the construction of Songinokhairkhan District Hospital financed by ADB that was completed in 2021. [REDACTED]. For the Darkhan Hospital Project the MoH has appointed a dedicated interim project manager to coordinate the advance procurement of the Project Implementation Support Consultant (PIS) as well as selection of the PIU staff, with the assistance of a Bank TC funded individual procurement advisor.

*Contracts risk assessment*

***Moderate high***

The Project capital expenditure component consists of one Bank financed contract, where the works will be based on FIDIC Conditions of Contract for Plan and Design-Build (Yellow Book), with a single contractor responsible for the detailed design and construction of the project infrastructure as well as supply of a major heavy medical equipment.

The MoH has implemented the previous similar ADB funded project based on FIDIC Pink Book with 3 separate contracts for concept design, detailed design and construction. Though the MoH has certain experience with contract management under FIDIC standards, due to the fact that the current contract is to be managed by the PIU, which is yet to be set up, the contract risk is assessed as moderate high.

#### **Project implementation arrangements:**

The MoH will be a Project Implementing Agency based on the financing documents. It will establish a PIU with overall responsibility for the Project's implementation. [REDACTED] [A] TC funded Project Implementation Support (PIS) consultant will be mobilised to assist the PIU in, among others, preparing tender documents, managing tender for works, assisting with E&S related activities and loan reporting. An individual procurement advisor will be contracted by the Bank to support the MoH in selecting the PIS consultant as well as the PIU staff. Moreover, a TC funded Supervision Consultant will assist the PIU in supervising design and construction works and will act as the FIDIC Engineer.

#### **Procurement arrangements:**

The Project is classified as public sector for procurement purposes.

The works contract will be financed from the loan and grant proceeds and will be procured via electronic portal ECEPP using a prequalification phase and a multi-stage procurement procedure in accordance with the Bank's Procurement Policies and Rules Section III Article 3 and using the Bank's Standard Tender Documents for Works. The major works contract will be subject to a Selective Review.

All consultancy contracts will be procured via ECEPP in accordance with the EBRD PP&R Section III Article 3.

All loan-financed and grant-financed contracts will be subject to prior review by the Bank.

The Procurement Plan below provides the details of planned investment and consultancy assignments. No derogation from the Bank's Procurement Policies and Rules is proposed.

**Additional information:** n/a

[REDACTED]

## **ANNEX 4 – PROJECT EIRR**

[REDACTED]

## **ANNEX 5 – SSF CO-INVESTMENT GRANT FICHE**

[REDACTED]