

Funding of New Housing Development in Mongolia

The Housing Development Fund

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Introduction

Mongolia

Mongolia is situated in Central Asia and has an area of 1,655,000 square kilometres, a population of 2.4 million and 535.3 thousand families. Population density is 1.45 people per square kilometre. Mongolia is a sparsely populated country.

Gobi, steppe and plains. Under the Constitution of Mongolia, our

country is administratively divided into 21 aimags (provinces), 343 soums (counties), and the capital city. However, it contradicts the Law of Mongolia on Legal Status of Cities, Towns and Villages. This matter is discussed by the Parliament according to the proposals made by people. Although, under the Constitution, Mongolia has one city (which is the Capital City), one third of our population live in the capital city and 82.7 % of the population live in urban areas.



Figure 1, Map of Mongolia

Urbanization Process

According to a quotation from the history of development of urbanization and settlement, as of 1921 (after revolution), 9.0 % of total population lived in urban areas and there were no civil infrastructure, except telecommunication department, newspaper and publisher and no road, except tracks of cattle in the vast territory of Mongolia.

From the mid-1940-ties, the capital city started to thrive and from the beginning of 1960-ties, Darkhan and Erdenet cities were founded. Thus, urbanization has intensified.

Currently, 30.0% of total population of Mongolia and 48 % of population of Ulaanbaatar city live in apartments with complete civil supplies.

Table No. 1, Population by Residence

Names of cities, towns and villages	Real indices	
	Thousand people	Total population (%)
Ulaanbaatar city	735	31
Darkhan, Erdenet and Choir	144	6
Aimag (province) centres	369	15
Towns and villages	74	3
Soum (county) centres (rural villages)	664	28
Rural areas (herders)	414	17
Total population	2 400	100

The table above the population distribution in the country, where it can be seen that urban population is 52%; towns and rural villages is 31%, and rural population is only 17%

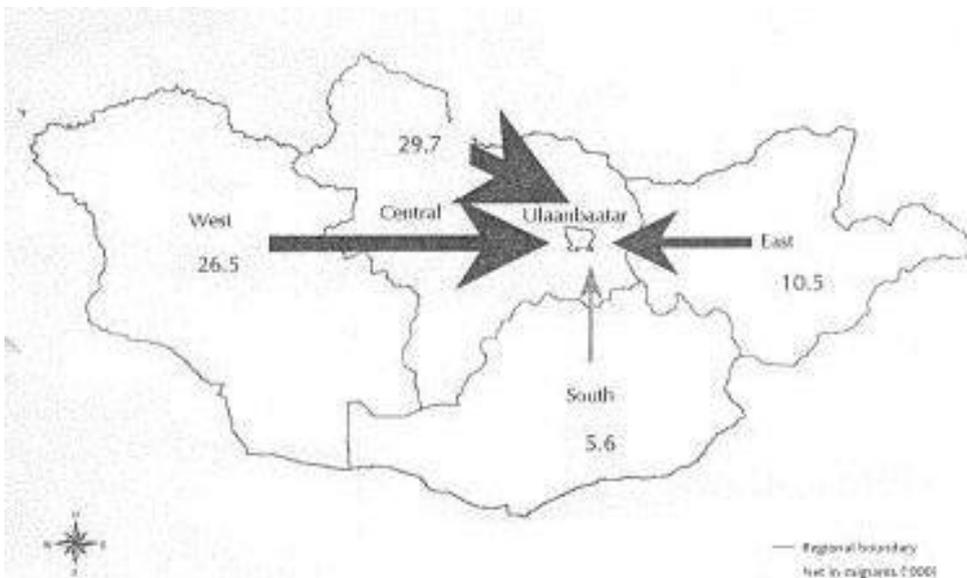


Figure 2, Migrants to Ulaanbaatar per region, thousand persons 1995-2000

The next table shows a comparison between the housing situation in Mongolia, and that in Ulaanbataar.

Table No. 2 Current Housing Situation

Indices	Std	Current indices		Notes
		Mglia	UB	
Total population (thousand people)	-	2400	735	
Residents of apartments with centralized civil supplies (1000 people)	-	720	353	Capital, Darkhan & Erdenet – 80% Villages – 80 % Agriculture – 60% Soum centre–70%
Total area of apartments with full civil supplies (%)	65	30	48	
Supply of housing (m ² / person)	9/10 0.5	6	7	Hygienically permissible ratio is 10.5 under SNIP-II-60-79.
Area with buildings (Ha)	-	-	1347	There is lack of nationwide information. Standards for 5-story buildings are used.
Average floors	-	-	5	
Density of area of apartments (m ² /ha)	370 0	-	178	
Houses with land (Ger/Mongolian traditional dwelling Block)	1000 families 1000 people	-	84	
Area of Ger Block (Ha)	-	-	4705	
Density of population of Ger Block (people/Ha)	-	-	81	
Total families (1000)	-	535	161	
Family coefficient (people/families)	-	4	4	

Level of supply of housing is 30% in Mongolia. Area of housing per person is 31.2 % lower than the standards. Within the capital city, Ulaanbaatar, level of supply of housing is 48 % and area of housing per person is 24.4 % lower than the standards.

Apartment houses with 92.2 thousand m² area and 73.9 thousand m² living areas are built annually and the population of our country increases by 1.4 % (average) annually in terms of net normal growth.

Since Mongolia switched into market system, social and economic changes have taken place and those changes have affected living conditions, locations and migrations of population of our country.

The feature of migration of population of the last decade is intensive urbanization and migration to places or cities with more market opportunities, higher densities and more consumers, located along the highroad.

Whereas immigrants to the central region and Ulaanbaatar city comprise 25.9-66.7 % of total immigrants, most of emigrants come from western (42.6%) and central (29.4%) regions.

As migration increased, there was concentration of population in the capital city.

Therefore, after making analysis on settlement and urbanization of population, I found out the following:

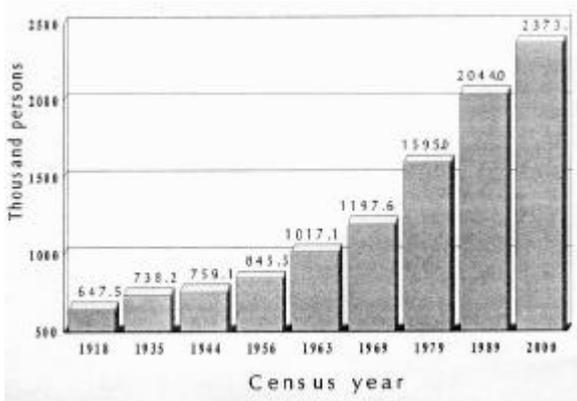


Figure 3 Population Growth

Table No. 3 Migration of Mongolia for 2000

Regions	Population, who have not taken part in migration	Immigrants (%)	Emigrants (%)	Net migration
Ulaanbaatar	491	269 (66.7)	35.2 (8.7)	+233
Eastern	191	11 (2.7)	38.6 (9.6)	-28
Western	502	4 (1.4)	171.9 (42.6)	-168
Southern	146	15 (3.6)	31.3 (7.8)	-17
Central	638	105 (25.9)	118.7 (29.4)	-14
Foreign countries			7.8* (1.9)	-8
Total	1970	403	403	0

Note: *- Emigrants of the capital city of Mongolia to foreign countries

Housing Market

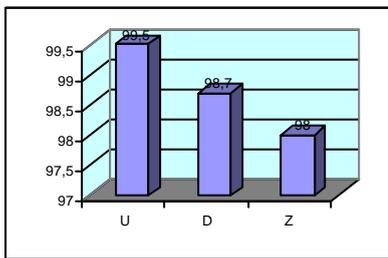


Figure 4 Need to Improve Neighbourhood Layout and Infrastructure

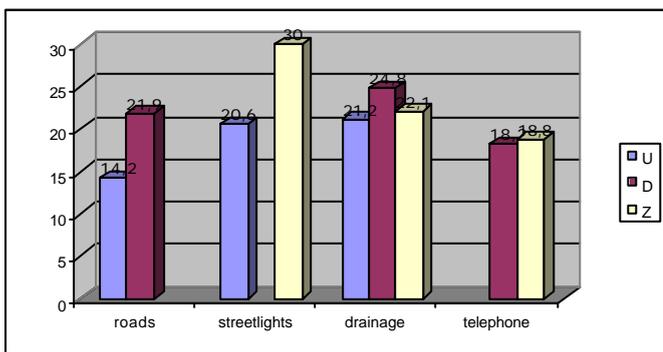


Figure 5 Infrastructure Improvements

Demand for Owner Built Housing

The next four figures illustrate the demand from the household side.

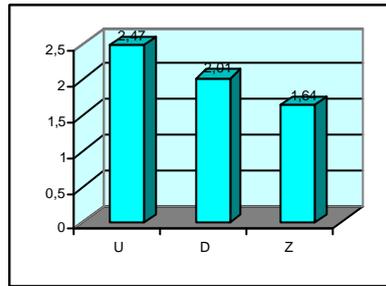


Figure 6 Average Number of Living Rooms Desired

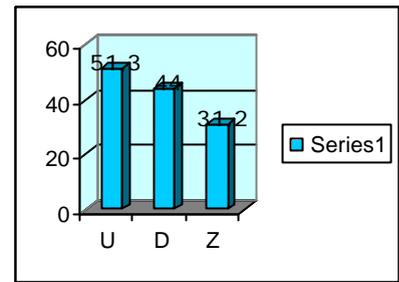


Figure 7 Average Size Area Demanded

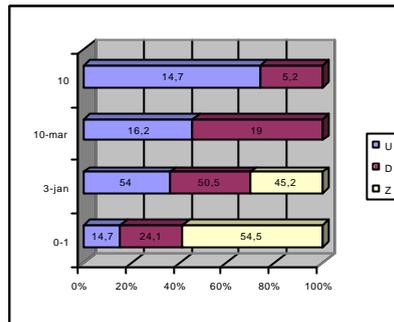


Figure 8 Anticipated Cost of Construction per House (Tug million)

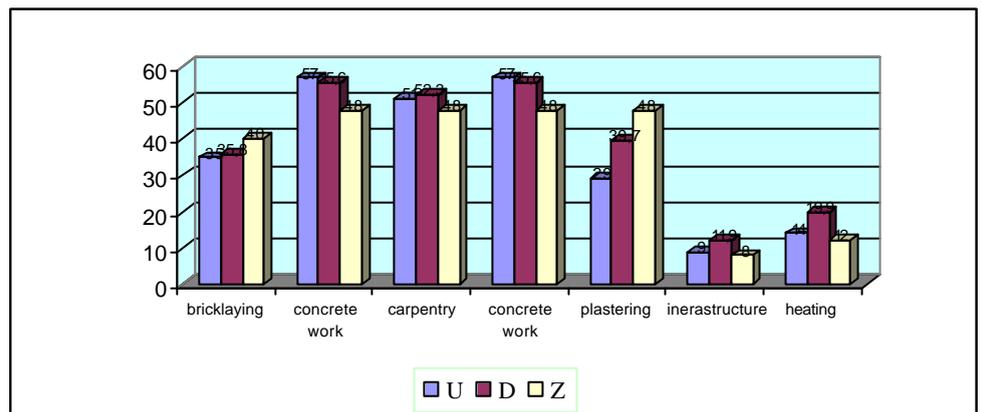


Figure 9 Percentage of Households with Building Skills

Neighbourhood Upgrading

The following six figures illustrate some urban problems reported by households to the municipality

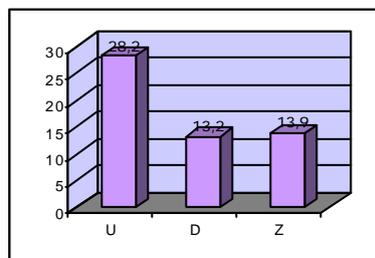


Figure 10 Inadequate Water Supply

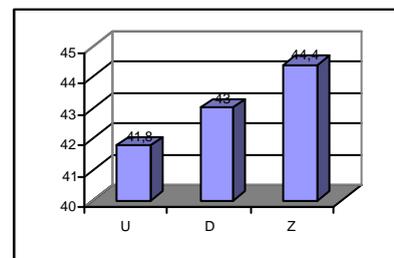


Figure 11 Poor Solid Waste Collection

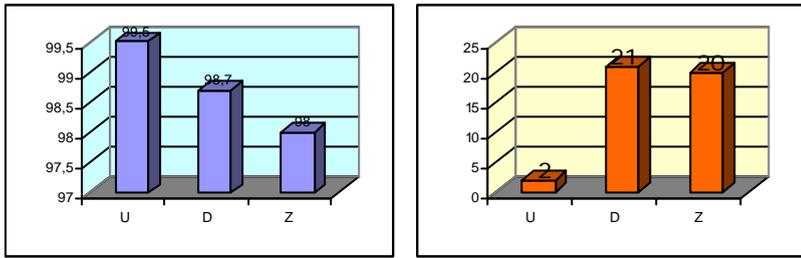


Figure 12 Flooding Figure 13 Households Having Contacted the Municipality for Improvements

Housing Occupation Characteristics

The following figures illustrate the housing occupation in the main three cities. Ulaanbataar (U), Dakhan (D) and Zuunmod (Z)

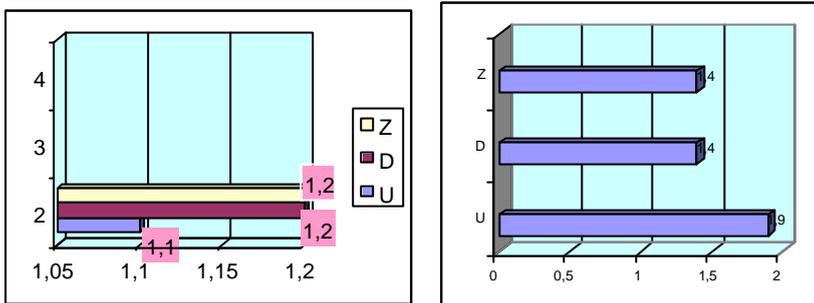


Figure 14 Housing Occupation Characteristics Figure 15 Household per Plot

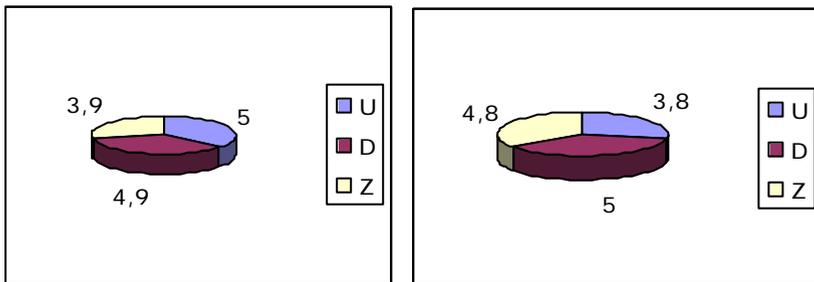


Figure 16 Persons per Room Figure 17 Living Area per Person (m²)

One of the factors in living of people in their home areas comfortably is enhancement of their housing supply.

Projects of general partial plans for several apartment blocks to be built by the investment of the USA, Japan and the Republic of Korea have been made. Mongolia has paid considerable attention to housing supply, for example, Mongolia has been implementing “Low-cost housing projects” funded by the loans of the World Bank and Asian Development Bank. One of the projects is project of “Improvement of Housing Supply of Population”, which will be financed by the World Bank. The amount of financing of the project:

Table No. 4, Million US Dollars

Total	In the Capital City	In rural areas and local cities and towns
15	10	5

The most important factor in supply of comfortable housing for population and enhancement of housing supply is provision of civil infrastructure.

Therefore, in order to provide conditions for building of houses, 40.0 % of total amount of 10.0 Million US Dollars to be implemented in Ulaanbaatar city will be spent on improvement and creation of civil pipelines. The remaining 6.0 million US Dollars will be lent to employed people as a 5-7 year loan with annual interest of 5.0 % or to business entities and companies, engaged in building of housing as credit or bond.

Thus, over 1300 families will be supplied with housing within the framework of the project and about 400 families will improve their housing conditions.

Analysis and Problem Definition

In order to implement the housing project and provide adequate housing, the government should:

- 1 Pay attention to creation of civil infrastructure
 - Project and scheme provision
 - Give business entities and companies specialized in the field, loans as bonds and monitor and control the project implementation
 - Set up working groups consisting of specialists in two directions, i.e. allocation and monitoring
- 2 Determine the living standards of population properly and classify the loan allocation conditions
- 3 Study and implement possibility to give allowance through salary and tax policies
- 4 Study and implement possibility to provide low-income families and large families with low-cost housing and monitor its implementation
- 5 The government should monitor the building management
- 6 *The creation of financial mechanisms*

The last point will be the subject of this paper and will be developed in the following sections.

Background of Housing Development Fund Regulations

- These norms shall regulate the composition, planning, managing, operating, disbursement, reporting and monitoring activities of the Housing Development Fund /HFD.
- Purpose of the HDF is to develop a national housing finance system and finance developments and improvements of the housing stock and related infrastructure.

Composition of HDF

Sources of funds:

- Budgets of State, aimags (small cities), and cities;
- International organizations and foreign countries;
- Loan repayment and interest on deposits;

- Earning from the difference between the cost of funds borrowed from the Ministry of Finance and Economy /MOFE/ and rate of those relent to the commercial banks /PCBs.

Uses of the Funds

- Provision of loans to low and middle-income individuals and public/ private enterprises for the purchase, construction, renovation and upgrading of private houses;
- Provision of loans to low and middle-income individuals and public/ private enterprises for the purchase, construction, renovation and grading of apartment;
- Provision of loans to local governments to develop Housing Action Area Plans /HAAPs/ including infrastructure and services for new and upgrading HAAP schemes.

Actors

HDF Participants

As the national housing development fund, the HDF will be composed of various participants as follows:

- Participating commercial banks, the eligibilities of which will be determined;
- Lending intermediaries, namely , public and private enterprises, which have adequate assets and collateral and who wish to borrow for on-lending to their employees/ staff;
- Small and medium-scale contractors with experience in housing construction and with adequate assets and collateral who wish to construct housing projects for sale on the open market or sale to public or private enterprises;
- Condominium associations which have adequate assets and collateral and who wish to borrow for improvement to members apartment blocks and/or related infrastructure;
- Local governments, either cities or aimag centres, who wish to borrow through;
- Community-based organizations /CBOs/ who wish to participate in HAAP;
- Architects, planners and building technicians who will assist PCBs, lending intermediaries, and final borrowers in project planning, design and inspection.

HDF Operations

The HDF will carry out the following types of lending through eligible PCBs, as defined in selection 3.3.1 above, and through loans on the budget to local governments.

- Loans to low and middle income households, the income definitions of whom will be determined annually by the Board based on data from the National Statistics Organization. Loan collateral for such loans will be the immovable property and/or land licenses of the borrower.

- Loans to public and private enterprises for on-lending to their employees and staff. Loan collateral will be the assets and/or annual cash flow of the enterprise and for housing projects to be built.
- Loans to small and medium scale contractors for the construction, renovation and upgrading of private houses and apartments. Loan collateral will be assets and/or cash flow of the contractor.
- Loans to condominium associations for improvement to members' apartment blocks and/or related infrastructure. Loan collateral will be the association's cash flow and/or apartment ownership certificates of the members.
- Loans to local governments for the developments of HAAP schemes including infrastructure and services for new and upgrading HAAP schemes. Loans to local governments will be through the national budget and annual loan repayments will be included in the budget of the respective local government.

HDF lending procedures will be based on the following:

- The HDF will relent funds to PCBs at an annual interest rate determined by the Board and agreed to by the MOFE.
- The size of loans to PCBs will be determined by loan packages composed of approved loans to enterprises, small and medium-scale contractors, condominium association and individual households submitted to the HDF by the PCBs.
- PCBs will repay the loan in quarterly instalments at the agreed upon rate for up to seven years. To allow for delayed repayment by sub-borrowers from the PCBs, a time lag of up to two years will be allowed for repayment from PCBs to the HDF.
- PCBs will on-lend funds to individual households, enterprise and condominium association, sub-borrowers at market-based rates composed of the cost of funds from the HDF plus a mark-up to cover loan processing expenses, an adequate risk premium and a reasonable margin for maturities of up to 7years.
- Based on approved low to middle income housing projects, PCBs will on-lend construction loans to small and medium scale contractors at similar market-based rates as loans to individual and enterprise sub-borrower for a duration of up to 2 years.
- Lending criteria for low-income families will be based on household income
- For the implementation of HAAP schemes, HDF will on lend funds to local governments at an interest rate and a maturity of up to twenty years to be determined by the Board and approved by the MOFE. The long maturity of the loans will allow local governments to create a revolving fund for HAAP schemes

Monitoring, Reporting, and Auditing

- Monitoring of the end use of all loans will be periodically carried out by the HDF through the inspection of PCB and local government accounts as well as on-site field inspections.
- The HDF will submit semi-annual reports to the Board, international organizations, and foreign countries, as appropriate, on all HDF operations and activities.

- Based on the Board decision, the HDF will arrange for annual audits of HDF account at MOFE, and BOW, PCBs will arrange for external audits by international accounting firms, which HDF staff will review.

Conclusions and Recommendation

From the above study, we can get the following conclusions and recommendations.

- Increasing immigrants to the central and Ulaanbaatar resulted in very serious housing provision shortage problem which the local governments have to confront with.
- In providing comfortable and favourable living conditions, governments should have reliable financial sources and establish or support to establish civil infrastructure in the related cities and towns.
- Housing development fund regulations (HDF) should be a good try to develop a national housing financial system and to support the development or improvement of the housing stock and related infrastructure.
- The sources of HDF can be from the central and local government at home and abroad, international organizations (WB, UNDP, etc.), donators, loan repayment and interests, etc.
- The users of HDF should be low and middle-income individuals, related enterprises, qualified contractors, condominium associations, local governments, and so on.
- HDF lending procedures should be simpler, more effective and more convenient to the users and monitors.

References

The United Nations Population Fund – UNFPA in Mongolia.
Strategy for Privatization of Housing in Ulan Bator, Mongolia.