

PJ-ABT-974
IN 93045

STATE PRIVATIZATION COMMISSION

HOUSING REFORM STRATEGY FOR MONGOLIA

1993-1995

1. Goal

The overall goal is to establish a market oriented housing sector.¹

Once the goal has been achieved, all the people of Ulaan Baatar and other cities will live in housing that they can afford and quantitative and qualitative shortages will only be temporary while the market oriented supply system adjusts to new demands.

2. General Objective

The general objective of the 1993-95 Housing Reform Strategy is to establish the initial conditions for a market oriented housing system in Ulaan Baatar by privatizing as much of the existing stock as market conditions make possible, progressively increase rents to market levels, and privatize the management of the the state-owned rental stock.²

Once the objective has been achieved between 10 and 20 per cent of households will have become the owners of the housing they now occupy, mainly through the condominium approach; the rest of the households will rent their housing, most from the state but an increasing proportion from private landlords. Rents will be market rents and houses will be sold at market prices. Housing allowances will be given to all households according to income, including ger dwellers. There will be private sector management of the state-owned housing. The most efficient of the current Housing Authorities will continue as private management companies; the rest of the stock will be managed by new private companies. The Housing Company will

¹ A program contributes to the achievement of a goal but does not itself completely achieve the goal. Many other reforms outside the scope of this program will be required to achieve this goal: land use planning that is more sensitive to real demand, a more competitive building industry, market pricing of infrastructure and infrastructure standards that are realistic, better management of infrastructure provision, and so on.

² The general objective should be achievable through the program alone.

represent the state as owners of the housing, will monitor the performance of the housing management companies and will be responsible for bidding and rebidding contracts. The Company will be selling off the state-owned stock in accordance with consumer demand. Owners will be able to borrow from the Housing Fund to buy their homes and to upgrade them. Private sector construction companies will also have access to borrowing from the Fund.

3. Specific Objectives

Objective 1: Introduce market pricing of housing

There is already market pricing for some housing: the new, the small amount of newly constructed housing, and some privately rented property. Market pricing will be gradually extended to the existing stock of state-owned rental housing and to the state owned housing that will be sold to tenants.

Activity 1.1 Increase rents to market levels

Rents will be increased over a period of years until they cover all costs including capital costs. Rents will be raised as soon as this strategy begins to be implemented to cover all maintenance and management costs. This will mean that the Housing Authorities can be financially viable and can supply better maintenance services. It will be some time before "market" pricing will cover the replacement as well as maintenance costs. This is because the economy is so depressed and because many of the housing units have been constructed to standards that are unaffordable by the tenants.³

Activity 1.2 Establish market sales prices

The sales price will be equivalent to the rent, in other words there will be a level playing field between renters and potential owners. When the rent is increased to cover all maintenance costs, the sales prices equivalent to that level will be established. This will create incentives to buy. As the rent is increased to cover more costs, so the sales price will be increased. Some equity problems for the current dwellers will remain, since they are paying full market costs, except in as much as their land and some other inputs are subsidized. The sooner prices can be raised to market prices, the sooner will the equity problems be overcome--and the more will be earned by the owners of the housing stock, the state.

³ The market price is the price tenants are prepared to pay for the housing if tenants were able freely to bid for the housing. It is almost certain that in the depressed economy of today, tenants would not bid as much as the replacement cost of the housing, except for particularly rich families bidding for especially desirable properties.

Objective 2: Establish legal framework for private ownership

A market is efficient if there are many transactions among many buyers and sellers. The legal framework will secure private ownership and facilitate transactions. The SPC has drafted a general housing law based on the one agreed by the Russian President and passed by the Supreme Soviet of the Russian Federation late in 1992. USAID provided technical assistance to the drafters of that law.

Activity 2.1 Draft condominium law

The State Privatization Commission already has a number of model condominium laws, notably the Russian law that was itself based upon a Czech law drafted with USAID technical assistance.

Activity 2.2 Draft law of transactions

The fundamental purpose of such a law is to assure the parties to a transaction that their intentions can be carried out. Without that law, buyers have no remedy against defaulting sellers and sellers no remedy against defaulting buyers. Only very general provisions are laid out in the draft Housing Law and the Civil Code.

Activity 2.3 Revise landlord tenant law

Existing provisions in the Civil Code will have to be revised to take account of the new condominium form of ownership, partly since government-owner-tenant relations will change. The condominium will become the owner of the building originally owned by the state and the government will become a tenant in that building and will have to take responsibility to collect rents from its tenants in the building, those who have chosen not to buy.

Activity 2.4 Establish land titling system

With an efficient land titling system it will be administratively easy to identify owners of property and land and carry out transactions. The system should be easy to maintain, through computerization, readily accessible, and cheap to use. One of the more costly parts of setting up a cadastral system, establishing the basic survey reference points, has been carried out.

Objective 3: Privatize the management of the state owned housing

Since so many households will chose to continue to rent their housing from the state for many years, it is important to improve the efficiency of the management and maintenance carried out by the Housing Authorities. It has been shown in many countries that private management of public housing is much more efficient than public management of public housing. The quality

of maintenance should increase and its costs fall to as little as half current costs. Eventually there should be fully free and competitive bidding for the management of the housing stock. An interim solution will be to privatize each the existing eleven Housing Authorities, give the 2 years to reach agreed performance standards, and, if they do not achieve those standards, have fully competitive bidding for the contracts concerned. It may be decided to have many more than the current eleven housing management companies and to contract out many of the services now provided by the management companies; in fact, these new companies could become "incubators" of private enterprise.

Activity 3.1 Review management practices of Housing Authorities

A more detailed review of the management practices of the Housing Authorities than has been possible under the AID contract will be carried out. This will identify the character and magnitude of the improvements that can be undertaken. This review will be carried out by a small task force consisting of senior staff of the Housing Company and two or three Chairmen of Housing Authorities. They will submit their report to all the Housing Authorities, Ulaan Baatar City, and the SPC for review.

Activity 3.2 Train cadre of Housing Company staff in effective management of public housing stock

Three staff from the Housing Company will become interns with a private management company in the US for a period of three months. While in the US, they will gain experience of all aspects of housing management and prepare a training plan for their return.

Activity 3.3 Train Housing Authority management

The Housing Company trainers plus a manager from the US company will carry out a two-week training program for senior staff of the Housing Authorities. At the end of the training, each of the managers from the Housing Authorities will prepare a management improvement plan for his or her Authority.

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The Housing Company will establish the "objectively verifiable" performance standards to be achieved and maintained by the privatized Housing Authorities during the first two years. The Company will also set up procedures to monitor performance and carry out a general review after two years.

Activity 3.5 Reorganize Housing Authorities as private companies

The Housing Company, with assistance from the State Privatization Commission, will prepare a plan for the reorganization of the Housing Authorities into private companies. Once the plan

has been reviewed and agreed by the Authorities and the Commission, articles will be drawn up and registered making the Authorities private companies.

Activity 3.6 Reorganize Housing Company as owner of the housing stock and supervisory and regulatory agency for the Housing Authorities

The Housing Company will be reconstituted as the representative of the State as the owner of the housing stock and the manager of the newly privatized Authorities. It will also be responsible for carrying out sales of the rental stock--of buildings and units within buildings. It will be the principle implementation agency for the housing reforms.

Activity 3.7 Review performance of the Housing Authorities

The Company will monitor the performance of the privatized Housing Authorities on a regular basis. They will set up a management information system with associated performance indicators. They will carry out periodic survey on tenant opinions on the performance of the management companies. The Company will undertake a major review of performance after the management companies' first two years.

Activity 3.8 Organize public tender for contracts of Housing Authorities not up to standard

The Company will organize public tenders for the management contracts of the Authorities found not to be up to standard.

Activity 3.9 Inform public of impact of privatized management

The Company and the Authorities will jointly keep the public fully informed about the changes in the management of rental housing. The information campaign will stress the new responsibilities of tenants and management and make clear the benefits that will result from the new arrangements. The reasons for the increases in rent will be fully explained together with the allowance scheme. The Authorities will work closely with tenants organizations.

Objective 4: Set up a housing finance system

The objective of the fund is to increase the supply of finance to the sector, and facilitate home purchases and upgrading, without having to rely on Government budgetary support. Technical assistance will be required to design the fund and set up its operating procedures.

Activity 4.1 Design the fund

Ideally housing finance would be provided by the banking system. However the Mongolian banking system has little experience of ordinary commercial banking let alone a specialized

activity such as housing finance, which is a much longer term lending activity than commercial banks are used to.

The State and City Privatization Commissions already have privatization funds that has been capitalized by the sales of the state-owned enterprises. The Housing Fund will be a separately operated part of the Privatization Fund. The Housing Fund will eventually be privatized. Its directors will be drawn from a wide range of public and private institutions, including the Central Bank, the Stock Exchange, the Ministry of Housing, one commercial bank, and the City of Ulaan Baatar. Management should have commercial experience and will be given training in housing finance. Management should be rewarded by achieving the dual targets of growth and loan repayment.

Activity 4.2 Capitalize the fund

Funding would initially consist of the cash purchases received from the privatized flats. After some experience has been gained, additional sources will be pursued: sale of bonds backed by the bank and offering some protection from inflation; term deposits of 3 months or longer; and donor financing.

Activity 4.3 Operate the fund

Operations will begin once the first cash payments are made for the privatized apartments. The fund will then begin to collect repayments of the installment loans. The bank will make loans for first mortgages on privately owned housing, construction and interbank lending. None of its activities will be out of line with the rest of the financial sector. For example, interest rate will not be subsidized.

Objective 5: Sell up to 20 per cent of units to buyers

With the depressed economy and the low level of income in Mongolia, it is unlikely that many households will chose to buy their homes even at highly discounted prices. Informal surveys have shown that the great majority of households perceive the costs of ownership, the new maintenance responsibilities, outweigh the benefits, the pride of ownership and future growth in the value of the house. Few have opted to buy their homes in other former socialist countries even when the discount has been so high that the units have almost been given away free. In rich market economies most households chose not to own their homes where there are not strong tax incentives to do so: only 40 per cent of households in what was West Germany own their homes; 60 per cent do so in the US, where strong tax incentives favor ownership.

However Mongolians who have benefitted most from the early stages of the liberalization of the economy and have accumulated substantial savings, do want to invest in home ownership. Many such people have demanded that the privatization begin. As the economy recovers and the benefits of a market economy spread to a higher proportion of the populations, more and more

people will want to own their homes.

The condominium approach to ownership is favored. Residents of the building choosing not to buy their flats will continue to rent from the state. The Housing Company will represent the tenants and the owners of those units, the City, on the condo management committee.

Activity 5.1 Establish the Housing Company as the implementation agency for the private sales

The Housing Company will be the implementation agency for both the new rental and sales policies. It will have the responsibility for all the key pricing components of market housing. It will maintain the level playing field between renters and owners by establishing prices for the housing that are discounted by an equivalent amount to the rents.

Activity 5.2 Set up procedure to select buildings in which units to be offered for private ownership

The options areas follows: to allow anyone to purchase the unit they now occupy; to sell units only in buildings in which the majority, or some other high proportion, want to own the homes they now occupy; to sell homes in buildings vacated by the Russians; or finish off partially completed buildings and sell the units to those who wish to buy. The third or the fourth options would be the simplest administratively, although the fourth would be costly. Both would free up the units now occupied by the buyers for families on the waiting lists; either overcrowded families now in state housing or ger dwellers.

The most appropriate of the options listed above will be selected. The process will begin with one or two complete buildings.

Activity 5.3 Set prices and other sales conditions for the initial privatization

Prices will be set for the first round of sales at a price equivalent to rents that cover all maintenance costs except major rehabilitation. An alternative pricing policy for the first round of sales, which will probably go to the very richest families in Mongolia, would be to auction the units if one of the vacant building options is chosen. This would tend to maximize revenue to the owners of the housing--money which would help to capitalize the housing fund--and help to establish what the market prices are, at least for the top of the market.

Discounts on the sales price will be given if the full cash price is paid. Otherwise a 20 per cent downpayment will be required with the balance paid over 20 years. Vouchers can be used as part of the payment required, at their face value. The interest paid on the balance will vary by changing individual and general economic conditions by using one of the "dual indexed" systems now popular for relatively unstable economies.

Sales of property by the new owners will be permitted. Transactions will help to establish

efficient markets.

Activity 5.4 Inform public of benefits and responsibilities of private ownership

There is a widespread view that there are few or no benefits but many costs associated with private ownership. Most families feel that they will be paying out more for housing under private ownership than they do now and will receive nothing in return. To counter this, there has already been some publicity on radio, TV and in newspapers. Information dissemination will be intensified as the date for the first sales approaches. Particular care will be taken to explain the benefits of the condominium approach to ownership.

Activity 5.5 Inform public of procedures for privatization

Guides will be prepared informing the public of the privatization procedures in detail. Once it has been decided that a certain building is to be privatized, meetings will be held with residents to discuss the procedures for forming a condominium and buying their units.

Activity 5.6 Sell units in first buildings to be privatized

The first sales will take place about three months after the initiation of this program and before November. Assistance will be given by the Housing Company to the buyers to form condominium associations. Residents will be trained in their obligation as members of a condominium and the benefits that membership will bring, and in the legal requirements. With legal help from the Ministry of Justice and the SPC, the Housing Company will draft the articles of association. For the first building to be sold in this way, a foreign expert on condominiums will provide technical assistance to the Housing Company.

Activity 5.7 Review progress with selling units

The Housing Company will carefully monitor the initial sales process. It will survey the first set of new owners to help to identify problems with the process. It will prepare a report on the impact of the pricing used in the first round of sales--were the prices too high or too low, were sales slower than expected or faster? The Company will monitor free market sales prices.

Activity 5.8 Adjust prices in accordance with market trends

In accordance with the observed behavior of buyers in the market and trends in macroeconomic conditions, prices will be adjusted. Care will be taken not to create a pricing bias against home ownership. Although pricing may slightly favor private home ownership, as it does in most countries, the incentives should not be too strongly against renting.

Objective 6: Implement housing allowances system for those who cannot afford market rents

In the future the principle will be that households not housing will be subsidized. The subsidies will be based upon household income and the difference between the rent for "minimum standard" apartments and what families can afford assuming that they allocate 10 to 15 per cent of income to rent and utilities. The rent for the standard apartment will rise over time as progressively more of the cost elements are covered: routine maintenance at first, and eventually full capital replacement costs. Households pay up to 30 per cent of their incomes for rent and utilities in western market economies although in poorer countries the proportion is lower. In some former socialist the proportion is as low as 1 or 2 per cent (Russia and China), and in Mongolia the proportion is about 5 per cent according to the 1992 Family Expenditure Survey. As real incomes rise over the coming years, families will chose to spend higher proportions of their income on housing. The initial assumption under the housing allowance program will be that families should allocate 10 per cent of their income to rent and utilities.

Activity 6.1 Design the housing allowance system

The objective of the system will be to make a minimal standard of housing affordable for the poor and disadvantaged as rents are gradually increased to market levels over a period of years.

Since the Government does not have the resources to fund such a scheme from its budget, funding will have to come from the increased rents. This will mean that only part of the incremental rent revenue yielded by the rent increases will be available for improving maintenance standards. In effect, the allowances will be financed from the higher rents paid by those who can afford them. However the Government may, as in other countries, decide to supplement this source of funds from the social security fund or the budget.

The allowance, which could take the form of a housing voucher as it does in some other countries, will be given to all poor and disadvantaged households, including those living in gers. Family Expenditure Survey data will be used to provide information on incomes and expenditures on rent and utilities.

A task force consisting of the State and Ulaan Baatar Privatization Commissions, the Ministry of Housing and Construction, and the Ministry of Social Security will design the system. The design will include the administrative procedures for revising and disbursing the allowances. The task force will be advised by an expert in housing allowances.

Activity 6.2 Implement housing allowances

The housing allowance system will be implemented in Ulaan Baatar within 6 months of the initiation of the housing reform strategy. It will be extended to other locations within a year once a review has been carried out of its impact. The system will be revised periodically as the cost

of living changes, incomes change and the rents are increased towards market levels.

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Objective	1993	1994	1995
1. Mkt.Pricing			
1.1 Rents	x	x	x
1.2 Sales	x	x	x
2. Legal			
2.1 Condo	xxx		
2.2 Trans	xxx		
2.3 Tenant	xxx		
2.4 Titling	xxxxxx		
3. Management			
3.1 Review	xxx		
3.2 Train US	xxxx		
3.3 Train Mong	xxx		
3.4 Standards	xxx	xxxx	
3.5 Privatize		xxxxxxx	
3.6 Supervise		xxxx	
3.7 Review			xxx
3.8 Tender			xxxxxxxxxx
3.9 Inform	x	xx xx	x x
4. Finance			
4.1 Design	xxx		
4.2 Capitalize	xx	xxxxxxxxxxxxxxxx	xxxxxxxxxxxxxxxx
4.3 Operate		xxxxxxxxxxxxxxxx	xxxxxxxxxxxxxxxx
5. Sell Units			
5.1 Agency	xx		
5.2 Select	xx		
5.3 Prices	xx		
5.4 Inform	xxx	xxxxxx	

5.5 Procedure	xxx	xxxxxxx	
5.6 Sell		xxxxxxxxxxxxxxx	xxxxxxxxxxxxxxx
5.7 Review			xxx
5.8 Adjust		x	x x
6.0 Allowances			
6.1 Design	xxx	xxx	
6.2 Implement	xxxxx	xxxxxxxxxxxxxxx	xxxxxxxxxxxxxxx

STATE PRIVATIZATION COMMISSION
TRAINING AND TECHNICAL ASSISTANCE NEEDS

1. Training

1.1 Housing Management. A high proportion of the state owned housing stock will remain as rental housing owned by the state. The objective is to privatize the management of the Housing Authorities and improve the services they provide to tenants. The performance of each of the companies will be reviewed after a year, and if it is not satisfactory for any Authority, the contract will be opened for competitive bidding. The recent Abt Associates review of their performance by the President of a US based housing management company, which also manages publicly owned housing, indicated that staffing could probably be halved and service delivery still improved.

The strategy is to establish a cadre of trainers in housing management and then train all the senior staff of the Housing Authorities before the companies are privatized. Two or three staff of the Housing Company will work in the US as interns in a housing management company. While there they will prepare a training course for the Housing Authorities. They will return together with one manager from the US company and carry out the training program. A major output of the training program will be a management plan for each of the authorities.

The cost of this training will include travel and per diems for the two or three Mongolians to visit the US for 6 weeks; an interpreter; fees for a US based consultant to organize and monitor the training, 15 days of his or her time; fees for the manager of the management company to help with the training in the US and in Mongolia, 10 days in the US plus 15 days in Mongolia; plus the cost of equipment. The Mongolians will be selected on the basis of their current management skills and will take a course in basic English before they leave for the US.

The program should start as soon as it can be arranged and should be completed by the end of this year.

2. Housing Finance. A Housing Fund will be set up to facilitate the privatization. It will be capitalized by the downpayments made for the privatized housing and by the payments of the installment loans. The fund will eventually raise funds in other ways. The fund will be managed by representatives of the public and private sectors. It will eventually be privatized.

The manager of the fund will have to be trained in housing finance. No one in Mongolia has experience of housing finance. Training will be required for the managers of the fund in housing finance operations.

It has already been proposed that senior staff from the very successful Housing Development Finance Company of India, a privately owned housing finance company set up initially with AID funding, help the SPC to set up the fund, advise on its operations, and train the staff. As a first step, the Mongolian managers of the fund would visit India to study HDFC's operations. Abt

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Operations will begin once the first cash payments are made for the privatized apartments. The fund will then begin to collect repayments of the installment loans. The bank will make loans for first mortgages on privately owned housing, construction and interbank lending. None of its activities will be out of line with the rest of the financial sector. For example, interest rate will not be subsidized.

Objective 5: Sell up to 20 per cent of units to buyers

With the depressed economy and the low level of income in Mongolia, it is unlikely that many households will chose to buy their homes even at highly discounted prices. Informal surveys have shown that the great majority of households perceive the costs of ownership, the new maintenance responsibilities, outweigh the benefits, the pride of ownership and future growth in the value of the house. Few have opted to buy their homes in other former socialist countries even when the discount has been so high that the units have almost been given away free. In rich market economies most households chose not to own their homes where there are not strong tax incentives to do so: only 40 per cent of households in what was West Germany own their homes; 60 per cent do so in the US, where strong tax incentives favor ownership.

However Mongolians who have benefitted most from the early stages of the liberalization of the economy and have accumulated substantial savings, do want to invest in home ownership. Many such people have demanded that the privatization begin. As the economy recovers and the benefits of a market economy spread to a higher proportion of the populations, more and more

people will want to own their homes.

The condominium approach to ownership is favored. Residents of the building choosing not to buy their flats will continue to rent from the state. The Housing Company will represent the tenants and the owners of those units, the City, on the condo management committee.

Activity 5.1 Establish the Housing Company as the implementation agency for the private sales

The Housing Company will be the implementation agency for both the new rental and sales policies. It will have the responsibility for all the key pricing components of market housing. It will maintain the level playing field between renters and owners by establishing prices for the housing that are discounted by an equivalent amount to the rents.

Activity 5.2 Set up procedure to select buildings in which units to be offered for private ownership

The options areas follows: to allow anyone to purchase the unit they now occupy; to sell units only in buildings in which the majority, or some other high proportion, want to own the homes they now occupy; to sell homes in buildings vacated by the Russians; or finish off partially completed buildings and sell the units to those who wish to buy. The third or the fourth options would be the simplest administratively, although the fourth would be costly. Both would free up the units now occupied by the buyers for families on the waiting lists; either overcrowded families now in state housing or ger dwellers.

The most appropriate of the options listed above will be selected. The process will begin with one or two complete buildings.

Activity 5.3 Set prices and other sales conditions for the initial privatization

Prices will be set for the first round of sales at a price equivalent to rents that cover all maintenance costs except major rehabilitation. An alternative pricing policy for the first round of sales, which will probably go to the very richest families in Mongolia, would be to auction the units if one of the vacant building options is chosen. This would tend to maximize revenue to the owners of the housing--money which would help to capitalize the housing fund--and help to establish what the market prices are, at least for the top of the market.

Discounts on the sales price will be given if the full cash price is paid. Otherwise a 20 per cent downpayment will be required with the balance paid over 20 years. Vouchers can be used as part of the payment required, at their face value. The interest paid on the balance will vary by changing individual and general economic conditions by using one of the "dual indexed" systems now popular for relatively unstable economies.

Sales of property by the new owners will be permitted. Transactions will help to establish

efficient markets.

Activity 5.4 Inform public of benefits and responsibilities of private ownership

There is a widespread view that there are few or no benefits but many costs associated with private ownership. Most families feel that they will be paying out more for housing under private ownership than they do now and will receive nothing in return. To counter this, there has already been some publicity on radio, TV and in newspapers. Information dissemination will be intensified as the date for the first sales approaches. Particular care will be taken to explain the benefits of the condominium approach to ownership.

Activity 5.5 Inform public of procedures for privatization

Guides will be prepared informing the public of the privatization procedures in detail. Once it has been decided that a certain building is to be privatized, meetings will be held with residents to discuss the procedures for forming a condominium and buying their units.

Activity 5.6 Sell units in first buildings to be privatized

The first sales will take place about three months after the initiation of this program and before November. Assistance will be given by the Housing Company to the buyers to form condominium associations. Residents will be trained in their obligation as members of a condominium and the benefits that membership will bring, and in the legal requirements. With legal help from the Ministry of Justice and the SPC, the Housing Company will draft the articles of association. For the first building to be sold in this way, a foreign expert on condominiums will provide technical assistance to the Housing Company.

Activity 5.7 Review progress with selling units

The Housing Company will carefully monitor the initial sales process. It will survey the first set of new owners to help to identify problems with the process. It will prepare a report on the impact of the pricing used in the first round of sales--were the prices too high or too low, were sales slower than expected or faster? The Company will monitor free market sales prices.

Activity 5.8 Adjust prices in accordance with market trends

In accordance with the observed behavior of buyers in the market and trends in macroeconomic conditions, prices will be adjusted. Care will be taken not to create a pricing bias against home ownership. Although pricing may slightly favor private home ownership, as it does in most countries, the incentives should not be too strongly against renting.

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Objective 6: Implement housing allowances system for those who cannot afford market rents

In the future the principle will be that households not housing will be subsidized. The subsidies will be based upon household income and the difference between the rent for "minimum standard" apartments and what families can afford assuming that they allocate 10 to 15 per cent of income to rent and utilities. The rent for the standard apartment will rise over time as progressively more of the cost elements are covered: routine maintenance at first, and eventually full capital replacement costs. Households pay up to 30 per cent of their incomes for rent and utilities in western market economies although in poorer countries the proportion is lower. In some former socialist the proportion is as low as 1 or 2 per cent (Russia and China), and in Mongolia the proportion is about 5 per cent according to the 1992 Family Expenditure Survey. As real incomes rise over the coming years, families will chose to spend higher proportions of their income on housing. The initial assumption under the housing allowance program will be that families should allocate 10 per cent of their income to rent and utilities.

Activity 6.1 Design the housing allowance system

The objective of the system will be to make a minimal standard of housing affordable for the poor and disadvantaged as rents are gradually increased to market levels over a period of years.

Since the Government does not have the resources to fund such a scheme from its budget, funding will have to come from the increased rents. This will mean that only part of the incremental rent revenue yielded by the rent increases will be available for improving maintenance standards. In effect, the allowances will be financed from the higher rents paid by those who can afford them. However the Government may, as in other countries, decide to supplement this source of funds from the social security fund or the budget.

The allowance, which could take the form of a housing voucher as it does in some other countries, will be given to all poor and disadvantaged households, including those living in gers. Family Expenditure Survey data will be used to provide information on incomes and expenditures on rent and utilities.

A task force consisting of the State and Ulaan Baatar Privatization Commissions, the Ministry of Housing and Construction, and the Ministry of Social Security will design the system. The design will include the administrative procedures for revising and disbursing the allowances. The task force will be advised by an expert in housing allowances.

Activity 6.2 Implement housing allowances

The housing allowance system will be implemented in Ulaan Baatar within 6 months of the initiation of the housing reform strategy. It will be extended to other locations within a year once a review has been carried out of its impact. The system will be revised periodically as the cost

of living changes, incomes change and the rents are increased towards market levels.

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Objective	1993	1994	1995
1. Mkt.Pricing			
1.1 Rents	x	x	x
1.2 Sales	x	x	x
2. Legal			
2.1 Condo	xxx		
2.2 Trans	xxx		
2.3 Tenant	xxx		
2.4 Titling	xxxxxx		
3. Management			
3.1 Review	xxx		
3.2 Train US	xxxx		
3.3 Train Mong	xxx		
3.4 Standards	xxx	xxxx	
3.5 Privatize		xxxxxxx	
3.6 Supervise		xxxx	
3.7 Review			xxx
3.8 Tender			xxxxxxxxxxx
3.9 Inform	x	xx xx	x x
4. Finance			
4.1 Design	xxxx		
4.2 Capitalize	xxx	xxxxxxxxxxxxxxxx	xxxxxxxxxxxxxxxx
4.3 Operate		xxxxxxxxxxxxxxxx	xxxxxxxxxxxxxxxx
5. Sell Units			
5.1 Agency	xxx		
5.2 Select	xxx		
5.3 Prices	xxx		
5.4 Inform	xxx	xxxxxxx	

5.5 Procedure	xxx	xxxxxx	
5.6 Sell		xxxxxxxxxxxx	xxxxxxxxxxxx
5.7 Review			xx
5.8 Adjust		x	x x
6.0 Allowances			
6.1 Design	xx	xx	
6.2 Implement	xxxx	xxxxxxxxxxxx	xxxxxxxxxxxx

STATE PRIVATIZATION COMMISSION

TRAINING AND TECHNICAL ASSISTANCE NEEDS

1. Training

1.1 Housing Management. A high proportion of the state owned housing stock will remain as rental housing owned by the state. The objective is to privatize the management of the Housing Authorities and improve the services they provide to tenants. The performance of each of the companies will be reviewed after a year, and if it is not satisfactory for any Authority, the contract will be opened for competitive bidding. The recent Abt Associates review of their performance by the President of a US based housing management company, which also manages publicly owned housing, indicated that staffing could probably be halved and service delivery still improved.

The strategy is to establish a cadre of trainers in housing management and then train all the senior staff of the Housing Authorities before the companies are privatized. Two or three staff of the Housing Company will work in the US as interns in a housing management company. While there they will prepare a training course for the Housing Authorities. They will return together with one manager from the US company and carry out the training program. A major output of the training program will be a management plan for each of the authorities.

The cost of this training will include travel and per diems for the two or three Mongolians to visit the US for 6 weeks; an interpreter; fees for a US based consultant to organize and monitor the training, 15 days of his or her time; fees for the manager of the management company to help with the training in the US and in Mongolia, 10 days in the US plus 15 days in Mongolia; plus the cost of equipment. The Mongolians will be selected on the basis of their current management skills and will take a course in basic English before they leave for the US.

The program should start as soon as it can be arranged and should be completed by the end of this year.

2. Housing Finance. A Housing Fund will be set up to facilitate the privatization. It will be capitalized by the downpayments made for the privatized housing and by the payments of the installment loans. The fund will eventually raise funds in other ways. The fund will be managed by representatives of the public and private sectors. It will eventually be privatized.

The manager of the fund will have to be trained in housing finance. No one in Mongolia has experience of housing finance. Training will be required for the managers of the fund in housing finance operations.

It has already been proposed that senior staff from the very successful Housing Development Finance Company of India, a privately owned housing finance company set up initially with AID funding, help the SPC to set up the fund, advise on its operations, and train the staff. As a first step, the Mongolian managers of the fund would visit India to study HDFC's operations. Abt

Associates, the advisors to the SPC, are also currently working with HDFC on USAID's Housing Finance Expansion Project. The team would then return to Mongolia with a senior manager from HDFC and set up the fund.

This would require 2 months of an HDFC manager, two weeks of per diem for two Mongolians, travel to and from India. The HDFC manager would spend one month in Mongolia.

Technical Assistance

1. Housing Allowances. The strategy is to increase rents over a period of time to market levels and introduce housing allowances for families who cannot afford market rents for appropriately sized units.

The SPC will require technical assistance in the design of the housing allowances. In addition, information will have to be collected on family income that will provide the basis for the allowances. An information system will also have to be set up.

An expert on housing allowances should come to Mongolia for two weeks to work with the SPC and the Ministry of Social Security. He or she would be accompanied by an information system specialist.

2. Housing Economics. Both rents and sales prices will eventually be established at market levels. Rents will be increased so that they progressively cover a higher proportion of housing maintenance and construction costs, and sales prices will be established at an equivalent level so that there is a level playing field between owners and renters. It will also be important to monitor the prices of the few free market house sales that take place as a point of reference for rent and sales price levels.

A housing economist should work with SPC and the Housing Company's Chief Economist to set these prices and set up the market price monitoring system. He or she would come to Mongolia for two weeks.

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