



USAID
FROM THE AMERICAN PEOPLE



*Economic Policy Reform and
Competitiveness Project*

Urban housing finance proposals for Mongolia

November 2005
Ulaanbaatar, Mongolia

Project: Mongolia Economic Policy Reform and Competitiveness Project (EPRC)
Report Title: *Urban Housing Finance Proposals for Mongolia*
Main Author: Claude J.J. Bovet
Contract No. 438-C-00-03-00021-00
Submitted by: EPRC Project/Chemonics International Inc., Tavan Bogd Plaza, Second Floor, Eronhii Said Amar Street. Sukhbaatar District, Ulaanbaatar, Mongolia
Telephone and fax: (976) 11 32 13 75 Fax: (976) 11 32 78 25
Contact: Fernando Bertoli, Chief of Party
E-mail address: fbertoli@eprc-chemonics.biz

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
BG	Bond Guarantee
BOM	Bank of Mongolia
DCA	Development Credit Authority
EPRC	Economic Policy Reform and Competitiveness Project
GOM	Government of Mongolia
GTZ	German Development Cooperation
HFC	Housing Finance Corporation (proposed)
IFI	International Financial Institution
LG	Loan Guarantee
LPG	Loan Portfolio Guarantee
MBBs	Mortgage-backed bonds
MBSs	Mortgage-backed securities
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MCUD	Ministry of Construction and Urban Development
MOI	Ministry of Infrastructure
MOFE	Ministry of Finance and Economy
MOJHA	Ministry of Justice and Home Affairs
MNT	Mongolian National Togrog
NBFIs	Non-bank financial institutions
NGOs	Non-government organizations
NHC	National Housing Center (MCUD proposal)
NPLs	Non-performing Loans
PMM	Primary Mortgage Market
SCCs	Savings and Credit Cooperatives
SMEs	Small and medium-sized enterprises
SMM	Secondary Mortgage Market
USAID	United States Agency for International Development
WB	World Bank

TABLE OF CONTENT

ABBREVIATIONS AND ACRONYMS	i
TABLE OF CONTENT	i
ACKNOWLEDGEMENTS	i
EXECUTIVE SUMMARY	i
SECTION I: MONGOLIA’S HOUSING FINANCE SECTOR	1
SECTION II: AFFORDABILITY BY LOW & MEDIUM-INCOME HOUSEHOLDS	5
A. Housing subsidies	5
A1. Supply-side subsidies	5
A2. Demand-side subsidies	6
A3. Affordability	6
A4. Elective second mortgage to cover demand-side subsidies	7
A5. Individual savings accounts stimulation	7
A6. Qualifying for demand side-subsidies	8
B. Incremental loans for Ger areas	8
SECTION III: HOUSING FINANCE CORPORATION (HFC)	11
A. Need and opportunity	11
B. Proposed structure	11
SECTION IV: GOVERNMENT AS HOUSING SECTOR ENABLER/FACILITATOR	15
ANNEX A: THE FOURTY THOUSAND HOUSING UNITS PROGRAM	19
ANNEX B: DRAFT GOVERNMENT RESOLUTION ON THE NATIONAL HOUSING CENTER	39
ANNEX C: MORTGAGE CALCULATOR	47
ANNEX D: MEETING SCHEDULE	51

ACKNOWLEDGEMENTS

The consultant would like to sincerely thank those that contributed to this assignment. This group includes Government of Mongolia (GOM), officials at the Ministry of Construction and Urban Development, and the international donors and their implementing partners interviewed about their housing support programs. The information they provided was extremely useful in understanding the context in which the Mongolian housing finance sector might be improved and a secondary mortgage market established. Additionally, the time and consideration, information and ideas extended by senior management of the commercial banks and other financial institutions consulted was greatly appreciated. The consultant would also like to thank the EPRC team for its excellent support, and in particular Ms. Ashidmaa Dashnyam and Mr. Tim O'Neill whose guidance and informed assistance assured the productive completion of this assignment.

EXECUTIVE SUMMARY

The overriding purpose of this consultancy was to review the housing finance sector and make recommendations for developing an efficient and affordable housing finance market for middle and lower income families, both at the primary and secondary levels.

Although the situation found was not one that could be easily considered encouraging for development of a full-fledged self-sustaining mortgage finance system, we believe that initial, trend-setting steps can be taken to lay the groundwork for such a system and its future growth. In general, there is no inherent reason for a housing finance market not to develop in Mongolia. And we also believe that the moment is now propitious.

The major constraints requiring attention include:

- The potential housing finance sector, banks and other lenders, such as non-bank financial institutions (NBFIs) and Savings and Credit Cooperatives (SCCs), are substantially devoid of medium and long term funding sources as required for home mortgage lending.
- There is not a stable base of savings accounts at banks and SCCs.
- Little mortgage financing is available; and what is comes with very short terms, under 5 years at best, and with prohibitive interest rates of 30% in local currency and 17% or more in US dollars, way beyond those which can justify affordable or even prudent mortgage lending.
- The inescapable condition that for a secondary mortgage market to develop, the primary mortgage market needs to develop first under open market conditions.
- There are no traditional institutional investors, such as insurance companies and pension funds, to support development of a secondary mortgage market.
- The capital market is thin and illiquid.
- The Ministry of Construction and Urban Development is seeking foreign funds at concessional terms in order to provide for the construction, sale and rental of the government's 40,000 housing units program, all under greatly subsidized rates.

To overcome these constraints, we are proposing a number of first steps. These encompass a broad range of proposals at different institutional levels. But, taken together, we believe they will go a long way towards development of the very much needed housing mortgage finance market.

Creating a Housing Finance Corporation (HFC)

The lynchpin of these recommendations is the creation of a Housing Finance Corporation. We believe that, to begin with, it can be set up on a bare-bones basis with minimal staff and infrastructure. We have held individual and collective meetings with principal commercial banks. Two of these have taken an organizing leadership position and are now actively pursuing the creation of this corporation with other banks. The goal is to set up the HFC as soon as possible with an initial subscribed equity capital of one million dollars.

In its initial phase, HFC will conduct the following activities:

- Provide a forum for developing and proposing to government appropriate measures for an improved and effective operation of the primary mortgage market and for development of a secondary mortgage market, while also ensuring adequate protection

of lender and investor rights, as required to facilitate and enable the housing finance sector to better serve the shelter needs of Mongolia's growing and increasingly urbanizing population.

- Sponsor and negotiate international Technical Assistance for itself and for: housing demand organizers (particularly in Ger areas), property appraisers, construction and mortgage lenders, low-income lenders, loan servicers. All of these functions are vital to well functioning primary and secondary mortgage market systems. USAID and ADB, among others, have current and proposed financial sector development programs that could assist in this respect. And GTZ is proposing a new long-term program in the Ger areas which would synergize its community organizations development with the suggested housing demand organizers role.
- Encourage the activities of housing demand organizers (NGOs, community groups, etc) in Ger areas, tapping into and collaborating with the above mentioned USAID, ADB and GTZ programs.
- Establish –within its normal investment requirements – standardized forms, appraisal procedures and loan underwriting practices for its purchase of regular home mortgages, and especially for the short-term incremental housing loans in the Ger areas recommended in this report, all with a view to encouraging and facilitating such operations by banks, NBFIs and SCCs and the ensuing mortgage securitization.
- Complete an initial purchase of securitizable low and medium income mortgages, followed by a pilot offering of HFC mortgage-backed bonds.
- Seek Bank of Mongolia assistance in making a market for HFC's mortgage bonds and in reducing the bank's charges affecting mortgage loans.
- Facilitate electronic script-less mortgage-backed securities trading.
- Assist government in the development and operation of the demand-side housing subsidy system recommended in Section II of this report.

Addressing the affordability issue

Certain banks have in the last few years begun writing mortgage loans, but only in very limited and specialized cases. One relatively large issuer is focused on short-term low-income loans at 17% dollar interest rates. Another has written a number of 12 month balloon non-housing personal and business loans at 2.5% monthly interest rates in local currency. Yet another is concentrating on high-income apartment loans at relatively reduced rates for its business clients. And five banks have disbursed 1,500 low-income housing loans at 13% and 13.6% interest rates for up to 10 years with ADB funds.

Obviously, major initiatives are needed to foster and make viable housing mortgage loans for low and medium income groups. This report proposes three: (a) a demand-side subsidy program; (b) short-term small-amount incremental housing loans for the Ger (basically unplanned, un-serviced, informal) areas; and (c) structuring “demand organizers”.

The government has introduced a number of supply-side subsidies for the housing construction sector, including VAT and custom duties exemptions. This report points out why such supply-side subsidies are market disruptive and counter productive, and suggests their replacement by demand-side subsidies focused on their intended beneficiaries exclusively. Should the government not want to eliminate supply-side subsidies at this point in time, we recommend that a demand-side subsidy system be first implemented as a stand-alone project, to which government should contribute an opening one million dollars to be matched by another nine million dollars under its MCC application. We also recommend that this system:

- Be structured on top of a prior savings requirement for applicants, both as a means of encouraging and confirming their monthly payments ability and, more importantly, as a vehicle for the establishment of a stable and increasing deposit base for bank and cooperative lending. Foreign experience has shown that, when properly implemented, the number of savers always exceeds that of subsidy applicants and that savings volumes tend to increase.
- After the target and criteria for subsidy granting has been set by government, it gives the private sector a guiding role in the process of qualifying and approving individual applicants as a way of eliminating political pressures and distortions. In particular, by organizing an effective and non-politicized procedure for the qualification of applicants and for monitoring the proper usage of approved subsidies.

In Ger areas, as in most developing urban slum areas around the world, residents have had to rely almost exclusively on their own devices and possibilities. This has led to individual efforts at incremental construction of their shelter solutions. This experience can be applied to low-income mortgage lending in the growing Mongolian Ger areas. We have developed a simple calculator, included in this report, showing how short-term small-amount loans, with or without subsidies as the need may be, can be used to finance initial utilities connections, core housing units and subsequent improvements and additions.

A further recommendation to complement both the subsidy and incremental loan programs is to encourage and assist the implantation of community groups and demand organizers in the Ger areas to assist residents in their expectations for community development and, in its case, in the search and application for subsidies and mortgage loans. An organized loan demand helps banks and other lenders to keep origination costs at a minimum and thus to proportionately reduce their charges.

Improving the flow of funds for housing mortgages

The lack of medium and long term funds in the banking sector and the high interest rates being paid by banks and other deposit taking institutions (SCCs) are major deterrents for mortgage loans. Addressing the high interest rates on deposits being bid up by the more aggressive deposit takers, is an issue that needs to be corrected by the regulators and is not a subject of this report. But other specific actions to facilitate bank participation in both the primary and secondary mortgage markets can and should be taken by the Bank of Mongolia, as follows:

- At the primary mortgage market level, it can allow banks to increase their mortgage lending by reducing their cost of funds and consequential lending rates through a reduction in the current 14% reserve requirement on bank deposits.
- At the secondary mortgage market level, it can greatly improve investor purchases of HFC's bonds and mortgage-backed securities by providing a market making facility for secondary trading liquidity, while at the same time enhancing the investor appeal and extended duration of these securities.
- Enabling banks to invest in HFC bonds and mortgage backed securities by lowering the capital weighting requirements applicable to these. Seeing that mortgages have a weighting of 50%, HFC bonds and mortgage-backed securities should qualify for a substantially lower weighting as their risk is covered not only by the underlying mortgages but also by the bond issuer's credit. This is important as the classic institutional investors –pension funds and life insurance companies– simply do not yet exist in Mongolia.

Government as Enabler/Facilitator

In Section IV, we recommend that government shift from its present role of Provider, especially as espoused by the Ministry of Construction and Urban Development, to that of an Enabler/Facilitator of the private housing finance sector. The benefits will be broader, more focused, longer lasting and self-supporting.

MCC/MCA assistance

Government of Mongolia has applied and qualified for MCC financial support, which includes an 85 million dollar request for housing. This can and should be refined to include support for the above initiatives and in particular for:

- Establishing the recommended demand-side subsidy support for low and medium income home purchasers. A seed funding for this is suggested at one million dollars from government resources and nine million dollars from MCA. As an example, these 10 million dollars can facilitate the purchase of 4,000 dollar starter homes by 10,000 households with monthly incomes of 450 dollars supporting a 28 month 50% mortgage loan.
- Providing HFC with a rotating fund to implement its purchases of low and middle income incremental loans in the Ger areas, as a necessary promotion of such lending and as a first step in HFC's securitization process. In this case, a 10 million dollar fund, using the preceding example, can facilitate the purchase and securitization by HFC of 2,500 loans every 28 months.

SECTION I: MONGOLIA'S HOUSING FINANCE SECTOR

A number of studies and proposals for the development of both primary and secondary mortgage markets in Mongolia are in existence. A USAID/Economic Policy Support Project report dated December 26, 2002 by Development Alternatives, Inc. on the "Development of Mortgage-Backed Securities Market in Mongolia", recommended the establishment of a mortgage-backed securities (MBSs) market in Mongolia and the establishment of a new secondary mortgage market company. More recently, an ADB report dated May 2, 2005 by PADCO, on "Mongolia Urban Development and Housing Sector Strategy", made a series of recommendations designed to assist government in the implementation of its "40,000 Houses Program". Among these was the establishment of an Implementation Unit within MCUD to actively promote and monitor said Program. And in order to provide buyer financing for a majority of the 40,000 houses program, it proposed the creation of an independent Housing Finance Institution (HFI). ADB, as a continuation and rounding-off of its prior Financial Sector Program Loans (FSPL I and FSPL II), is now in negotiations with GOM on a proposed US\$15 million loan with US\$600,000 TA for a "Financial Sector Reform Program". The proposed reforms will "seek to (i) reduce the cost of borrowing and expand access to credit by improving the collateral framework, (ii) protect depositors from poor governance practices in banks, (iii) enhance the role of the NBF sector in savings mobilization for investment capital, and (iv) improve investor confidence by reducing the risks from potential money laundering through the financial system". All measures which will greatly contribute to the development of a housing finance system.

For its part, the GOM has issued a number of decrees designed to stimulate a secondary mortgage market (SMM). Decree of 14 May 2003 set the basis for creation of a SMM. Decree of 12 June 2003 approved the issuance of government bonds in the amount of MNT 5 billion (approximately US\$5 million) to buy mortgage loans for packaging and selling them as mortgage-backed securities (MBSs) to investors. Decree of 17 September 2003, to create a SMM, established a working group comprised of representatives of the ministries of MOI, MOFE, MOJHA, the Bank of Mongolia, the Securities Commission and the ADB project management unit (PMU). Decree of 9 January 2004 established a Secondary Mortgage Market Unit (SMMU) to which it entrusted the packaging, issuance and sale of MBSs. This SMMU eventually became the Housing Finance Division of MCUD where it now stands, and a Housing Finance Working Group (HFWG) was setup under the joint auspices of MCUD and BOM to define the organization, responsibilities, operations and financing of a secondary mortgage market agency (presumably the HFI) to activate a secondary mortgage market, including the packaging and issue of MBSs. Although duly issued, not all of these decrees have yet been implemented.

MCUD has now drafted a proposed government decree to establish under its wing a National Housing Center (NHC) as "a self-financing organization established with the purpose (of) organizing and implementing broad-range activities related to housing demand and supply, management and organization aimed at creating an enabling environment for construction of cost-efficient residential building suited to purchasing abilities and requirements of people and the standards by implementing land management and developing the housing infrastructure in Ger districts and on vacant lands in downtown suburban areas as well as for providing low-income residents by establishing a mortgage system in order to implement the objectives set for the in the Government Action Program to improve the living standard of people and provide them with sustainable employment and comfortable housing". The English translation of this proposed resolution is not clear whether and to what extent the NHC is to act as a

Facilitator or Provider. We are led to believe that the original version in Mongolian is equally open to interpretation. A key concept used in this draft is to “organize”, which supposedly can lead to either indirect or direct interventions (ie Facilitator vs Provider) by the NHC.

Beyond these initial steps, a lot still remains to be done in order to achieve meaningful primary and secondary mortgage markets. There are major constraints yet to be overcome. Principal among these are:

- A banking system --and other lenders, such as non-bank financial institutions (NBFIs) and Savings and Credit Cooperatives (SCCs) which is substantially devoid of medium or long term funding sources as required for home mortgage lending. This shortage is caused by structural issues and exists in spite of the banking system currently enjoying an overall extremely liquid position.
- Although the construction industry is competent and growing, it is not evident that housing construction financing per-se is generally available to it.
- Little mortgage financing is available; and what is comes with very short terms, under 5 years at best, and with prohibitive interest rates of 30% in local currency and 17% or more in US dollars, way beyond those which can justify affordable or even prudent mortgage lending. And it is an inescapable condition that for a secondary mortgage market to develop, the primary mortgage market needs to develop first under open market conditions.
- A lack of stable savings accounts. A bidding contest for deposit accounts is greatly responsible for the unduly high interest rates above noted.
- A total lack of institutional investors to support development of a secondary mortgage market. Pension funds operate on a pay-as-you-go basis and therefore do not generate a pool of long-term funds for investment. And, life insurance companies, the other main source of long-term investment funds, simply do not yet exist.
- Meaningful capital and bond markets are also lacking

Obviously, these constraints are too profound to be overcome in the short term and they are certainly not presently conducive to developing a full-fledged self-sustaining mortgage finance system. Nonetheless, a beginning can and should be made as, eventually, there is no inherent reason for a housing finance market not to develop in Mongolia.

We believe that effective steps can already be taken to start the process which will eventually result in: a resolution of existing constraints; a more stable and growing housing finance sector; and a deepening of mortgage funding sources for the lower and medium income groups. To this end, the following preliminary measures need to be addressed:

- Provision of demand-side subsidies to ensure housing affordability by low and medium income groups.
- Reinforcement of the primary mortgage market by addressing distortions in the cost of funds (eg. deposit bidding wars).
- Groundwork for the establishment and development of a secondary mortgage market.
- Provisioning necessary start-up funding sources.

Fortunately, world experience gives us tried and true parameters with which to evaluate and formulate recommended solutions for Mongolia’s housing program.

A well functioning housing finance system needs to serve and accommodate a number of diverse participants involved in the production, financing and purchase of housing units. In the private sector these include, each with their own distinct set of requirements and contributions: developers and builders; primary and secondary financial institutions; individual savers; individual and institutional mortgage investors; rental property investors; individual home purchasers; and lastly, but certainly not least, the market place for both the housing and financial markets.

Government's role is critical to the development of the housing market and the financial system that supports it. World experience, the related recommendations of the United Nations Habitat Conferences and of international development agencies, all confirm that governments are more constructive and effective when acting as "Enabler/Facilitators" instead of as direct "Providers" of housing units. Thus it is important for government to emphasize its Enabler role while implementing its 40,000 houses program (Annex 1). And we believe that attaining this goal will be greatly assisted with government enacting the financial sector enabling measures recommended by this report.

It must be noted that mortgage lending in Mongolia is practically non-existent. Reasons for this are easy to understand. First and foremost is the lack of long-term, or even medium-term, funding sources in the banking sector. Second is the lack of an established ownership culture originating in long-term borrowings for home acquisition, since until the end of the communist regime in 1990 all property was government owned. There has now been a privatization of apartment dwellings, as well as the Hashaa land assignments in Ger areas, but mostly not involving any form of mortgage financing. A number of new apartment high-rises have been built and some mortgage financing made available, but mostly for apartment units in the middle to upper income range. A recent broadly based mortgage program for home acquisitions generated 1,500 ADB funded loans through participating banks. However, since these loans carried below market rates, based on ADB's concessionary 1% loan to government, they have not proven easily replicable. Nonetheless, some major banks are beginning to write mortgages, albeit for short maturities and at high interest rates. Local currency (MNT) loans carry monthly interest rates of 2.5% and US dollar loans rates of 17% and higher.

Not all of the over 4,000 mortgage loans written by banks in the last 2 to 3 years are for home acquisition, a good number being used to collateralize business or other purpose loans. Experience has been mixed for this type of loans as foreclosing on the collateral is lengthy and expensive, and not always reaches a satisfactory conclusion (thus the forceful call from the banking sector, endorsed by this report, for a meaningful reform).

Although the present situation cannot be considered the best for an immediate large scale home acquisition mortgage loan program, we do believe the moment is now propitious for taking the necessary first steps toward this goal. Banks have been discussing and agreeing upon an important collaboration for setting up the Housing Finance Corporation recommended in this report. And government is fully committed to poverty alleviation while addressing the housing needs of its large and growing low and medium income urban population, especially in the undeveloped and underserved Ger areas.

Our recommendations for the development and writing of mortgages affordable to low and medium income groups, for establishing a secondary mortgage market, for an enhanced Mongolian government role, and for potential financial and technical assistance, are included in Sections II, III and IV following.

SECTION II: AFFORDABILITY BY LOW & MEDIUM-INCOME HOUSEHOLDS

Mongolia faces four major problems in trying to provide affordable housing for its lower income population. The first is an absolute lack of long-term financing. The second relates to the low level of wages and earnings of the low and medium income groups. Third are the relatively high urban infrastructure and construction costs. And fourth is the short-term and extremely high interest cost of loan funds, mostly contracted at 2.5% per month (30% yearly rate) for local currency loans and up to 17% for dollar denominated or equivalent loans.

Government, who until the fall of communism in 1990 was the sole owner of all land in the country, began to “privatize“ part of its holdings in order to grant to every Mongolian citizen “quasi” ownership rights to a 700m² parcel of land – called Hashaa – for housing purposes, basically in as yet un-granted areas of their own choosing. These rights, although not providing full ownership, are currently contained in 60 year leaseholds renewable upon request at expiration for successive 40 year terms. These grants have served to greatly expand the Ger areas, almost all of which consist mostly of a pell-mell agglomeration of precarious shelter solutions erected by their owners on unplanned land lacking the most basic utilities and services.

Government, through its MCUD (see Section IV), is proposing a direct intervention in the housing market for the provision of 40,000 new housing units, to which end it is seeking between six- and seven-hundred million dollars in foreign loans.

This proposal, although appealing to MCUD as an immediate hands-on approach, is not the best long term and self-supporting solution to a growing housing demand. On the one hand it is totally dependent on government debt financing and, as such, can only go as far as such financing is available. And on the other hand, it fails to promote and facilitate an effective free market for both housing provision and its financing.

A. Housing subsidies

A1. Supply-side subsidies

To make its proposed 40,000 units affordable to low and medium income households, government has introduced a number of supply-side subsidies, among which the following stand out:

- Below market land costs
- Below market mortgage interest rates on government funded loans
- Reduced rental rates on government owned apartments
- VAT and income tax exemptions
- Custom duties exemption for construction equipment and materials

These supply-side subsidies, although undoubtedly well intended, suffer from the following negative impacts which, in effect, render them less than efficient:

- They are market distorting, crowding out the private sector
- They are indiscriminate in their impact, favoring both deserving and non-deserving beneficiaries
- They dilute the share of subsidies reaching intended beneficiaries

A more cost efficient, and socially just, subsidy policy in the housing area is recommended below as “demand-side subsidies”.

A2. Demand-side subsidies

A well constructed system of demand-side subsidies provides the following advantages:

- They are directly and exclusively applied to intended beneficiaries; in the present case low and medium income households
- They allow mortgage financing to be set at market rates, thus increasing lender interest and borrower access in the primary mortgage market
- They serve to reinforce the credit of related mortgage loans and their enhanced securitization in the secondary market
- By individually tying the granting of these subsidies to prior qualifying regular savings programs, they contribute to a stable source of additional mortgage financing at banks and other deposit taking institutions

There are two types of demand-side subsidies, both directly applied to making mortgage financed homes affordable to low and medium income home purchasers: (i) up-front purchase subsidies; and (ii) interest rate top-up subsidies. Their comparative features are:

Exhibit III-1

Characteristics	Up-front subsidy	Top-up subsidy
Paid by government	In its integrity at home purchase time	In monthly quotas with each mortgage payment
Cost to government	Higher/lower than top-up -- Depending on magnitude of top-up rates	Higher/lower than up-front -- Depending on magnitude of up-front rates
Government commitment	Annually -- Does not engage future years	Annually -- Engages future years on term of mortgage loans
Facilitates affordability	Yes, equally	Yes, equally
Facilitates mortgages at market interest rates	Yes, equally	Yes, equally
Loan yield	Equal	Equal
Loan term	Longer	Shorter
Loan to value ratio	Improved by amount of subsidy over down-payment	Unchanged from down-payment level
Facilitates securitization	Yes, with credit enhanced	Yes, but with basic credit only

Ideally, supply-side subsidies designed to help the housing sector should be replaced by demand-side subsidies more directly aimed at, and more effectively reaching the needier low and middle income households. A summary estimation indicates a probable 15% to 20% subsidy cost per overall housing unit under the above proposed supply-side subsidies, and considerably higher if calculated on its effect on low-income housing when the normal leakage to other non-targeted units is factored in. Any money saved by replacing these would go a good way to meeting the expense of a more targeted demand-side subsidy as recommended herein.

A3. Affordability

We recommend that additional funds be provided by government and by supplementary MCC/MCA grant financing. As an example, 1,000,000 dollars from the government's account and 9,000,000 dollars of MCA funding, would make 10,000 starter homes in Ger areas at 4,000 dollars each (as priced under the ADB program) affordable to households with monthly

incomes between 300 and 450 dollar equivalents under the following two assumptions (money amounts in US\$).

Household monthly income	300	450
Income available for loan payment	30%	30%
Starter House price	4,000	4,000
Down payment on purchase	25% = 1,000	25% = 1,000
Demand-side subsidy at purchase	25% = 1,000	25% = 1,000
Mortgage loan	2,000	2,000
Mortgage interest rate	20%	20%
Months to pay off	49	28
Number of households helped	10,000	10,000

As can be seen, these are relatively short-term loans at close to current (unjustifiably high) market rates. This makes the loans more easily funded by banks and subsequently securitized, while allowing beneficiary families to enter into additional successive loans for incremental improvements or extensions to their home.

Also on the incremental loan basis, fully metered water, sewerage and electrical connections from trunk lines into the home, at 1,500 dollars per unit and the same above assumptions could be paid off in less than 12 months. Thus, on a revolving basis, each million dollars of subsidy would finance approximately 700 household connections per month.

Other permutations of these calculations may be seen in Annex C. This exhibit originates in an Excel sheet which can be used as a calculator for other assumptions. Its primary function is to estimate how long it will take a borrower to amortize his mortgage at market rates within his income capacity. It can be accessed at http://www.eprc-chemonics.biz/documents/mortgage_calc_en.xls.

A4. Elective second mortgage to cover demand-side subsidies

An unintended risk of demand-side subsidies is that a beneficiary sells or transfers his house and cashes in his subsidy before a reasonable period of time, such as the term of his loan or some other stipulated as a condition of the subsidy. To forestall such misuse of the subsidy and attending windfall gain, a second mortgage lien can be placed on his house. This second lien would be made effective upon the house sale or transfer and the subsidy become reimbursable proportionately to the unexpired period of the agreed term. If no sale is made, the lien would be lifted free of any reimbursement requirement at the expiration of the agreed term.

This second lien will not only protect against the subsidy creating windfall gains in cases of early sales or transfers, but will additionally provide the following beneficial effects:

- It provides a great incentive to staying up-to-date on first mortgage payments, as any default and foreclosure on this first mortgage will also trigger the second.
- By virtue of discouraging defaults on the first mortgage, it acts as a strong credit enhancement on the original loan and its securitization.

A5. Individual savings accounts stimulation

An important feature of demand-side housing subsidy programs is the opportunity they provide to set up and stimulate a widespread and permanent savings program and culture. This is particularly appropriate in Mongolia, where a savings culture is not yet properly developed.

Government, by making it a requirement that applicants to its housing subsidy program engage in a prior systematic and regular savings program at a bank or SCC of their choice, will set the

conditions for the meaningful development and growth of a stable and growing deposit base in the country.

It will be up to government to set the length of time, regularity of deposits, and amounts saved in these savings accounts for them to fulfill the prior savings requirement for subsidy application. Normally, it would be appropriate to:

- Set required monthly additions to the savings accounts at a level consistent with the expected monthly quotas of principal and interest applicable to the anticipated mortgage loan.
- Set minimum total savings at an amount equal to the anticipated down-payment at home purchase time.
- Set the minimum period for regular monthly savings deposits at between six and twelve months.

It is important to specify that these savings deposits, while being an ineluctable condition for subsidy application, do not at all guarantee a right to the subsidy. And, in effect, experience in other countries has shown that there are always more savers than subsidy applicants. Not all savers have an immediate home purchase in mind at the time of opening their savings account.

And this stable and growing savings base will in time greatly contribute to deposit taking institutions loan funding sources.

A6. Qualifying for demand side-subsidies

Another important feature of demand-side subsidies is the opportunity and ability they provide government for selectively stimulating, encouraging or discouraging different urban planning and social goals. It will do this, when setting up its demand-side subsidy policy, by establishing the subsidy's necessary criteria and determining its parameters and conditions.

In this regard, government will among other conditions:

- Set the maximum purchase price and structural requirements of the houses and apartments for which buyer subsidy support can be requested.
- Set different subsidy levels as appropriate for diverse geographic, urban planning, family composition and income conditions.
- Set the maximum levels of income admitted for individual and family subsidy applicants.
- Set the documentation required to qualify for the subsidy.
- Establish the order of precedence for receiving a subsidy certificate under the annual funding limits approved.
- Set the duration in time of a subsidy certificate within which the beneficiary can look for and select the house to be purchased with such certificate. This feature alone is one that encourages a healthy competition among different developers and builders who will have to do their market research and ensure their offerings are quality and price sensitive to their prospective buyers.

And, of course, government will set the basis for the development and growth of savings accounts at deposit taking institutions such as recommended under A5 above.

B. Incremental loans for Ger areas

To address the particular needs of the vast and growing urban Ger areas, we recommend the use of successive short-term small-amount incremental loans as being particularly suited to

them. Ger inhabitants are each in possession of their individual Hashaa, a 700m² plot of mostly unimproved land, with or without a lease-hold title.

As in all such informal developments around the world, Ger inhabitants have been themselves taking care of their shelter needs. Many are still living in the traditional Ger, a beautiful and substantially weather-proof round tent easily assembled and disassembled as needed in the nomadic herder culture. Others build basic starter units with a variety of discarded and improvised materials, including adapted shipping containers. And yet others have graduated to more substantial homes built with appropriate construction materials, in some older areas including a good number of two storey buildings. So, each in his own time, at his own pace, and to his individual means.

The proposed incremental loans, supplemented with the above recommended subsidy program, will maintain this individualistic approach while giving Ger inhabitants access to affordable bank financing for the gradual improvement and expansion of their houses. But quite apart from their ad-hoc approach and the fact that they can work, these loans remain the only practical way for low-income households to tap into market-based financing given the absolute lack of medium and long term funds in Mongolia.

For the range of subsidy and loan solutions available under an incremental loan system, see Annex C mentioned above and the link to its underlying Excel sheet.

To facilitate both Ger inhabitants access to banks and the banks ability to serve the large number of small loans involved, we recommend a major effort to establish and support community organizations and/or demand organizers in the Ger areas. Fortunately, there already are other programs which clearly complement and reinforce USAID' assistance, such as ADB's current Project Management Unit with MCUD and GTZ's proposed 8 year €8.5 million TA program involving two long-term advisors.

It is not unusual for banks to be ill prepared for small-denomination mortgage lending to low-income groups. These require special underwriting and follow-up procedures, as well as carrying higher origination costs on minimal loan amounts. In other words, these small loans are viewed as being several times more expensive to originate and service than one larger business or other loan. And even those banks that recognize the growing economic possibilities and business opportunities of settlements such as the Ger areas have to cope with these higher originations costs.

Thus the role played by demand organizers such as community groups, NGOs, brokers and professional agents can be critical. In organizing the demand they fulfill a double role. On the one hand, they help unsophisticated home buyers to approach and meet the requirements of lending institutions. On the other hand, by joining individual applications within homogenous packages for presentation to and easy processing by the lending institution, they greatly alleviate the latter's infrastructure and costs.

But for Ger inhabitants their shelter solution is but one aspect of their personal and economic development. Their involvement and participation in the continued development of their community is vital, fundamental to which is a democratically elected and supported Community Organization, preferably with substantial female participation.

A Community Organization – through its planning, official lobbying and implementing efforts– will provide the means for local residents to promote and secure both indispensable community needs and desirable amenities. Principal among these:

- Basic infrastructure: water, sewerage, heating and electricity
- Roads and public transport

- Parks and recreation areas
- Educational, health and security services
- Cultural events, sports and social activities

And of course, the Community Organization will also ensure that effective “housing demand organizer” services as above described are available to residents, either through third party NGOs, etc. or directly by itself in their absence

SECTION III: HOUSING FINANCE CORPORATION (HFC)

A. Need and opportunity

A number of prior studies and recommendations have dealt with the need and opportunities for establishing a secondary mortgage market. Two studies respectively commissioned by USAID and ADB have already been described in Section I. Among their recommendations, they both elaborated on the necessary role of a housing finance institution in assisting the development of such a market.

It is clear that the creation of a properly structured and funded second-storey financial institution can help to: (a) stimulate increasing private-sector financing in the primary market for the provision of low and middle-income home mortgages; and (b) initiate and encourage a market-based development of a secondary mortgage market. **We believe conditions now exist in Mongolia and that the timing is ripe for the creation of such an enterprise, which we are referring to as the Housing Finance Corporation.**

Following upon our contacts, presentations and round table meetings with local banks, an understanding has been reached on the present opportunity for organizing this HFC as a private sector institution, with strong leadership and shareholding being provided by a group of participating banks. At the latest gathering of twelve banks and one NBF, Trade Development Bank and XAC banks have expressed their commitment to this enterprise and undertaken to draft an organizing proposal for their own and the other banks' governing bodies to consider.

An important issue in establishing this HFC as an exclusively secondary market institution is that it will: (a) not be competing in the primary market with banks, non-banking financial institutions (NBFIs), Savings and Credit Cooperatives (SCCs); and (b) not be sharing in any of the bank supervisory difficulties which sometimes arise in the primary market.

B. Proposed structure

At the request of government (who cited certain foreign examples and FNMA's origin as a government body before its privatization – see Section IV), we analyzed the possibility of establishing this corporation either: (a) under wholly private sector ownership; (b) as a joint venture with government; or (c) as wholly government owned.

Our conclusion –following best international practices and the readiness of Mongolian banks to actively undertake creation and ownership of the proposed HFC– is that it will be best for the HFC to remain strictly in the private sector alone. And although a possible Bank of Mongolia 3% shareholding was also considered, we do not believe this will be necessary or even convenient in the case of a HFC fully funded by local banks since this could pose conflicts between BOM's supervisory and shareholding roles.

In addition to emphasizing HFC's role as a specialized mortgage loan securitization and refinancing instrument, one thing we definitely do not recommend is it becoming a direct primary mortgage lender itself (as is being envisioned by MCUD for itself – see Section IV)

This HFC can initially be established on a bare-bones basis requiring a minimum of capital, staff and infrastructure. Its authorized capital could be set, for example, at one million US dollars; and initial paid-in capital at, say, 100,000 US dollars.

In its initial phase, HFC would conduct the following activities:

- Provide a forum for developing and proposing to government appropriate measures for an improved and effective operation of the primary mortgage market and for development of a secondary mortgage market, while also ensuring adequate protection of lender and investor rights, as required to facilitate and enable the housing finance sector to better serve the shelter needs of Mongolia's growing and increasingly urbanizing population,.
- Sponsor and negotiate international TA for itself and for: housing demand organizers (particularly in Ger areas), property appraisers, construction and mortgage lenders, low-income lenders, loan servicers. All of these functions are vital to well functioning primary and secondary mortgage market systems. USAID and ADB, among others, have current and proposed financial sector development programs that could assist in this respect. And GTZ is proposing a new long-term program in the Ger areas which would synergize its community organizations development with our housing demand organizers role.
- Encourage the activities of housing demand organizers (NGOs, community groups, etc) in Ger areas, tapping into and collaborating with the above mentioned USAID, ADB and GTZ programs.
- Establish –within its normal investment requirements– standardized forms, appraisal procedures and loan underwriting practices for its purchase of regular home mortgages, and especially for the short-term incremental housing loans in the Ger areas recommended in this report, all with a view to encouraging and facilitating such operations by banks, NBFIs and SCCs. and the ensuing mortgage securitization.
- Program an initial pilot offering of HFC mortgage-backed bonds.
- Seek Bank of Mongolia assistance for an assured development of the secondary mortgage market, specifically by having it:
 - Develop a market-making facility to provide a measure of liquidity for HFC bonds, thus facilitating their secondary trading, while at the same time enhancing their investor appeal and extending their duration
 - Enable banks to invest in HFC bonds by lowering the capital weighting requirements applicable to HFC bonds. Seeing that mortgages have a weighting of 50%, the mortgage-backed bonds should qualify for a substantially lower weighting inasmuch as their risk is covered not only by the underlying mortgages but also by the bond issuer's credit
 - Facilitate housing purchases and mortgaging by enabling banks to lower their cost of funds and consequential lending rates through a reduction in the current 14% reserve requirement on their deposits
- Facilitate electronic script-less mortgage-backed securities trading.
- Assist government in the development and operation of the demand-side housing subsidy system recommended in Section II of this report. In particular, by organizing an effective and non-politicized procedure for the qualification of applicants and for monitoring the proper usage of approved subsidies.

To assist in the development of a vital, but as yet inexistent, extension of housing loans in Ger areas, we recommend that HFC obtain from government a share of MCC/MCA grants sufficient to fund HFC's initial purchase and securitization of qualifying Ger area loans.

The HFC will ensure that the home mortgage loans it purchases conform to prevalent market conditions, as mortgages with below market rates of interest and unrealistic terms do not lend

themselves to securitization, even if deeply discounted. In this regard, a stated MCUD proposal to extend loans with an interest rate of between 6-7%, a low down-payment of 5-10% and a 30 year term (see Section IV), would definitely not qualify for securitization under current market conditions. The multiplying effect of securitization would be utterly and definitively lost. Furthermore, the competitive aspect of such sub-par loans will inevitably also preclude normal private sector sources from competing in the respective market segment. In this regard, HFC's collaboration in assisting government's demand-side subsidy program, as recommended in Section II of this report, will be vital.

Other absolutely critical measures to seek from government in order to ensure a meaningful and growing primary mortgage market include:

- Issuance by the Property Registry of self-proving title deeds for mortgaged properties and of all recorded liens related to them.
- Full legal protection of mortgage lender rights. Government has recently promulgated a so called non-judicial foreclosure law to correct the existing very ineffective and extremely lengthy procedure. This law –which we consider almost as deficient as the existing one– has been vetoed in one of its articles by the Constitutional Court. And this may be a blessing in disguise as it should force parliament to review the law in its entirety. What is needed is effective legislation creating an executive venue and procedures to ensure: (a) uncontested acceleration of delinquent loans; (b) immediate and non-dilatory foreclosure of the mortgaged property; (c) occupant eviction; and (d) sale of the property.
- A non-discriminatory and facilitating use of regulations and procedural regulations affecting mortgage originations and their negotiability.

In its second, consolidated phase, through its intermediation activities, the HFC will provide:

- Continuously expanding loan origination opportunities for primary mortgage lenders.
- Meaningful longer-term investment opportunities for individual and institutional investors.
- Progressively lengthening the term of its securities as the investment market develops.
- Implementation of credit enhancement mechanisms as needed to reinforce mortgage securitization. Among others, the following may be considered:
 - Over-collateralization or repossession of non-performing loans by the originator
 - Title of ownership to the mortgaged property held in trust (fiduciary) until loan repayment
 - If and when available, mortgage insurance
 - Issuance of tiered mortgage-backed securities

At the beginning, local institutional investors in HFC securities will most probably be limited to banks and other financial institutions for quite a while. None the less, there is no reason not to expect that the two classical institutional investors –life insurance companies and pension funds– will eventually join.

SECTION IV: GOVERNMENT AS HOUSING SECTOR ENABLER/FACILITATOR

Government's role is critical to the development of the housing market and the financial system that supports it. World experience, the related recommendations of the United Nations Habitat Conferences and of international development agencies, all confirm that governments are more constructive and effective when acting as "Enabler/Facilitators" instead of as direct "Providers" of housing units.

As Enablers governments will, among other issues:

- Provide full and facilitating support to the housing sector
- Establish enabling and facilitating regulations for urban planning, land development and infrastructure requirements
- Issue minimum, but non-limiting, regulations for housing development and construction
- Regulate and ensure the effectiveness of Property Ownership titles
- Ensure lenders' rights and access to effective foreclosure and eviction procedures in cases of borrower default
- Facilitate the conduct of auction procedures for foreclosed properties
- Regulate the financial system and related markets in ways that encourage and facilitate their housing operations, eschewing undue or restricting limitations that may have developed over time
- Secure open-market, undistorted conditions for the home mortgage system --as well as for the financial sector in general
- Facilitate the transparency of financial operations, including the availability of effective borrower credit reporting

As Facilitators governments will, among other issues:

- Focus their subsidy policies on the demand side, instead of on the supply side, when designing assistance programs for low and medium income households
- Ensure that their financial support and guarantees when issued are equally focused to help their ultimate intended beneficiaries

An important consideration from the government's point of view is the social impact of its above mentioned housing policies. To those "personal" assets important to an individual's existence – health, education, income generation, and enjoyment of a fruitful life– they must add that one "material" asset without which attainment of the foregoing becomes nigh impossible: adequate shelter. Shelter, especially when it evolves into home-ownership, greatly enhances individual and family opportunities for improving on their "personal assets" accumulation. And this growing family wealth and well-being will in turn increasingly contribute to the overall national wealth and welfare.

The government of Mongolia by Resolution of June 27th, 2005 approved a "40,000 Housing Units" program (Annex 1). This program calls for the provision of 10,000 apartment units, 15,000 housing units on (government owned) vacant lands and water and sewerage systems for 15,000 Ger families. To implement this 40,000 housing units program, the Ministry of Construction and Urban Development (MCUD) has drafted a proposed government resolution creating a National Housing Center (NHC) as "self-financing unit" within the Ministry itself (Annex 2).

This NHC is designed to conduct a number of activities, spelled out as follows in the introduction to the proposed resolution:

- Organize, in cooperation with aimag (regional government) and the capital city governors, the work on receiving and consolidating orders from Mongolian citizens for housing;
- Create a new source of investments by building new districts and neighborhoods on state-owned lands and selling these apartments and attract and involve foreign and domestic investors in construction of public apartments;
- Demolish old buildings with consent of tenants and build new apartments;
- Organize the work on improving the living conditions by ensuring full connection of partially connected buildings to the engineering lines or adding new floors (in compliance with appropriate technology) to the existing buildings that meet the technical standards;
- Organize the work on completing the construction of unfinished buildings and renovating unused buildings;
- Organize the work on building rental apartments for housing purposes for low-income people using government and other investments;
- Create conditions for building new districts and neighborhoods of public and private apartments by building a new housing infrastructure on vacant lands in downtown and suburban areas;
- Organize and implement, in cooperation with relevant organizations, the work on improving the living conditions in Ger areas by connecting them to water and sewage;
- Organize the work on issuing long-term mortgages to civil servants, low- and middle income people for purchasing apartments;
- Create a land exchange according to appropriate rules and procedures.

As can be seen, this is not an un-ambitious program and one that totally puts government in the role of Provider, including as a principal actor in the mortgage finance field.

The text of the proposed resolution is even clearer when it refers to “providing low-income residents by establishing a mortgage system”, to “issuing long-term housing loans”, to “create a state-owned housing fund” and to “organize the work on issuing long-term mortgages to civil servants, low- and middle-income people”. And concerning these mortgages, in meetings with MCUD’s minister and staff, it was pointed out that the intention was to make them available with a 5% to 10% down-payment, 6% to 7% interest and a 30 year term.

It is presently unclear how this all encompassing and expensive program is to be realized, although MCUD expresses confidence that foreign funds can be expected and with concessional terms. Be that as it may, it is clear that if implemented as proposed it would most assuredly leave the private financial sector unable to compete or even participate other than as an intermediary, if at all.

In our meetings with MCUD we have insistently emphasized the greater advantage of government acting in its Enabler/Facilitator role, particularly as regards the private financial sector. Both because of the latter’s greater efficiency, transparency and diminished risk of political interference in meeting the country’s needs for mortgage financing; its ability to relieve the fiscal purse; and its greater permanence over time compared to limited once-only governmental solutions.

Our suggestion to government is thus that it allow the private sector to provide the desired housing finance and that, to this end, it proceed to implement the Enabling financial sector measures recommended in this report. This would also allow MCUD’s proposed National Housing Center to better concentrate on its urban and housing sector promotional activities and on government’s Enabler/Facilitator role for the land development and construction sectors.

ANNEX A: THE FOURTY THOUSAND HOUSING UNITS PROGRAM

ANNEX A: THE FOURTY THOUSAND HOUSING UNITS PROGRAM

GOVERNMENT RESOLUTION

Date: 27 June 2005

Ref.: #144

City of Ulaanbaatar

Subject: Approval of the “40,000 Housing Units Program”.

For the purpose of the implementation of the Plan of Action of the Government, the Government has ordered to:

1. approve “40,000 Housing Units” Program as attached in the Appendix 1;
2. Mr. N.Batbayar, Minister of Construction and Urban Development and Mr. N.Altanhuyag, Minister of Finance to ensure funding of the program by allocating annual allotment from the state budget and by taking measures to involve foreign and domestic investors;
3. Mr. N.Batbayar, Minister of Construction and Urban Development to develop and get approved Master Plan and Business Plan for the “40,000 Housing Units” Program and ensure coordination of their implementation with other projects and programs; and
4. make the following amendment to the Attachment 17 of the Government Resolution # 17 of 2005:

40 National Committee on “40,000 Housing Units” Program Minister of Construction and Urban Development

Prime Minister of Mongolia

Ts.Elbegdorj

Minister of Construction and Urban Development

N.Batbayar

“40,000 Housing Units” Program

One. General Provision

Preamble

The purpose of the “40,000 Housing Units” Program is to implement the objectives of the Government Action Plan on upgrading living conditions of, and provision with sustainable employment and adequate housing for the citizens.

The Program implementation will result in the improved employment opportunities, living standard and housing supply for and improved affordability by the population, which will lead to positive attitude in the social mentality and will spur the communities’ motivation to work.

1.1. Background and justification

The “40,000 Housing Units” Program, aimed at achieving Government’s Plan of Action, is the complex of actions directed to combat with unemployment and poverty incidents currently encountering the country and shall serve as a tangible factor for improving livelihood and living environment of the population.

Today, only 20 per cent of the country’s total population is living in the dwellings meeting hygiene and sanitary requirements and connected to the water supply, sanitation and heat supply networks.

Although the number of private enterprises running construction business in the country has been increased, such negative factors as the existing tax system, outdated construction, design and bill of quantities codes, lack of new technologies and professional human resources, and inefficient financial system have retarded the construction sector development for the last years. Compare to real housing demand in the country, housing supply during the last years have been insufficient as in total of 7.6 thousand housing units have been built. As of 2004, price for 1m² floor areas of apartments reached in average USD350,000-400,000. Depending on the location, design and structural aspects, the price of 1-3-room apartments is in average 12-30 million tugriks, which is rather high compare to affordability of the majority of the population, thus, low income and poor people have less chance for the accessibility to housing. Low affordability of the population for housing and its high price demonstrate the lack of appropriate state regulation in the housing sector.

Besides, increased rural-to-urban migration of the population is hindering the implementation of the urban planning policies, hence, the proposed complex housing program will play significant role for addressing this problem.

Unplanned ger areas that have no basic infrastructure are causing air pollution and soil and water contamination. About 90,000 households residing in the ger areas of Ulaanbaatar annually burn over 300,000 tons of coal and 250m³ of fire woods discharging significant volume of emissions, thus cause air and environmental pollution.

Water consumption in the ger areas is approximately 5-7 liter per day per person, which is significantly lower compare to the 250 liter consumed by the apartment dwellers per person per day. Thus, it is needed to take measures towards improving housing condition of the citizens of Mongolia in order to ensure possibilities to exercise their right “...to enjoy the right to healthy and safe environment, and to be protected against environmental pollution and ecological imbalance” provided in the Article 16.2 of the Constitution of Mongolia.

About 54 per cent of the country's population is aged under 25. As of 2003, there are 263,300 youth aged 15-19 in the country. Those young people will reach labor age by 2005-2010, thus will contribute to the sharp increase in the housing demand of the country. Making a proactive policy for addressing this demand will not only closely coordinate with the long-term vision of the Government but the improved housing supply would also have positive implications to the sustainability of the families and the society as a whole.

Thus, the current circumstances require alleviating poverty among the population and ensuring sustainable livelihood for them by undertaking set of such measures as to increase the number of people with access to the appropriate housing, reduce price per unit floor area of housing and to increase employment generation. The proposed "40,000 Housing Units" Program shall identify holistic policies for addressing the above issues and will bring the construction sector of Mongolia upfront as one of the priority sectors of the Mongolian economy.

1.2. Current situation of the housing sector

Currently about 49.1 percent of the country's population is living in the 265,5 thousand apartment and housing units with total floor area of 6878 m², whereas remaining 50.9 percent is residing in ger dwellings. However, only 20 percent of the population is living in the adequate housing with connection to the heat supply, hot and cold water supply and sewerage system.

In terms of the size of the living area per person in the country urban and rural areas represent respectively 6.7 m² and 5.6 m², which are by 30-40% lower than that of provided by the national standard and 2 times lower than international practice.

Comprehensive policy is not in place that would holistically address the existing problems including remarkable disparities between the living conditions in the ger and apartment areas, high price of the houses and apartments, poor affordability of the population for acquisition of dwellings, lack of the sustainable long-term housing finance system in the country and constrained state budget.

1.3. International practice

Many countries in the world developed and implemented specific housing programs to provide their population with adequate housing. For instance, in 1990s Federal Republic of Germany, Republic of Korea, and Malaysia implemented respectively "550,000 Housing Units", "2,000,000 Housing Units", and "800,000 Housing Units" Programs, while Ethiopia implemented "40,000 Housing Program" annually. All these countries financed the housing infrastructure required for the Program implementation from their state budget allocations.

The most of the countries provide their low income population with rent apartments by developing Housing Development Fund or mobilizing other sources of funding, while ensuring accessibility by the middle income population to long-term housing loan (mortgage lending) facilities. In many countries the balance of the mortgage loans account for high share in their GDP. For example, this share is reported in Denmark 70%, in the Netherlands 66%, in the UK 59%, in Germany 50%, in the USA 53%, in Singapore 59% and in Japan 35%, but in the developing countries this figure is only 3-10%.

In general, such factors as legal environment for housing, adequate tax regulations, mortgage lending system, state budget expenditure and state audit system have significant impact in the housing policies of the world countries. The purpose of the "40,000 Housing Units" Program is to develop holistic housing policy with the consideration of international practices and challenges

encountering the society, whereby, improve the living condition of the population and contribute to the country's development in the long run.

1.4. Terminologies used

The terminologies used in the Program shall be understood as follows:

“Housing” refers to the definition provided in the Article 3.1.1 of the Housing Law.

“Apartment” refers to the definition provided in the part 1 of Article 3 of the Housing Privatization Law;

“House” means houses with and without attached plot area;

“Housing infrastructure” refers to the definition provided in the Article 3.1.2 of the Housing Law.

“Primary housing infrastructure” means a localized system of the central electricity, water supply and sanitation system;

“Housing with primary infrastructure” means the houses with attached plot area and connected to the localized electricity, water supply and sanitation system.

“Human centered sustainable urban development policy” means an urban development policy that is aimed at well being of the people, protective in terms of natural environment and resources; and complies with economic growth and social development.

Two. Program Implementation Framework

2.1. Program objective

Objective of the program is to implement complex of activities comprising housing demand, supply, administration and management towards creating favorable conditions for the construction of 40,000 housing units with adequate quality and meeting demand and affordability of the home buyers by (i) developing optimum urban development policy with consideration of country specific conditions and international practices; (ii) ensuring economic transaction of land; (iii) creating mortgage lending system; (iv) creating favorable economic and legal framework in the construction sector; and (v) providing housing infrastructure in the ger areas and un-developed areas in outskirts of the city.

2.2. Modes of the Program Implementation

“40,000 Housing Units” program will be implemented in five years time, taking place 90% in the capital city and 10% in the regional pillar and Aimag centers. The following three modes will be applied:

2.2.1. Mode 1

The apartment buildings with 10,000 apartment units will be built, including:

- a) construct apartment buildings in the un-built areas of the city by improving existing infrastructure;
- b) demolish existing buildings and the construct new ones subject to the initiatives by the residents;
- c) add new stories in compliance with the technological requirements on the existing buildings with satisfactory technical condition;

- d) improve housing condition of the houses not connected to the utilities by providing their connections to the utilities;
- e) complete the construction of and make operational the un-finished apartment buildings; and
- f) modify un-operational buildings for housing purpose;

2.2.2. Mode 2

- a) Develop new towns with 15,000 housing units in outskirts of the city by providing housing infrastructure in the currently un-developed areas;
- b) Construct housing utilities and engineering infrastructure in the un-developed areas of outskirts of the city; and
- c) Construct housing areas together with social and service facilities.

2.2.3. Mode 3

- a) The policy will be pursued to gradually convert existing ger areas into modern detached housing areas by improving housing condition of 15,000 households as a result of individual connections of the ger plots to the water supply and sanitation facilities;
- b) Improve ger area planning and design based on the community initiative and participation;
- c) Re-develop ger areas towards convenient housing areas by connecting them to the water supply and sanitation system; and
- d) Where possible connect some ger areas to the district heating system.

2.3. *Development of the Construction and Urban Development Sector*

In order to ensure successful implementation of the objectives using above three modes, the construction sector development shall be stepped up to the new level, including:

- 2.3.1. update urban development and construction codes and develop affordable housing standards;
- 2.3.2. develop integrated information system on buildings, structures and housing;
- 2.3.3. introduce full-cost-based bill of quantities approach in order to facilitate cost calculation of the buildings and increase wages and salary for the builders;
- 2.3.4. introduce new techniques and technologies in the construction sector, and provide with opportunity to lease or purchase construction machinery and equipment;
- 2.3.5. train and re-train skilled workers in the construction sector, introduce new technologies to them, and improve teaching skills and methodologies of the teachers;
- 2.3.6. generate employment directly and indirectly by developing research, design and construction entities as well as small and medium size construction material producers;
- 2.3.7. develop construction codes for the disabled and ensure their implementation at the construction design stage; and
- 2.3.8. improve construction quality control, set up accountability mechanism for the quality of construction materials, and introduce licensing system for construction material industry.

Three. Legal and Economic Framework of the Program

3.1. Legal framework

The following proposals will be developed:

- 3.1.1. Exemption from VAT the activities (i) construction of housing and its infrastructure; (ii) water supply services to the ger area residents using primary housing utilities; (iii) sales of housing and the parts thereof; and (iv) design of housing and related infrastructure facilities;
- 3.1.2. Exemption from VAT and customs duties the importation of machinery, equipment and raw material for the production of some construction materials those are expensive and/or required in big quantity;
- 3.1.3. Exemption from income tax the sales of the newly built houses and apartments;
- 3.1.4. Laying primary housing infrastructure in ger areas and construction of centralized electricity, heat, water supply and sanitation system for new housing area (new town) using state budget;
- 3.1.5. Amendment to the Urban Development Law and land related laws;
- 3.1.6. MBS market development; and
- 3.1.7. Provision of Sovereign Guarantee for foreign investment, issue of Government Bonds, and purchase of house and apartments built using foreign investment;

3.2. Foreign Investment

Foreign investment shall be encouraged through:

- 3.2.1. Allocation of land for construction of housing and its infrastructure;
- 3.2.2. Concluding Sustainability Agreement;
- 3.2.3. Purchase by the Government when necessary the newly built apartments and houses subject to the negotiated price; and
- 3.2.4. Exemption from the taxation on dividend revenue;

3.3. Economic and Legal Framework

Favorable conditions will be created to ensure access for the population to the adequate housing including:

- 3.3.1. The state shall undertake construction of primary housing infrastructure and utilities including electricity, heat, water supply and sanitation for new housing area (new town) and will allocate annual investment for this purpose from the state budget;
- 3.3.2. Mortgage lending system will be established;
- 3.3.3. Renewable energy and liquefied gas technologies will be introduced to the new apartments and houses moreover wide range penetration of their utilization will be ensured;
- 3.3.4. Specific housing sub-programs will be developed and implemented in order to create a condition that allows the access by civil servants and vulnerable groups to housing on concessional terms;
- 3.3.5. Rental apartment types will be developed for low and middle income households and young families; and

- 3.3.6. Actions will be taken to improve housing condition of the teachers and doctors working in soum centers.

Four. Financing

4.1. Investment required and its disbursement

According to the preliminary study the program implementation will require fund equivalent to approximately USD600 million.

The above fund is expected to be disbursed to finance:

- equivalent to USD70 million for the construction of housing infrastructure;
- equivalent to USD200 million for the construction of 10,000 apartment units;
- equivalent to USD300 million for the construction of 15,000 houses and apartment units to be built in new towns and housing areas; and
- equivalent to USD30 million for the connection of ger areas to water supply and sanitation system.

4.2. Cooperation and Available Resources

Under this Program cooperation will be maintained with the Bank of Mongolia, Ministry of Finance and other line ministries, multilateral and bilateral donors, commercial banks and other stakeholders.

The Bank of Mongolia shall ensure condition to repatriate to the domestic financial market the funds of the commercial banks deposited (placed) in the foreign banks with low interest rate, and will participate in the establishment of an authority to be entitled to regulate housing finance funds and resources. Moreover, possibilities shall be sought to channel term deposits maintained in the commercial banks to the mortgage market.

As of 2004 total amount of term deposits amounted at 625.7 billion togrogs, and in 2003-2004 this type of deposit had been increased by 27.6%¹. It indicates a high potential of the domestic resources and substantial rooms for the Government to mobilize investment.

4.3. Program Funding

The program funding shall comprise the following sources:

- 4.3.1. State and local budget allocations for the purpose of the construction of housing infrastructure;
- 4.3.2. Loan and grants by the foreign banks and multilateral financial institutions;
- 4.3.3. Credits by the banks and other financial institutions;
- 4.3.4. Foreign investment against sovereign guarantee to be invested for the housing construction purposes;
- 4.3.5. Revenue from the sales of Government Bonds and MBSs;
- 4.3.6. Corporate and individual capital;
- 4.3.7. Proceeds of the Housing Development Fund;
- 4.3.8. Proceeds gained from the economic transaction of land; and
- 4.3.9. Others.

¹ Bank of Mongolia, 2005

4.4. *Fund Raising*

4.5. *Affordability of the Population*

Financial activities of the Program shall be focused on to create favorable financial conditions and improve affordability of the population for home purchase, which will include:

Special bank account shall be maintained to place foreign and domestic funds to be mobilized under the Program framework.

4.5.1. People with sustainable income sources:

The current practice, where the home buyers must settle full payment for their housing beforehand, shall be replaced with the international practice in form of mortgage lending where the home buyers can pay certain amount of down payment followed by the monthly payment of outstanding amount during the following 15-25 years.

4.5.2. Low and middle income households and young families:

Specific sub-programs will be implemented for the construction of apartment blocks with 1-2 room apartment units, which will be rent to low and middle income households and young families with limited financial resources, which is not enough to buy own homes. The Government will purchase those apartment blocks from the construction Contractors. The fund for this purpose shall be raised by issuing long-term Government bonds and mobilizing other financial resources.

Five. Administration and Management

- 5.1. A Steering Committee shall be assigned to administer the Program implementation countrywide. Chairperson of the Steering Committee will be the Government Cabinet Member in charge of construction and urban development, who will approve the Committee members.
- 5.2. Aimag and Municipal Governors shall undertake administration of the Program implementation at local level.
- 5.3. A state owned entity shall be set up to manage daily activities for the Program implementation.
- 5.4. Financial administration for the program implementation shall be carried out jointly by the Bank of Mongolia, Ministry of Finance and Ministry of Construction and Urban Development.

Six. Output, Performance criteria and Implications

6.1. *Expected output*

- 6.1.1. 10,000 apartment units will be built and made operational;
- 6.1.2. New towns and housing areas with 15,000 housing and apartment units will be built and put in operation in the un-developed areas in outskirts of the city;
- 6.1.3. Conditions will be provided for the connection of 15,000 houses in the ger areas to the water supply and sanitation system;
- 6.1.4. Residential floor area per person shall reach 8 m²;
- 6.1.5. Price for housing unit shall become in line with the affordability of the citizens;
- 6.1.6. Total floor area of the housing units shall reach 40-50 m²;

- 6.1.7. Rental housing system will be maintained for accommodating low and middle income population;
- 6.1.8. Housing mortgage lending system will be established;
- 6.1.9. Services for construction machinery and equipment leasing will be set up and skills of the construction skilled workers will be upgraded to the competitive level.
- 6.1.10. Air, soil and water pollution and contamination will be reduced; and
- 6.1.11. Employment generation will be increased, sustainability and productivity will be improved.

6.2. Performance criteria

- 6.2.1. number of housing units put in operation;
- 6.2.2. size of residential floor area per person;
- 6.2.3. number of rental apartment units;
- 6.2.4. share of the population living in dwellings provided with utilities;
- 6.2.5. ratio between the price of housing unit and household income;
- 6.2.6. share of mortgage lending in total lending;
- 6.2.7. indicators exhibiting reduced air, soil and water pollution and contamination; and
- 6.2.8. number of employment generated in the construction sector as well as in associated production and service facilities.

Housing provision indicators for the first half of 2004 shall be used as baseline data for the Program performance assessment.

6.3. Social implications of the Program

“40,000 Housing Units” Program shall become an engine spurring social initiatives and driving force that would increase housing supply, GDP growth and reduce poverty and unemployment.

Program implications at micro level:

- 6.3.1. As a result of favorable tax, legal and financial framework, investment sources for home construction will be improved and construction cost for dwellings will be reduced.
- 6.3.2. The secondary mortgage market will be developed ensuring an accessibility of the population to the long term housing loan system and their improved affordability.
- 6.3.3. Housing policy will be implemented in an integrated manner leading to the improved living standard of the population in compliance with the objectives set in the Government Action Plan.
- 6.3.4. New employments will be generated securing sustainable income resources for certain part of the population.
- 6.3.5. Foreign workforces currently working in the country will be replaced by the domestic labor, and the favorable working and living conditions will be created in the home country for those skilled workers working abroad.
- 6.3.6. New techniques and technologies will be introduced in the construction sector and national production facilities will be increased.

- 6.3.7. Appearance, densification and land utilization in the cities will be improved as a result of improved quality of urban planning. Share of the construction sector in the GNP will be increased and the sector will become a dynamic engine for the country's economy.

Program implications on the` social mentality:

- 6.3.8. Successful implementation of the objectives of the Government Action Plan shall induce the people's trust thereto.
- 6.3.9. Workforce that obtained mortgage loans and are provided with adequate housing will become more enthusiastic to work consistently in an adequate working environment, thus, the positive climate will be maintained in the society.
- 6.3.10. Addressing the housing demand of the population shall ensure favorable and positive environment to materialize the demographic policies.
- 6.3.11. Confidence of the people to work and inhabit in their home country will be raised.

As a result of the implementation of the "40,000 Housing Units" Program people will have access to long-term housing loan to satisfy one of their primary needs, will earn honestly in order to maintain their achieved living standard, will defeat to be employed permanently in order to maintain their income source, thus, all in all the Program will lay down a milestone to sustain people's hard and energetic working attitude and mentality to be responsible for the life.

ACTION PLAN FOR IMPLEMENTATION OF "40,000 HOUSING UNITS" PROGRAM

No.	Actions for implementation	Implementation period	Organization in charge
A. Implement a sustainable human-centered urban development policy, identify locations for construction of 40,000 housing units, develop and obtain approval of a Master plan			
1	Resolve issues related to lands for construction of housing by determining the location and capacity of 40,000 housing units	2005	MCUD, Governor's offices of Ulaanbaatar and aimags
2	Review and renew implementation of the Ulaanbaatar Development Master Plan for up to 2020	2005–2007	MCUD, Ulaanbaatar Governor's Office
3	Develop and obtain approval of a partial master plan of housing districts, which is consistent with the Master plan for development of cities and villages and the Land administration plan	2005 –2007	MCUD, Governor's offices of Ulaanbaatar and aimags
4	Develop a Master plan for development of ger districts	2005–2006	MCUD, Governor's offices of Ulaanbaatar
5	Re-plan housing districts that no longer comply with requirements for exploitation and safety of city and village residents	2005–2010	MCUD, Governor's offices of Ulaanbaatar

6	Develop and implement a training program on planning of cities, villages and housing districts with community participation, which is consistent with the urban development policy	2005–2010	and aimags
B. Improve efficiency of land administration and bring legal regulation of urban land relations to a new level			
7	Organize measures to identify vacant lands for construction of housing and determine locations of lands for construction of new housing districts	2005	MCUD, Ulaanbaatar Governor’s Office
8	Organize measures to provide with topographic-territorial maps required for a master plan to be developed within the scope of the Program as well as for planning buildings to be constructed	2005–2007	MCUD, Department of Land Relations, Cartography and Geodesy
9	Provide land for construction of housing to business entities and agencies participating in the Program	2005–2007	MCUD, Governor’s offices of Ulaanbaatar and aimags
10	Implement legal and regulatory measures to increase participation of land possessors, users and owners by expanding land economic relations while implementing measures to provide infrastructure in ger districts and build private houses	2005	MCUD, Governor’s offices of Ulaanbaatar and aimags
C. Create an enabling legal and economic environment for implementation of “40,000 Housing Units” Program			
<i>Develop drafts of the following laws and decisions of the State Great Hural and the Government regarding the implementation of the “40,000 Housing Units” Program, obtain approval:</i>			

11	<i>a/ Draft laws</i>		
	– VAT exemptions in connection with the 40,000 Hones Program’s implementation;	First half of 2005	MCUD
	– Customs duty exemptions in connection with the 40,000 Housing Units Program’s implementation;		
	– Additions and amendments to the Housing Law;		
	– Non-applicability of certain law provisions in connection with the 40,000 Housing Units Program’s implementation;	First half of 2005	MCUD
	– Additions and amendments to the package of the Land laws;		
	– Additions and amendments to the Law on legal status of cities and villages;	Third, fourth quarters of 2005	MCUD
	– Additions and amendments to the Construction Law;		
– Additions and amendments to the Law on business licenses;			
– Law on “Mortgage-backed securities market” and additions and amendments to certain other laws in connection with this law.			
12	<i>b/ Draft decisions of the State Great Hural</i>		
	– Issuing Government housing bonds (guarantees) to foreign investors and purchasing apartments and their infrastructure constructed by foreign investments	Third quarter of 2005	MoF, MCUD
13	<i>c/ Draft decisions of the Government</i>		
	– Regarding issuance of Government bonds (guarantees) to foreign investors	Third quarter of 2005	MoF, MCUD

	– Regarding establishment of a “Housing Corporation” as a state-owned legal entity that will be responsible for organizing and managing day-to-day activities to implement the Program		
	- Regarding purchase of apartments built by foreign investments	Third, fourth quarters of 2005	MoF, MCUD, MB
	– Regarding establishment of a legal entity in charge of organizing and managing the financial mechanism of the Program and the securities activities		
14	Organize measures to implement the laws related to the Program’s implementation	From 2005	MCUD, ministries, Governor’s offices of Ulaanbaatar and aimags
15	Develop and approve the Business plan and the Master plan for the “40,000 Housing Units” Program	2005	MoF, MCUD
16	Organize measures to create a sustainable financial source for issuing long-term loans	2005–2010	MoF, MCUD, MB
17	Register and conduct a survey of business entities, companies and organizations that will build the housing infrastructure and housing buildings	From 2005	MCUD
18	Select and sign contracts with business entities and companies participating in the “40,000 Housing Units” Program, issue them a guarantee of participation		
19	Organize measures to select and register the foreign organizations and business entities that will build the housing infrastructure and housing buildings, provide land and, if necessary, sign a Stability agreement		
20	Sign an agreement regarding the sale and purchase of housing units built by foreign investments and their infrastructure		
21	Develop and implement special housing sub-programs to create conditions for providing government employees and vulnerable social groups with subsidized housing	Fourth quarter of 2005	MoF, MCUD, MOJHA
22	Develop and obtain approval on proposals to introduce certain changes in the agreement in order to improve	2005–2006	MoF, MCUD

	efficiency of some projects implemented by international banks and financial organizations in connection with the Program's implementation		
23	Organize measures to determine on annual basis the amount of funds from the state budget to implement the Program and obtain approval from SGH	Annually from 2005	
D. Construction of 40,000 affordable housing units that will be accomplished by new construction or improvement			
<i>a/ Construction of 10,000 apartments for public use</i>			
24	Develop and approve a partial master plan	2005–2010	MCUD, Governor's offices of Ulaanbaatar and aimags
25	Sign contracts with organizations, business entities and individuals who will build apartments for public use on lands provided under the Master plan		
26	Build new housing units by using the existing infrastructure on vacant lands in the city		
27	With consent of residents, demolish old buildings that no longer meet exploitation standards and build new building		
28	Add new floors (in compliance with the appropriate technology) to the existing buildings in conformity with the technical standards		
29	Improve conditions by connecting to the engineering line those housing units that are not fully connected;		
30	Complete construction of unfinished housing buildings, renovate unused buildings for the housing purpose	2005–2007	MCUD, SPC, SPSD, Governor's offices of Ulaanbaatar and aimags
<i>b/ Construction of 15,000 private houses</i>			

31	Develop a partial master plan for construction of new housing districts and neighborhoods on suburban vacant lands;	2005–2010	MCUD, Governor’s offices of Ulaanbaatar and aimags
32	Provide lands for construction of new housing neighborhoods and districts into possession of organizations and business entities (project selection and auction)		
<p><i>c/ Develop and transform ger districts into districts of private houses by creating primary infrastructure in ger districts and improving housing conditions for 15,000 households</i></p>			
33	Conduct re-planning of ger districts with community participation, develop them as housing districts with private lands /develop at the first stage Dari–Ekh, Dambadarjaa, Gandan, Yarmag and Nisekh as model ger districts/	2005–2010	MCUD, Governor’s offices of Ulaanbaatar and aimags
34	Build primary housing infrastructure		
35	Organize measures to connect households in ger districts to primary housing infrastructure		
<p>E. Create new jobs by introducing new technology in the construction sector, improving market competitiveness, and developing construction production</p>			
36	Renew and enforce urban development and construction standards, rules and norms based on studies of the Canadian norms and rules	From 2005	MCUD, Governor’s offices of Ulaanbaatar and aimags, NSO
37	Conduct training on enforcement and implementation of new urban development and construction norms and rules		
38	Organize measures to certify buildings and facilities		
39	Register housing buildings and create a consolidated database		

40	Introduce new technology in the construction sector, create leasing services for machinery and equipment	2005 –2008	MCUD, MECS, MLSW, MIT, Governor’s offices of Ulaanbaatar and aimags, NSO
41	Conduct training and prepare professional workers with knowledge of new machinery, technology and science in the construction sector introduced with foreign and domestic financing		
42	Create an extended valuation of the construction budget		
43	Increase jobs by developing small and medium businesses producing construction materials as well as construction, project design and research and development institutions		

Abbreviations:

1. MCUD – Ministry of Construction and Urban Development
2. MoF – Ministry of Finance
3. MESC – Ministry of Education, Science and Culture
4. MLSW – Ministry of Labor and Social Welfare
5. MIT – Ministry of Industry and Trade
6. ADGO – Administration Department of the Governor’s Office
7. NSO – National Statistical Office
8. SPC – State Property Committee
9. SPSD– State Professional Supervisory Department
10. MB – Mongolbank
11. MoJHA – Ministry of Justice and Home Affairs

ANNEX B: DRAFT GOVERNMENT RESOLUTION ON THE NATIONAL HOUSING CENTER

ANNEX B: DRAFT GOVERNMENT RESOLUTION ON THE NATIONAL HOUSING CENTER

Draft

**GOVERNMENT OF MONGOLIA
RESOLUTION**

Date: No. Ulaanbaatar

Re: Establishment of a National Housing Center

Based on Paragraph 1.4, Article 24, of the Law on the Government of Mongolia and Paragraph 5.3, Chapter 5, of the “40,000 Housing Units” Program approved by Government Resolution No. 144 of June 27, 2005, the Government of Mongolia DECREES as follows:

One. Establish a National Housing Center under the Ministry of Construction and Urban Development, the function of which will be the organization of broad-ranging activities of investments, land relations, urban planning, construction and public utilities.

Two. Assign Minister of Construction and Urban Development N. Batbayar to approve the charter, structure and staff limit of the National Housing Center.

Prime Minister

Ts. Elbegdorj

Minister of Construction and Urban Development

N. Batbayar

OVERVIEW

The “40,000 Housing Units” Program was approved by Resolution No. 144 of June 27, 2005 for the purpose of improving the living standard of people and providing them with sustainable employment and comfortable housing set forth in the Government Action Plan. The organizational work on the program implementation has been started.

As set forth in Paragraph 5.3, Chapter 5, of the “40,000 Housing Units” Program, we have prepared the draft of the decision of the Cabinet meeting regarding the establishment of a legal entity under the Ministry of Construction and Urban Development, the function of which will be the organization of and responsibility over day-to-day activities of the program implementation, as well as an overview of [such an entity].

The experience of countries with developed markets shows that they have adopted a staged program to develop the housing sector and organized the work on the program implementation through an entity or organization established by the government. For example, housing corporations and entities operating in such countries as Japan, Korea, Canada, Malaysia and Turkey create an enabling environment for rapid development of the housing sector and successfully implement an integrated coordination of the government policy.

The proposed National Housing Center will focus its activities on the creation of an enabling environment for providing low-income residents by establishing a mortgage system and for construction of cost-efficient housing units suited to purchasing abilities and requirements of people and the standards by implementing land management and building the housing infrastructure in ger districts, the city downtown and vacant suburban lands.

The National Housing Center will be a self-financing unit that will conduct the following activities:

- Organize, in cooperation with aimag and the capital city governors, the work on receiving and consolidating orders from Mongolian citizens for housing;
- Create a new source of investments by building new districts and neighborhoods on state-owned lands and selling these apartments and attract and involve foreign and domestic investors in construction of public apartments;
- Demolish old buildings with consent of tenants and build new apartments;
- Organize the work on improving the living conditions by ensuring full connection of partially connected buildings to the engineering lines or adding new floors (in compliance with the appropriate technology) to the existing buildings that meet the technical standards;
- Organize the work on completing the construction of unfinished buildings and renovating unused buildings;
- Organize the work on building rental apartments for the housing purpose for low-income people using government and other investments;
- Create conditions for building new districts and neighborhoods of public and private apartments by building a new housing infrastructure on vacant lands in downtown and suburban areas;
- Organize and implement, in cooperation with relevant organizations, the work on improving the living conditions in ger areas by connecting them to water and sewage lines;
- Organize the work on issuing long-term mortgages to civil servants, low- and middle income people for purchasing apartments;
- Create a land exchange according to appropriate rules and procedures.

MINISTRY OF CONSTRUCTION AND URBAN DEVELOPMENT

CHARTER OF THE “NATIONAL HOUSING CENTER”

One. General provisions

1. The “National Housing Center” /hereinafter referred to as the “Center”/ is a self-financing organization established with the purpose organizing and implementing broad-range activities related to housing demand and supply, management and organization aimed at creating an enabling environment for construction of cost-efficient residential buildings suited to purchasing abilities and requirements of people and the standards by implementing land management and developing the housing infrastructure in ger districts and on vacant lands in downtown and suburban areas as well as for providing low-income residents by establishing a mortgage system in order to implement the objectives set forth in the Government Action Program to improve the living standard of people and provide them with sustainable employment and comfortable housing,
2. The main objective of the Center is to organize the implementation of housing and public utility projects and programs financed with domestic and foreign loans and grants, investments from the state budget or private investments, coordinate related land management issues and bring the construction and urban development sector to a new level by developing the housing infrastructure in ger districts.
3. Based on Paragraph 1.4, Article 24, of the Law on the Government of Mongolia, a Cabinet member in charge of construction and urban development shall approve the Charter and structure of the Center, appoint and relieve its chairman.
4. The Center shall run its activities independently in compliance with relevant laws and regulations, decisions of Minister for Construction and Urban Development and this Charter.
5. Minister for Construction and Urban Development and Minister for Finance shall jointly approve the staff limit and the budget of revenues and expenditures of the Center.
6. The chairman of the Center shall take full responsibility for implementation of the objectives of the Center and report to Minister for Construction and Urban Development and shall issue decisions or orders in compliance with laws and regulations within his power.
7. The Center shall have its own stamp, logo and printed letterhead made in conformity with the established rule.

Two. Operational principles and main guidelines

8. Within the framework of the “40,000 Housing Units” Program approved by the Government of Mongolia, [the Center] shall organize the work on constructing rental apartments for people with low income, implementing land management and creating the housing infrastructure in ger districts, vacant lands in downtown and suburban areas, constructing residential buildings for low- and middle-income people and issuing long-term housing loans.
9. [The Center] shall organize in cooperation with aimag and the capital city governors the work on receiving and consolidating orders from Mongolian citizens for housing, conduct surveys and analyses and make economic calculations by classifying according to the type (public or private, mortgage or rental, etc.) and location of housing.
10. [The Center] shall create a new source of investments by building new districts and neighborhoods on state-owned lands and selling these apartments and attract and involve foreign and domestic investors in construction of public apartments. Within the scope of this work, the Center shall:

- 10.1. Based on the decision of an authoritative officer of the capital city, aimag, soum or district, designate the rights for possession of lands where it is possible to build a new neighborhood and district according to the land planning master plan;
- 10.2. create a state-owned housing fund using the proceeds from the sale of certain housing units built on its owned territory and, thus, create a source of funding for developing a housing infrastructure and building housing units;
- 10.3. with consent of residents, organize the work on demolishing old buildings and constructing new residential buildings;
- 10.4. organize the work on adding new floors (in compliance with the appropriate technology) to the existing buildings in conformity with the technical standards;
- 10.5. Organize the work on improving the living conditions of buildings by ensuring full connection of partially connected buildings to the engineering lines;
- 10.6. Organize the work on completing for occupancy the construction of unfinished buildings;
- 10.7. Organize the work on renovating unused buildings for the housing purpose.
11. Organize the work on constructing rental residential buildings for low-income people with the government and other investments. Within the scope of this work, the Center shall:
 - 11.1. organize the work on constructing cost-efficient public apartments in compliance with the standards, based on appropriate research;
 - 11.2. select the contractor for housing construction with the state budget financing according to the “Law on the procedures for selecting a contractor of goods, works and services financed with state or local property”.
12. [The Center] shall create conditions for building new districts and neighborhoods of public and private apartments by developing a new housing infrastructure on vacant lands in downtown and suburban areas by attracting domestic and foreign investors. Within the scope of this work, the Center shall:
 - 12.1. organize the work on developing a new housing infrastructure on vacant lands of the city downtown and suburban areas;
 - 12.2. organize the work on building residential districts according to the construction standards and rules along with cultural and social facilities.
13. [The Center] shall organize and implement in cooperation with relevant organizations the work on improving the living conditions in ger areas by connecting them to water and sewage lines and attracting domestic and foreign investors. Within the scope of this work, the Center shall:
 - 13.1. improve the planning of ger districts;
 - 13.2. transform ger districts into comfortable private house neighborhoods by connecting ger districts to water and sewage lines;
 - 13.3. connect some feasible places to the heating network.
14. [The Center] shall organize the work on issuing long-term mortgages for housing to civil servants, low- and middle-income people. Within the scope of this work, the Center shall:
 - 14.1. organize the work on housing construction by defining the needs of aimags and local areas and obtaining approval from the Citizens’ Representatives Hural;
 - 14.2. buy housing units with the funds allocated from the fund created from the proceeds from rental apartments and organize the work on giving those units to citizens under loan agreements.
15. [The Center] shall organize the activities of an immovable property exchange according to appropriate rules and procedures.

16. In order to encourage foreign investors, [the Center], with consent of relevant Governors, shall organize the work on providing land to the entities wishing to construct residential buildings.
17. In order to fulfill the duties specified in this Charter, the Center shall cooperate with organizations, entities and companies with different types of ownership in the construction sector, consult with them on certain issues, give recommendations and provide assistance.
18. The Center may earn profits by running business activities in conformity with laws and regulations.
19. The Center shall estimate the size of the capital required for construction of residential buildings and housing infrastructure to be built in the next year with the state budget financing and submit the calculations and studies to the Ministry of Construction and Urban Development by July 10 of the current year.

Three. Management, administration and assets

20. The chairman of the Center appointed by Minister for Construction and Urban Development shall manage day-to-day activities of the Center.
21. The chairman of the Center shall work under an [employment] contract made with Minister for Construction and Urban Development and shall report semiannually and annually.
22. The chairman of the Center shall communicate with other organizations on behalf of the Center within the authority given by Minister for Construction and Urban Development.
23. The Center may have its representative or branch in the rural areas. The Ministry of Construction and Urban Development shall approve an operational procedure of a branch and or a representative.
24. The assets of the Center shall consist of fixed and current assets provided by the Government for operations of the Center as well as other financial resources.
25. The Center shall own, use and spend its assets in compliance with relevant laws and regulations as well as this Charter and shall operate on a self-financing basis by running different business activities.

ANNEX C: MORTGAGE CALCULATOR

ANNEX C: MORTGAGE CALCULATOR

Inc.\$ p/m	Available	Pmt \$ p/m	House \$	Dpmt	Subsidy	Loan %	Loan \$	Intrst p/a	Months	Subsidy \$	Subs PV \$
?	?	#VALUE!	?	?	?	#VALUE!	#VALUE!	?	#VALUE!	?	discount
300	30%	90	1,500	25%	0%	75%	1,125	20%	14	?	18%
300	30%	90	1,500	25%	0%	75%	1,125	7%	13	89	81
300	30%	90	1,500	25%	0%	75%	1,125	20%	14	-	
300	30%	90	1,500	25%	25%	50%	750	20%	9	375	
300	30%	90	1,500	25%	0%	75%	1,125	7%	13	89	81
300	30%	90	1,500	25%	0%	75%	1,125	20%	14	-	
300	30%	90	1,500	25%	25%	50%	750	20%	9	375	
300	30%	90	2,000	25%	0%	75%	1,500	7%	18	160	140
300	30%	90	2,000	25%	0%	75%	1,500	20%	20	-	
300	30%	90	2,000	25%	25%	50%	1,000	20%	12	500	
300	30%	90	4,000	25%	0%	75%	3,000	7%	37	703	536
300	30%	90	4,000	25%	0%	75%	3,000	20%	49	-	
300	30%	90	4,000	25%	25%	50%	2,000	20%	28	1,000	
450	30%	135	4,000	25%	0%	75%	3,000	7%	24	438	366
450	30%	135	4,000	25%	0%	75%	3,000	20%	28	-	
450	30%	135	4,000	25%	25%	50%	2,000	20%	17	1,000	
450	30%	135	6,000	25%	0%	75%	4,500	7%	37	1,055	804
450	30%	135	6,000	25%	0%	75%	4,500	20%	49	-	
450	30%	135	6,000	25%	25%	50%	3,000	20%	28	1,500	
1,000	30%	300	10,000	25%	0%	75%	7,500	7%	27	1,252	1,022
1,000	30%	300	10,000	25%	0%	75%	7,500	20%	33	-	
1,000	30%	300	10,000	25%	25%	50%	5,000	20%	20	2,500	

1,000	30%	300	15,000	25%	0%	75%	11,250	7%	42	3,051	2,245
1,000	30%	300	15,000	25%	0%	75%	11,250	20%	59	-	
1,000	30%	300	15,000	25%	25%	50%	7,500	20%	33	3,750	
1,500	35%	525	20,000	25%	0%	75%	15,000	7%	31	2,923	2,318
1,500	35%	525	20,000	25%	0%	75%	15,000	20%	39	-	
1,500	35%	525	20,000	25%	25%	50%	10,000	20%	23	5,000	
1,500	35%	525	25,000	30%	0%	70%	17,500	7%	37	4,102	3,127
1,500	35%	525	25,000	30%	0%	70%	17,500	20%	49	-	
1,500	35%	525	25,000	30%	25%	45%	11,250	20%	27	6,250	

ANNEX D: MEETING SCHEDULE

ANNEX D: MEETING SCHEDULE

Time	Name	Position	Organization	Phone	Fax	E-mail	Participants
September 27, 2005							
4:00 PM	Enkhbayar, Ts.	Project Manager, Housing Finance (Sector) Project	ADB-PMU	319733; 99110681	321114	house@mobinet.mn	Claude Bovet, Ashidmaa
	Oyun, Ts.	Financial Manager, Housing Finance (Sector) Project	ADB-PMU	317933	321114	house@mobinet.mn	Claude Bovet, Ashidmaa
September 28, 2005							
2:30 PM	Buted, Sh.	Director, Housing Loan Division	MCUD <slide presentation>	327252; 99111944	322904	buted_sh@mcud.pmis.gov.mn	Fernando Bertoli, Claude Bovet, Ashidmaa
	Bayantuul, B.	Senior Officer	MCUD <slide presentation>	327252; 99285226	322904	bayantuul2004@yahoo.com	
	Norvanchig, Kh.	Officer	MCUD <slide presentation>	327252; 99163313	322904	norvanchig@yahoo.com	
September 30, 2005							
2:15 PM	Buted, Sh.	Director, Housing Loan Division	MCUD	327252; 99111944	322904	buted_sh@mcud.pmis.gov.mn	Claude Bovet, Ashidmaa
October 3, 2005							
2:30 PM	Erdenemunkh, G.	Project Manager	Cadastral Survey & Land Registration	318295; 99118480	324576	cadproj@magicnet.mn	Claude Bovet, Ashidmaa
October 4, 2005							
4:30 PM	Mandar Jayawant	Deputy Resident Representative	ADB	329836	311795	mjayawant@adb.org	Tim O'Neill, Claude Bovet, Ashidmaa
	Sona Shreshtha	Financial Sector Expert (Home Office)	ADB			sonashrestha@adb.org	
October 5, 2005							
10:00 AM	Megan Myers	Economic Officer	AMEMB	329095		MyersMT@state.gov	Claude Bovet
October 6, 2005							
9:30 AM	Ganhuyad, Ch.	CEO	XAC Bank	318185; 99114537	328701	ganhuyag.ch@xacbank.org	Claude Bovet, Ashidmaa
	Bulgan, Z.	Director, Credit Administration Department	XAC Bank	318185	328701	bulgan.z@xacbank.org	
	Javkhlan, S.	Loan Officer, Loan Services Division	XAC Bank	318185; 99090810	328701	javhlan.s@xacbank.org	

11:30 AM	Erdenesanaa, B.	Director, Retail Banking Department	TDB	329803; 99114603	328597	erdenesanaa@tdbm.mn	Claude Bovet, Ashidmaa
	Tselmuun, N.	Account Manager, Retail Banking Department	TDB	328478; 99090429	328597	tselmuun@tdbm.mn	
	Eroo	Accountant, Retail Banking Department	TDB				
2:45 PM	Baasantseren, S.	Loan Officer	Zoos Bank	326540; 99119350	329537	baasantserens@yahoo.com	Claude Bovet, Ashidmaa
	Damdinsuren, Ts.	Chief Loan Officer	Zoos Bank	312724; 99115200	329537	daimaa@zoosbank.mn	
	Ankhubayar, L.	Loan Officer, Branch No. 100	Zoos Bank	312724; 99117104	315717	lh_ankhubayar@yahoo.com	
4:00 PM	Batbayar, N.	Minister of Construction and Urban Development	MCUD	329190; 321883; 99112539	322904	batbayar_n@mail.parl.gov.mn	Tim O'Neill, Claude Bovet, Ashidmaa
	Buted, Sh.	Director, Housing Loan Division	MCUD	327252; 99111944	322904	buted_sh@mcud.pmis.gov.mn	
	Bayantuul, B.	Senior Officer	MCUD	327252; 99285226	322904	bayantuul2004@yahoo.com	
	Norvanchig, Kh.	Officer	MCUD	327252; 99163313	322904	norvanchig@yahoo.com	
October 7, 2005							
11:00 AM	Batbaatar, M.	President	Mongolian Builders' Association	318685; 99112636 ; 95151606	318685	buildersassociation@mongol.net	Claude Bovet, Ashidmaa
	Bolormaa, T.	Expert	Mongolian Builders' Association	318685; 99855040	318685	osbagency@yahoo.com	
October 10, 2005							
9:30 AM	Daniel Mahoney	Attorney-At-Law	Lynch & Mahoney	325344; 99115542	325358	mahoney@magicnet.mn	Claude Bovet, Ashidmaa
11:30 AM	Ben Turnbull	Deputy CEO	Khan Bank	457880; 99114323	457880	tigerben@khanbank.com	Claude Bovet, Ashidmaa
4:00 PM	Ganbold, S.	CEO	Deltasan, Finance Company	312635; 319937; 91917962	312608	si_ganbold@magicnet.mn	Claude Bovet, Ashidmaa

October 11, 2005							
9:30 AM	Battsogt, Ch.	Vice President & COO	Mongol Daatgal, Insurance Company	313647; 99117416	310347; 313641	battsogt@mongolmaatgal.mn	Claude Bovet, Ashidmaa
11:00 AM	Chimgee, L.	Director, Supervision Department	The Bank of Mongolia	328482; 99114541	322846	Lchimgee@hotmail.com	Tim O'Neill, Claude Bovet, Ashidmaa
3:00 PM	Gary D. Griffis	Consultant	Housing Finance (Sector) Project	(978) 281-5435	(978) 282-1961	ggriffis@aya.yale.edu	Claude Bovet, Ashidmaa
	Enkhbayar, Ts.	Project Manager	Housing Finance (Sector) Project	319733; 99110681	321114	house@mobinet.mn	
	Oyun, Ts.	Financial Manager	Housing Finance (Sector) Project	317933	321114	house@mobinet.mn	
October 12, 2005							
9:30 AM	Oyun-Erdene, L.	Director, Investment & Project Credit Department	Golomt Bank	311530; 311971; 99118302	312307	oyunaa@golomtbank.com	Claude Bovet, Ashidmaa
3:00 PM	Baatarzorig, B.	Vice Mayor of Ulaanbaatar City	UB City Municipality	323049	323304	baatarzorig@ulaanbaatar.mn	Claude Bovet, Ashidmaa
	Amaraa, I.	Senior Officer, City Dev. Policy Planning Department	UB City Municipality	320975; 99738026	327199	ich_amaraa@yahoo.com	Claude Bovet, Ashidmaa
October 14, 2005							
10:00 AM	Jeff Goodson	Senior USAID Program Manager	USAID/Mongolia	312390			Tim O'Neill, Claude Bovet, Ashidmaa
	Mendsaihan, H.	Project Management Specialist	USAID/Mongolia	312390x1 02			Tim O'Neill, Claude Bovet, Ashidmaa
12:00 AM	Buted, Sh.	Director, Housing Loan Division	MCUD	327252; 99111944	322904	buted_sh@mcud.pmis.gov.mn	Claude Bovet, Ashidmaa
1:00 PM	Lee M. Cashell	Managing Partner	Asia Pacific Investment Partners	99091899		cashell@apipcorp.com	Tim O'Neill, Claude Bovet, Ashidmaa
4:00 PM	Margaret Herro	Country Director	CHF - Ger Initiative	319969; 319970; 99116914	319971	herro@maicnet.mn	Claude Bovet, Ashidmaa

November 7, 2005							
4:30 PM		Credit Bureau	The Bank of Mongolia				
November 8, 2005							
9:30 AM	Ganhuyad, Ch.	CEO	XAC Bank	318185; 99114537	328701	ganhuyag.ch@xacbank.org	Claude Bovet, Ashidmaa
	Bold, Magvan	President	XAC Bank	318185	328701	bbold.m@xacbank.mn	Tim O'Neill, Claude Bovet, Ashidmaa
11:30 AM	Ben Turnbull	Deputy CEO	Khan Bank	457880; 99114323	457880	tigerben@khanbank.com	Tim O'Neill, Claude Bovet, Ashidmaa
	Ella Beavers	Consultant	Khan Bank	99113729		ella_beavers@magicnet.mn	Tim O'Neill, Claude Bovet, Ashidmaa
November 9, 2005							
9:30 AM	Bold, Magvan	President	XAC Bank	318185	328701	bbold.m@xacbank.mn	Tim O'Neill, Claude Bovet, Ashidmaa
	Soronzonbold, L	Director, Strategic Planning and Marketing Division	XAC Bank	318185	328701		Tim O'Neill, Claude Bovet, Ashidmaa
2:30 PM	Odotsuren, U	Director, Risk Management department	Trade & Development Bank	329287	329287	odotsuren@tdbm.mn	Claude Bovet, Ashidmaa
4:00 PM	Dawn E. Rehm	Resident Representative	IMF	313518; 99114433	312181	drehm@imf.org	Tim O'Neill, Claude Bovet
November 15, 2005							
10:00 AM		see Attendance lists	ppt Presentation to Bankers Association				
November 16, 2005							
3:00 PM	Enkhbayar, Ts.	Project Manager, Housing Finance (Sector) Project	ADB-PMU	319733; 99110681	321114	house@mobinet.mn	Claude Bovet, Ashidmaa
	Oyun, Ts.	Financial Manager, Housing Finance (Sector) Project	ADB-PMU	317933	321114	house@mobinet.mn	Claude Bovet, Ashidmaa
	Bob Merrill	Consultant	ADB-PMU, ex PADCO				

5:30 PM	Altankhuyag	Minister of Finance	Ministry of Finance				Bertoli, O'Neill, Ashidma, Bovet
	Erdenebulgan, Oyun	Advisor to the Minister	Ministry of Finance			erdenebulgan@mof.pmis.gov.mn	Bertoli, O'Neill, Ashidma, Bovet
	Galsan, Yungeren	Director, Dept. of Sectoral Policy and Investments	Ministry of Finance				Bertoli, O'Neill, Ashidma, Bovet
November 17, 2005							
2:00 PM	Batbayar, N.	Minister of Construction and Urban Development	MCUD	329190; 321883; 99112539	322904	batbayar_n@mail.parl.gov.mn	Bertoli, O'Neill, Ashidma, Bovet
		Ministry team	MCUD				
November 18, 2005							
10:00 AM	Bodo Richter	Deputy Resident Representative	GTZ				Claude Bovet, Ashidmaa
3:00 PM	Randolph Koppa	CEO	TDB				
			TDB				
			TDB				
November 22, 2005							
4:00 PM			Bankers Assoc roundtable @ TDB				
November 23, 2005							
9:30 AM	Jeff Goodson	Deputy Chief of Mission	USAID at EPRC weekly meet				
		EPRC team	USAID at EPRC weekly meet				
4:00 PM	Barry Hitchcock	Resident Representative	ADB				
November 25, 2005							
10:30 AM			Khan Bank				
12:00 PM	Angelika Dealino		UNDP Energy Efficient Housing Project				
3:00 PM	Chuluunbat, O	Governor	Bank of Mongolia				