

Land, land everywhere, but not a service to link: Land Policy and Urban Expansion in Ulaanbaatar, Mongolia

Topic: Managing urban landscapes

Keywords: land administration, service delivery, poverty, Mongolia

Introduction

Urban growth is strongly influenced by the function of private land and property markets along with the set of property rights and land use regulations that underpin them (Payne 1997; Feder and Feeny 1991). Land markets have a direct and long-term influence on urban form, transportation networks, access to employment and commercial centers as well as the location and supply of housing. When land markets are poorly or opaquely regulated, information on prices is limited or exclusive to certain interests, they can perpetuate and accentuate existing disparities of wealth, mobility and access to services among urban residents (Deininger 2003).

Mongolia is one of the world's fastest growing economies, with GDP growth surpassing 12 percent in 2013 (World Bank 2013). In recent years, the population of the capital and largest city, Ulaanbaatar, (UB) has grown significantly due to migration of nomadic pastoralists from across the country seeking opportunities for employment. The city is home to 40 percent of the country's population and generates 65 percent of the economic activity (World Bank 2012).¹ However, the benefits of the country's economic prosperity do not extend to all. About half of the city's 1.3 million residents live in low-density *ger* settlements that cover 88 percent of the city's built area.² These *ger* areas are typically home to recent migrants that have moved to the city in search of economic advancement. Though nearly all residents in these areas have some

¹ This also includes the economic activity of firms headquartered in the city but which have operations in rural areas, such as the mining sector.

² A *ger* is a portable single room tent-like structure composed of a felt or cloth covering and a collapsible wooden frame. It is similar in form and shape to a *yurt*, which is found in other parts of rural Central Asia.

form of tenure security, the city has struggled to extend services outside of its core planned areas which account for nearly 70 percent of its territory and lack paved roads, water, heating and sewer connections (World Bank 2010).

Mongolia's urban growth also coincides with a broad suite of reforms aimed at expanding free markets and democratic institutions following the country's transition from socialist rule to a democracy in 1996. These have included a number of sweeping reforms in land and property laws, a cornerstone of which guarantees each Mongolian citizen the right to a plot of land.³ In urban areas, such as UB, citizens are allowed to obtain a vacant residentially zoned plot of up to 700m² which can be obtained for a nominal fee. This practice has coincided with a rapid expansion of low-density residential development characterized by self-built detached homes and traditional *ger* dwelling units on these plots. Recent and on-going reforms have helped to make title for land ownership among private citizens comparatively rapid and affordable compared to other developing countries. For example, the country is ranked 22nd in the IFC's Doing Business Survey in this measure.

In this paper we argue that urban land titling, a pro-market reform that has received much attention from international development organizations and housing scholars as a poverty alleviation tool, has a limited influence on property markets where title holders are ubiquitous, but do not have access to urban infrastructure such as paved streets, water, sewage or central heat. Furthermore, despite active informal markets for land and property, the capacity of the government to record and appropriately tax land in order to finance infrastructure and public services is very limited. This paper will examine the weaknesses of the current land

³ Law of Mongolia on Land, 2002.

administration system and offer suggestions to broaden access to land and identify public finance strategies that can provide urban services and reduce sprawl.

We use the case of Ulaanbaatar, Mongolia to develop our discussion. The next section situates the case in the debate about the benefits of land titling by surveying the theoretical justification for extending and protecting property rights and identifying the main empirical critiques of this model. A third section details the recent economic and institutional transformations occurring in Mongolia along with legal framework for land title in Mongolia. Next, we discuss how the current conditions of the urban land and property market do not appear to reflect the purported benefits of having land title. Rather, housing investment, especially in *ger* areas, is strongly tied to access to basic network infrastructure. We then detail how current systems of property taxation and public land management are not well equipped to finance these services and suggest options for addressing this problem. A final section summarizes our conclusion and suggests areas for future research.

Literature Review

A long line of research has consistently found that differences in type and application of property rights institutions influence investment decisions of individuals, households and firms and by extension, can either encourage or constrain economic growth (Acemoglu et al. 2001; North 1991; Ostrom 1990; Demsetz 1967). Land title is a feature of property rights system that supports both more efficient means of property exchange and supports the holders' claim to the stream of benefits that property ownership confers. Land title clarifies and secures claims to

property so that the owner's investments in the property are protected and any disputes about transfers, takings or dispossession may be easily and fairly resolved.

In the 1990s, land titling efforts came to the fore as a popular poverty alleviation intervention advocated by international development organizations across the world (World Bank 1993; Buckley and Kalarickal 2006). This owes much to the work of Peruvian economist Hernando de Soto, who argues that land titling in urban slums allows residents to collateralize the land on which they have built their home by securing ownership claims and supporting investment or sales decisions (de Soto 2000). According to this view, possessing land title allows informal settlers, even those who may be informally employed, access to formal loan or credit sources for investment in other productive enterprises, and in time pull themselves out of poverty. Under an appropriate property registration institution, title holders would have confidence that their land will not be taken by a government entity without some reasonable compensation, those purchasing a property with title would be assured that their transaction would be legal and valid and that banks would have the right to seize and resell collateralized property in case of a loan default.

Property titling systems in the US and Western Europe certainly allow this. However, retroactive land titling in developing countries is a difficult and expensive undertaking. First, in areas with large and established informal settlements, ownership claims tend to be poorly documented or widely disputed. Second, conferring title to squatters would require compensating the original land owner, the absence of compensation would serve to undermine the very advantages of titling brings. In each of these situations, the time and resources necessary to adjudicate competing claims and extend appropriate compensation may exceed the benefits gained by those receiving title (Woodruff 2001). Given the costs of retroactive land titling, especially in large

informal settlements where property ownership claims are poorly documented, disputed and politically sensitive, the purported benefits of titling are worthy of careful consideration relative to other upgrading interventions (Ferguson 1996).

Apart from a cost-benefit consideration, there are several critiques about the purported influence land title has on poverty alleviation. For example, there appears to be only limited evidence that land titling improves access to credit and encourages investment through collateralized borrowing (Gilbert 2003). Calderón (2004) and Field and Torero (2004) found that title possession has no significant influence on loan approvals from commercial lenders in Peru. Similarly, Galiani and Schargrotsky (2010) found that land title was associated with increased household investment in housing and child education, though these outcomes were not due to improved credit access that title could provide. Several scholars have found that *perceptions* of tenure security influence investment and sales decision at least as much as having formal title (Payne et al. 2009). There is also evidence that markets for property without formal title in informal settlements are active and widespread with sales that may even outpace those of titled property (Gilbert 2002; Ferguson 2004). Title may also make families more reluctant to sell due to the security that comes with tenure (Angel et al. 2006).

This paper offers a different critique of land titling based on initial findings drawn from original research in Ulaanbaatar. In contrast to problem of retroactive land titling debated in the literature, Mongolia stands as a case where most people already have or can quickly and inexpensively obtain land title. However, we argue that title itself may not influence the value or desirability of property or the holder's ability to access formal sources of credit. Rather, our evidence suggests that the most valuable property is that which is located near basic infrastructure connections, such as water, sewage and central heating.

Methodology

Data collection for this paper proceeded as part of a technical assistance program to assist the government of Ulaanbaatar to better understand the how ongoing legal reforms may influence urban growth, access to land and real property markets. Another component of this work is aimed at providing the city options to consider for developing other sources of revenue through its power to control and dispossess a large amount of land, including land used for public purposes or occupied by municipal assets and buildings.

Our principle source of data has been through interviews with stakeholder groups. These interviews were supplemented with data supplied by relevant city departments and national agencies that are involved in land and property titling, registering, taxation and inventorying. We conducted structured interviews with respondents from real estate firms, land and property valuation organizations, property development and construction firms and large commercial banks. We also interviewed representatives from various city agencies and departments along with national level agencies that are involved in the allocation, titling and registration of land and real property. Presently we are gathering additional information on land and property through a city-wide household survey with modules on housing and land ownership, a survey of real estate agents and additional interviews with applicants at district-level land offices. Our findings presented in this paper, however, are based on three visits to UB to collect data beginning in May 2013, along with the continued assistance of several local consultants in data collection, translation and analysis.

Country Context and Background

From 1924 to 1991, Mongolia operated under a socialist political and economic system, characterized by heavy state involvement in the economy and public ownership of all land (USAID 2004). Mongolia in general and UB in particular are undergoing parallel transitions; rapid urbanization due to GDP growth driven by the mining sector and a series of legal and social reforms supporting the emergence of a market economy. Urban growth in UB was administered through a series of master plans and land development occurred through state direct investment in property development and construction. The direct provision of housing apartments and the proliferation of state owned enterprises precluded the development of urban land and property markets because ownership rights were exclusive to the state and all transactions occurred under the guidance of master planning, which negated the need for land valuation and pricing mechanisms.

Since 1991, a series of constitutional reforms have moved the country toward a market-based economy. Public rental apartment units were transferred to residents and small and large-scale state owned industries were also privatized at no cost. The rapid transition to private property ownership eluded the emergence of adequate market mechanisms which estimate exchange values. Land has been one of the last areas of privatization reforms. The city's physical expansion is characterized by a number of older, inner city *ger* areas, a larger number of 'mid tier' *ger* areas and a large number of more recently built low density *ger* settlements along the outer fringes. The central portion of the city is built out and is composed primarily of a mixture of mid and high rise apartment buildings, offices and commercial spaces along with about a dozen well-established *ger* neighborhoods. Both the inner and surrounding *ger* areas are

characterized by abutting fenced-off plots which contain one or two story detached homes, *gers* or often a combination of each. Each plot or *khashaa* may house multiple households along with sheds and other ancillary structures.

Ger areas house a majority of the city's residents and comprise the largest area of the city's footprint. This is due in part to the generous plot size allowed by law to Mongolian citizens. This quantity (700 square meters) was determined by the government through a simple estimated ratio of population growth to vacant public land.⁴ The lack of easily available property transaction values led the government to set the market value of land at 13,200 MNT/square meter in 1997.⁵ Since then, subsequent reforms have supported the development of land markets through the establishment of land transfer fees (1997), cadastral surveys and registries (1999) and broadening land ownership rights for Mongolian citizens (2002). However, privatized land represents only a tiny fraction of the country's land (less than 1 percent) and has been mostly concentrated in urban areas.

The practice of privatizing public assets has the clear potential for promoting both the inefficient distribution of valuable property and the likelihood of corruption. First, because property and land registration processes are separate and only recently developed, there are persistent conflicts about ownership of both land, structures on the land and boundaries of land property delineation. Second, information about available land, what it can be used for and the potential exchange value is not widely known. The proximity of speculators to land registry officials as well as the ability of the mayor to finalize land issuances allows for selective and speculative land distribution through patronage. Nonetheless, remarkable progress has been made in securing

⁴ Government officials suggest that most kashaa plots are between 450-550 square meters.

⁵ As of March 2014, 1USD=1,700MNT

property rights for most residents and this aspect of the problem facing most rapidly expanding cities in urbanizing countries has been successfully addressed in Mongolia. In this respect, it is worth noting that broad access to land, combined with the availability of a traditional and inexpensive dwelling (*gers*) has likely The next section details the types land rights afforded to city residents.

Land Rights and Tenure Overview

In analysing land tenure regimes, it is important to distinguish between tenure status and property rights. Tenure can be defined as the mode by which land is held or owned, or the set of relationships among people concerning land or its product, whilst property rights, can similarly be defined as a recognised interest in land or property vested in an individual or group and can apply separately to land or development on it. Rights may cover access, use, development, inheritance, or transfer and, as such, exist in parallel with ownership. On this basis, it is clear that the ways in which a society allocates title and rights to land is an important indicator of that society, since rights to land can be held to reflect rights in other areas of public life. In Mongolia, the following forms of tenure and rights apply.

State land is held and allocated under two categories of property rights; possession and user rights. *Possession rights on state land* are available to Mongolian citizens and joint venture companies, whilst *user rights on state land* are available to foreigners or foreign companies (World Bank 2010:15). Land fees are payable. Mongolians can obtain use and possession rights (licenses) over land for periods varying from 1-60 years, with the option to renew these for up to another 40 years, whilst foreigners and foreign companies are only able to obtain use rights, issued for a period of up to five years with possible extension.

Private land ownership: This was introduced in the 2002 Land Law to privatise state land holdings for Mongolian citizens on land parcels of up to 0.07 hectare, or 700m² in UB. There are three categories of private ownership:

- i. The first category consists of a *'possessor right certificate'*, allocated by the District Land Agency⁶ for family use. This permits the construction of a house, but does not entitle the holder to compensation for the land if expropriated. A land fee is payable quarterly, though this is not levied in practice on khashaa plots of up to 700m². In March each year, the city Governor decides on the reserve area of land to be privatised and those who submitted applications for land before 20 October the previous year are selected. Possessor certificates are valid for periods of 15-60 years and can be extended.
- ii. The second is a *'land ownership certificate'*, obtained from the Administration of Land Affairs, Geodesy and Cartography in the Ministry of Construction and Urban Development. Applicants submit full personal details, including their ID, address and details of the plot location, size and shape, plus an administrative fee of 27,000 MNT (\$16). If approved, the mayor then issues a Certificate of Approval.
- iii. This final stage consists of a *registered land title*, which is obtained once the land ownership certificate has been registered in the land title registry with the General Authority of State Registration. Land privatization in urban areas (approximately 0.02% of total land – but figures vary) is free of payment. According to USAID (2004:10), only application fees are paid, though fee payments were found to be significantly different

⁶ UB consists of nine Districts, which are sub municipal administrative bodies. Districts provide a number of municipal and national level services to citizens at their facilities, including certification and titling of land and property within that district.

than government published rates for different elements of the application. Since May 2005, acquisition of land will require payment. In Ulaanbaatar households are entitled to 0.07 ha, while in families in rural *aimag* centers and *soum* centers are granted up to 0.35 and 0.5 ha, respectively.

Land possession rights are widely held by residents, especially in *ger* areas that surround the city. Possession rights act as a form of *de facto* tenure security. However, because it is subject to periodic renewal, it is actually a form of land leasing rather than freehold tenure. Foreign entities are also afforded similar legal claims to land, but they must renew their interests every five years, which likely precludes certain types of investment and encourages the formation of Mongolia-incorporated holding firms.

Yet there are several weaknesses with the current institutional structure that supports titling and registration. First, holders of possessor rights are officially not allowed to sell their property, but they are allowed to "gift" the property to someone else. In order to do this, both parties go to the district land office, complete paper work and pay a small administrative fee. Most often this is simply the final step in a transaction that is not a gift, but rather a private sales transaction which has been completed with a cash payment. At no point is the price of the property recorded or notarized by the land office. Additionally, ownership rights afford essentially the same protections as possession rights, though tenure resembles freehold title with perpetual rather than renewable claim. Land cannot be owned by companies or nonprofit organizations. Rather, use and possession rights are afforded provided development comports with permitted land uses. Finally, land and immobile property have separate registries. In older central *ger* areas it is common to have a building registered under one person and the land it occupies under another registered owner. There may also be co-habitees, some of whom are non-paying relatives and

others who pay rent. In this respect, the *ger* areas provide a wide range of tenure options, each with differential rights, and as such they serve a wide range of those in need.

Land Markets and Urban Expansion

UB spans an east to west axis along a broad river valley and is surrounded to the north and south by steep hills. The most valuable land in the city is located in the city center where the majority of government offices, along with a mix of commercial and high density residential uses. Vacancy rates in all uses are low. Vacant land is scarce in this area, and such land that exists commands among the highest price in the city (\$1,000/m²). The quality, availability and price of office space decreases progressively in all directions outside of this area. A mid section of the city consists of less dense mixed use mid-rise apartments and commercial offices, followed by a broad expanse of low density *ger* areas punctuated with industrial and manufacturing uses. Land and property prices decline as the distance to the city center increases. This is not only because of physical distance and lighter densities but also because network infrastructure services such as water, central heating, sewage and roads diminish in quality and coverage. On average, the mean price in the city of serviced vacant land is 300-500,000 MNT/m² (\$176-\$294). However, a typical 700m² plot in a outer *ger* area without infrastructure has a market value of approximately 1 million MNT or only about \$588.

Land markets in *ger* areas are not well understood, though it is clear that transactions are common and most are registered, though prices are not widely available. The housing stock in these areas is composed of *gers* and or brick houses that are built by the owners or with the help of local builders and financed incrementally through household savings.⁷ Approximately 92% of

⁷ A World Bank survey (Kamata et al. 2010) suggests approximately 95 percent of housing in *ger* areas is self-financed with loans ranging from \$3,500-\$7,500.

the city's 120,000 *khashaa* plots have at least a possession certificate. Currently, 85,247, or about sixty percent of *ger* residents⁸ have registered their titles at GASR, which allows land to be used as collateral for a loan or mortgage. However, this figure may be disputed because of contested ownership claims, illegal certifications and shortcomings in record keeping⁹. However, it appears that property registration has little relationship to collateralization. One major bank reports that *ger* residents consume only about ten percent of commercial mortgages, a figure that likely both reflects the limited supply of affordable mortgages and the limited value *khashaa* plots provide as a source of collateral. Improved *khashaa* prices in *ger* areas can range from 14 to 21 million MNT (\$8,200- \$12,300). Bank respondents indicated that residential plots are rarely considered as appropriate collateral because of their limited market value relative to the size of a typical mortgage for an apartment, which would be at least three times the typical *khashaa* value.

Real estate firms in the city tend to deal with apartment and office properties and relatively few firms broker sales in *ger* areas. There are several explanations for this. First, plots in these areas are worth less and so are less attractive to brokers given the market value and amount yielded through commission rates.¹⁰ Second, commercial banks report that *ger* residents comprise a small proportion (less than 10 percent) of their commercial mortgage portfolio, which suggests that mortgages may be too costly and unnecessary to finance purchases in these areas and that savings-based cash transactions are the primary means of exchange.

⁸ GASR.

⁹ For example, a realtor estimated that only 8 percent of land in the entire city was privately owned. The Administration of Property Relations estimated that 92 percent of *ger* residents have limited *de facto* ownership through holding a mayor's signature certificate, while the Millennium Challenge Account estimated the *ger* population with full title was approximately 60 percent. A World Bank survey placed the figure at 80 percent in fringe areas and more than 97 percent in mid level and central city *ger* areas (Kamata et al. 2010).

¹⁰ Our interviews suggest that commissions for real estate sales vary from 1.5-3 percent of the sales value.

The supply and location of new land for residential ownership as well as land designated for commercial or industrial occupation is controlled by the city government, which gives it substantial influence over urban land markets, which by extension can have significant macro-economic consequences. Indeed, a World Bank Investment Climate Assessment (2007:16) found that more than half of the firms surveyed identified land access as a “major or severe obstacle” for investment and is an area that invites corruption.¹¹ Corruption adds to the cost of land considerably, especially in desirable areas, by a factor of two or three fold.

Weaknesses in Current Land Administration System

The current regulatory framework for land administration may make land markets susceptible to capture or corruption. In recent years, land titling has been highly subject to political interference with the city illegally granting title to thousands of residents, though is changing with the city’s newly elected leadership. The city’s legal services department has committed a great deal of resources to resolving disputed land tenure claims. There are also a number of embedded weaknesses that discount the possibility for land-based finance, accurate market assessments and which encourage speculative accumulation of land.

Disputes are increasingly common and have increased annually since the administrative court was established in 2004. In 2011, a total of 645 cases were considered, of which 161 related to land disputes. In the first seven months of 2013 alone, a total of 816 cases were heard, of which 274 related to land disputes, an increase in both the number and proportion of the total cases. This is partly because more people are living in the city and more are aware of legal options. A common cause of land disputes is when land is allocated to an individual but not occupied or

¹¹ Sample size, N=393

improved, possibly as the person already occupies a plot with other family members elsewhere. Rural migrants unfamiliar with urban land administration may then occupy the vacant plot, erecting a *ger* and a fence, only to be found later by the legal allottee.¹² Another weakness of the system is that possession certificates are valid only with the mayor's signature which allows subsequent mayors of opposing political parties to call for the invalidation of these certificates if they suspect illegal allotment practices under the previous administration.

Other common disputes center around boundary adjustments made by plot holders, where a resident may extend plot boundaries into someone else's. Judges are actively involved in visiting sites, interviewing claimants and researching the available registry and cadastre records, suggesting that the adjudicatory procedures related to land disputes is objective, fair and efficient, though increasingly burdened.. The city and the Millennium Challenge Account (MCA) have introduced measures to improve the transparency and time necessary to obtain title though it is not clear if these reforms will avoid capture by political elites. However, the MCA project was unable to complete the process for allocating more than half the land titles intended, suggesting that formalization of the land and housing markets cannot be resolved through quick fixes.

Property Taxes and Sources of Municipal Finance

Based on a review of the 2012 UB city budget, land and property related taxes and fees constitute about 14% of the total budget. This includes a tax on asset sales based on the reported sales price, a tax on non-residential property, a land tax assessed to residential plots in *ger* districts and finally a land use fee for owners and possessor holders. The city may also generate revenue from one-time auction sales of public lands (separate from plot allocations).

¹² However, if the original allottee does not occupy the plot within two years, their claim for possession rights is void and the settler is entitled to have it re-registered in his or her name, though such cases are rare.

Despite the regulatory and fiscal framework for deriving revenue from the sales and improvement of land and real property, in practice the system is very weak and hampered by a number of loopholes. First, as discussed asset transfers are underreported, in part because of a comparatively high tax rate of 2.2% of the sales price. The main transactions that are assessed this tax are those financed through a commercial mortgage which requires the notarization and recording of the actual sales price. It is not uncommon for reported prices to be up to one third the actual market transaction value. Second, the property tax assessed to non-residential buildings is not based on the market value of the property but rather the book or construction value, which again grossly underreports the actual value as well as possible tax income. Third, the land tax assessed to residential *ger* areas enjoys a 95% discount rate. Despite the large number of *khshaa* plots, the city only receives approximately \$0.75 per plot. Finally, land use fee - the largest share of the budget derived from this sector - is assessed through a catalog of land uses and zones across the city. It alone accounts for 8.1% of the city budget and primarily falls to commercial and industrial property owners and tenants. Another illustration of the gap between administrative and market based processes is the practice of taxing land according to 'value zones'. This means of assessing values overlooks the wide range of actual market values within and between the designated zones.

Our findings suggest that despite the ubiquity of tenure security, particularly in fringe areas that house a majority of the city's poor, there remain several factors that continue to distort land markets and likely attenuate the purported benefits of property rights afforded by title. First, while land tenure is widely held, access to basic infrastructure is not. This appears to be a key determinant in land prices in *ger* areas though location also has a significant impact. For example, recent government attempts to redevelop *ger* areas in central or mid-tier areas, resulted in some

rejecting the compensation and alternative housing offered as inadequate. The market for vacant and improved *khashaa* plots is also highly informal and prices are not recorded by government land offices, nor are they widely known in listings kept by land and real estate brokers. Finally, the existing property tax system relies on fixed rates and geographic zones, not assessed market values. Along with heavy discounts for *khashaa* holders, it is inappropriate for financing needed infrastructure improvements. The lack of infrastructure connections to these plots greatly inhibits the market value and, by extension, the possibility of collateralizing the land to use for home improvement loans or apartment purchases.

Conclusion and Direction for Future Research

The case of urban land reform in Mongolia stands in contrast to the experience of cities in many other developing countries. The provision of land tenure security, in the form of possessor or ownership rights for residential purposes is widespread and relatively affordable in UB.¹³ The city government has also moved to improve the efficiency and transparency of obtaining and transacting land properties through administrative reforms and investment in information technologies. A mismatch between the records of the property/cadastral registry and situation on the ground has resulted in land disputes representing a high proportion of cases brought before the administrative court. If the land registry is unable to provide certainty of ownership for some, this implies it is not available to anyone, thereby severely reducing the value of registration. Yet there also appears to be a responsive system for resolving boundary and ownership disputes based on the title system. However, we have so far found little evidence for other benefits of having land title alone as a means to extend access to credit or allow for participation on land and property markets.

¹³ Our research also suggests there are groups that find difficulty in accessing documents required to obtain land in the first place likely due to discrimination by residency status. We have yet to obtain a clear picture of the magnitude of this problem.

Rather, we find that while titled land plots, especially in fringe *ger* areas offer important shelter benefits, especially for the poor, they are simply not valuable enough to act as collateral for private lending. This is especially true for plots that are located off of paved arterial roads, which do not have sewage, piped water or central heating connections. This is not to say, however, that there is no market for these properties. Our preliminary findings suggest there is a large and active informal market that operates primarily through cash transactions and with only marginal involvement from real estate or land appraisal professionals. This market is also invisible to official systems of recording and taxing land transactions. There is no incentive for parties to report a full sales price nor is there any compulsion to do so for sales without a mortgage contract. Further research is required to better understand how these informal markets operate as well as their relationship to the formal market. A more differentiated understanding of land markets in *ger* areas is needed.

Symptomatic of the residual paternalistic system of land administration that continues within the market economy is the practice of allocating public land for individual private ownership. For example, land is still being allocated by the governor instead of obtained through a well-established land and property market, though that is also increasingly active. The right of individuals in UB to receive free land parcels of up to 700m² has resulted in the city covering a large area of the available land, imposing heavy and unaffordable costs of providing public utilities and providing poor access from peripheral locations to main centres of employment and social amenities.

The current system of taxation has two key weaknesses worthy of continued study. First, the government is unable to tax land sales at actual transaction prices and second, fixed fees and tax rates of land and property are fixed and not based on any actual or assessed market value. Due to

these constraints, the city lacks both the tools to finance public infrastructure to fringe areas and any means to discourage low density urban expansion because land in these areas is widely available, relatively easy to obtain and has very little market value. Further research is needed on the tax and land fees aspect in terms of acceptability by those paying it and the municipality which receives it. A comprehensive review of the revenue base of the municipality and options for ensuring that this is sufficient to meet existing and projected needs of Ulaanbaatar over the coming years is essential in promoting improved governance and administrative efficiency. Similarly, a Training Needs Assessment of the officials working at municipal and district level would be advisable.

Given the political commitment to current policy on plot allocation and the benefits that this has for sheltering the poor majority, some means of reconciling this with a more efficient and sustainable approach is clearly needed. One option might be to allocate plots to households, not individuals, while another might be to issue a voucher which can be exchanged or traded to cover all, or part of the land cost in an apartment development. Additionally, apartment properties are also exempt from taxes. We estimate taxing these properties at an annual rate of .35% could boost the city's revenues by 20 percent (Kaganova 2014). The City may also consider differentiating tax and fee zones between central and fringe areas and supporting *in-situ* and community-based upgrading through self-assessed fees or betterment levies. Also worth consideration are increasing tax liability for vacant or unimproved land plots to diminish speculation which is likely to occur as households accumulate absentee plots in the name of children or relatives. Finally, it is also worth noting that property taxes present a stream of revenue to the city that is more stable and progressive than the existing resident income tax and

proposed residency tax which bring disproportionately negative effects to the urban poor, especially *ger* area residents.

We also suggest additional attention needs to be given to understanding land markets in *ger* areas in order to more accurately estimate the impact of title and infrastructure on prices and investment. We are currently undertaking representative survey of households from across UB which will help to gather baseline data on land and housing choice, investments and improvements. Future research could provide a more rich understanding of prices and investment decisions and could be an invaluable guide in considering the tax and public finance tools discussed here.

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