

SECTOR ASSESSMENT (SUMMARY): URBAN DEVELOPMENT

A. Urban Sector and Ulaanbaatar

1. **Overview.** In 2011, 68% of Mongolia's population lived in urban areas—1.9 million of the country's 2.8 million people. The capital city, Ulaanbaatar, accounts for two-thirds of the urban population. The urban economy grew by an estimated annual average of 11.2% during 2006–2010 and now accounts for 65% of total gross domestic product.

2. Ulaanbaatar's population rose from 773,000 in 2000 to 1,300,000 in 2012, representing an annual average increase of 6%. This growth was due to large in-migration from rural areas.¹ Despite the inflow of people, the city core was expanded only marginally to accommodate the new migrants and the upgrading or extension of basic urban services was also limited. In 2003, moreover, the government began giving each Mongolian citizen a plot of land of about 700 square meters. For the migrants to Ulaanbaatar it was an opportunity to settle in the city's periphery, often using their traditional tents (*gers*) for housing. Combined, these factors reshaped the geography of the capital city and generated a vast peri-urban area named *ger* areas.²

3. **Ger area characteristics.** The *ger* areas are now home to an estimated 800,000 residents and are characterized by unserviced plots, unpaved roads, and unsanitary conditions. They account for 60% of Ulaanbaatar's population and 30% of the country's. Household incomes are generally low to medium.³ They account for 25% of Mongolia's poor. The *ger* areas have formed with very little planning or regulation. They lack infrastructure and provide poor access to basic urban services. Unlike the residents of many in-migration settlements in urban areas of developing countries, the people of the *ger* areas have land entitlement and recognized property rights.⁴ Eminent domain law is only applicable in Mongolia to expel a tenant who has breached the law or for national security reason which make involuntary resettlement for municipal project only possible through negotiations with affected people. Construction to improve the areas is costly due to long winters during which temperatures sometimes drop below -40°C, which makes the season for many works short.⁵ The *ger* areas are predominately residential, with few commercial buildings, government offices, or public services. Density is comparatively low—an estimated average of 40 persons per hectare.

4. Water supply, wastewater treatment, district heating, and good roads are all lacking in the *ger* areas, which is the main constrains on sustainable urban development. Residents often get their water from kiosks operated by the Ulaanbaatar Water Supply and Sewage Authority (USUG). The kiosks are either connected to the central water system or supplied by trucks.⁶ Daily water consumption in the *ger* areas is about 10 liters per capita, which is less than half the minimum recommended by the World Health Organization and is not expected to improve without major improvements in the service. Households pit latrines are the main means of sanitation. Commercial water users usually have septic tanks, which are mostly in poor repair.

¹ In 2010, net in-migration to Ulaanbaatar was 40,600 people.

² These areas have taken on the name of the traditional round tents in which many of the in-migrants have made their homes, i.e., *ger* areas.

³ ADB country partnership strategy for Mongolia, 2012–2016.

⁴ Three types of land ownership exist: (i) rights-of-use licenses, (ii) right of possession, and (iii) right of ownership. The majority of *ger* residents have the right of possession or the right of ownership. Rights of possession are being gradually converted into rights of ownership, subject to an administrative procedure and a small fee.

⁵ The high cost is compounded by reliance on imported materials.

⁶ People in *ger* areas now pay 2–10 times what core city residents pay for water supply due to the high cost of delivering water through kiosk or trucks.

Ger area households rely on expensive⁷ and inefficient⁸ heat stoves, which contribute to the poor air quality, especially during winter.

5. Inadequate long-term planning, infrastructure investment, and land use regulation in *ger* areas have resulted in haphazard development, limited availability of space for public facilities, poor access to socioeconomic services, poor livelihood opportunities, and unsafe neighborhoods. The lack of basic urban infrastructure prevents rational and dynamic urban development, and raises the costs of doing business and accessing services. Meanwhile, the city's central core, where jobs and services are concentrated, is experiencing unprecedented congestion. The poor services in the *ger* areas, especially compared with those in the city core, result in poor integration of *ger* residents into the overall urban economy. This is expected to worsen as *ger* areas continue to grow and constitutes one of the most urgent and difficult development challenges the government is facing.

6. Improving the connectivity between the *ger* areas and the city core center is critical to improve inclusiveness. It is also needed to ease the movement of people and goods, develop urban corridors, and create clusters of subcenters.

B. Subcenters and Redevelopment Approach

7. **Subcenters in *ger* areas.** The predominately residential *ger* areas have pockets of activity nodes, or city subcenters. These subcenters provide commercial and administrative services and are clusters of businesses and public facilities in the peripheral areas outside Ulaanbaatar's central core. They are associated with a transport hub, such public amenities as schools and kindergartens, and some paved roads. Private shops and businesses, communal houses, and some low-rise buildings have grown up around these small centers. The sphere of influence of a subcenter can encompass 30,000–100,000 people in the areas. Despite their critical function in the overall spatial and local development, however, subcenters have not been provided with substantive improvements in urban services.

8. **Redevelopment strategy.** The approach supported by the proposed ADB program⁹ is to implementing core basic infrastructure and services where the impact on the environment and the potential for economic growth are likely to be the greatest. Fully redeveloped subcenters would provide *ger* area residents with basic urban services and socioeconomic facilities. Subcenter development would support local economic growth and enable residents and businesses to take advantage of the dynamics of an urban economy to diversify, innovate, and help create a more vibrant, more competitive, greener, and more inclusive city. In addition, the approach supported by the proposed program will break the *ger* areas redevelopment challenge into manageable parts.

C. Strategy of the Government and the Municipality of Ulaanbaatar

9. In February 2013, the country's parliament approved the Ulaanbaatar City Urban Development Master Plan 2020 and Development Directions 2030¹⁰. The development of the new master plan was supported by the Asian Development Bank (ADB) and marks a significant

⁷ *Ger* area residents spend 5 times what city residents do on heating per year. Surveys in subcenters targeted by proposed ADB program found that about 10% of monthly spending went for heating.

⁸ Millennium Challenge Account Energy Environment Project aims at sustainable reduction of air pollution in Ulaanbaatar through adoption energy efficient products.

⁹ Ulaanbaatar Urban Services and Ger Areas development Investment Program.

¹⁰ Parliament resolution #23 of February 08 2013

shift in policy.¹¹ The plan integrates the *ger* areas into the city development strategy and infrastructure program for the first time. It also acknowledges the functions and added value of the subcenters as elements key to the city's future growth.

10. In March 2013, the MUB established a steering committee led by the city council chairman to supervise the redevelopment of *ger* areas. The MUB also established the *Ger* Area Development Agency (GADA), under the supervision of the vice mayor in charge of urban development and investment, to implement the *Ger* Area Housing Project (GAHP).¹² On 30 May 2013, the city council endorsed the proposed ADB program and the locations of the subcenters to be targeted under the first tranche of the program, as well as coordination of the ADB proposed program with the master plan. The MUB has also proposed the establishment of a subcenter redevelopment agency (SRA) under the GADA as a special purpose vehicle for the redevelopment of the selected subcenters and to support institutional change, and build capacity.

D. Enabling Component

11. **Provision of core infrastructure and socioeconomic services.** During the program preparation, alternative design solutions for water distribution, sewerage collection, and arrangements for water and sewerage service connections were compared and costs estimated in the pilot subcenters. Whenever possible, water, heating, and sewer pipes were laid in one trench. The low densities, population growth, and rapid expansion in the *ger* peri-urban areas make it financially unsustainable to retrofit individual households with connections. This would also be counterproductive to the government and MUB intent to densify the subcenters. The proposed ADB program will leverage the benefits of providing priority roads and extending the central water supply and sewerage as well as developing decentralized heating services system to stimulate and anchor the development, and encourage densification. The sizing and location of the heating facilities will take into account the need to scale heat production to demand as the subcenters grow. Opportunities exist to greatly improve the efficiency and environmental impact of the heating facilities while keeping the technology affordable.

12. **Urban planning, and community and private sector engagement.** Development planning and land markets are highly distorted and functioning poorly in Ulaanbaatar. Current development plans are based on a top-down approach that does not take into consideration the urban socioeconomic situation or respond well to the requirements of a rapidly growing, market-led economy. Legislative and regulatory functions governing the urban planning system are the responsibility of two institutions¹³ and are subject to four different laws. Vision is lacking in the development, land management, and infrastructure programming for *ger* areas. Coordinated, bottom-up urban planning based on socioeconomic conditions and needs is urgently needed. To encourage and prioritize infrastructure investments in the subcenters, landowners need help to understand the potential returns of investing in their own plots and neighborhoods.

¹¹ These changes have been supported by two technical assistance projects: ADB. 2010. Technical Assistance to Mongolia for Ulaanbaatar Water and Sanitation Services and Planning Improvement. Manila; ADB. 2012. Technical Assistance to Mongolia for Ulaanbaatar Urban Services and *Ger* Areas Development Investment. These projects aimed at helping the MUB develop a strategy for the *ger* areas that (i) demonstrates options to upgrade existing subcenters; and (ii) uses infrastructure investment to initiate structural changes in the land use pattern and provide improved water, sanitation, and heating services delivery.

¹² The GAHP is a MUB funded project which proposes the redevelopment of 12 sites. The MUB project and the ADB program do not conflict or overlap.

¹³ The Ministry of Road, Transport, Construction, and Urban Development; and the Administration of Land Affairs, Geodesy, and Cartography.

13. Community members and business owners shows a high level of engagement in the community participation and in the program.¹⁴ The MUB leadership also supports participatory planning approaches within the GAHP. The proposed program will adopt a community-led, participatory planning approach.¹⁵ A willingness to pay for new and improved services demonstrates the support of the communities regarding the program objectives and the participation to the redevelopment of the subcenter. The establishment of a community development council during the proposed program preparation in each targeted subcenter will support community-led outcomes, responsive development, and preparation of land use plans, redevelopment, and investment plans.

14. The proposed ADB program will develop a priority road network, piped water supply, and offsite sanitation will provide the basis for growth¹⁶ and encourage densification and mixed-use development. Improved subcenters would develop partnerships with the private sector to provide greater housing options and social services that are better adapted to the communities. Consultation during the program preparation with the real estate company has been positive. It has revealed an appetite and willingness to support subcenter redevelopment and to identify barriers and constraints, as well as the need for coordinated land use planning and the provision and delivery of services.

15. **Strengthening service provider.** Although the performance of the USUG, which is responsible for water and sanitation provision in Ulaanbaatar through authority delegated to it by the MUB, improved the past 5 years,¹⁷ issues remain. Improvements in service delivery are limited by different kind tariff systems, high energy consumption, lack of private sector involvement, financial and operational unsustainability, and poor asset management. The urban population growth, the increase access to piped services and the redevelopment of *ger* areas will increase the pressure on the USUG to provide safe and reliable water and wastewater services. The ADB program can support immediate operational improvements, especially in achieving better energy efficiency, reducing nonrevenue water, and enhancing water conservation.

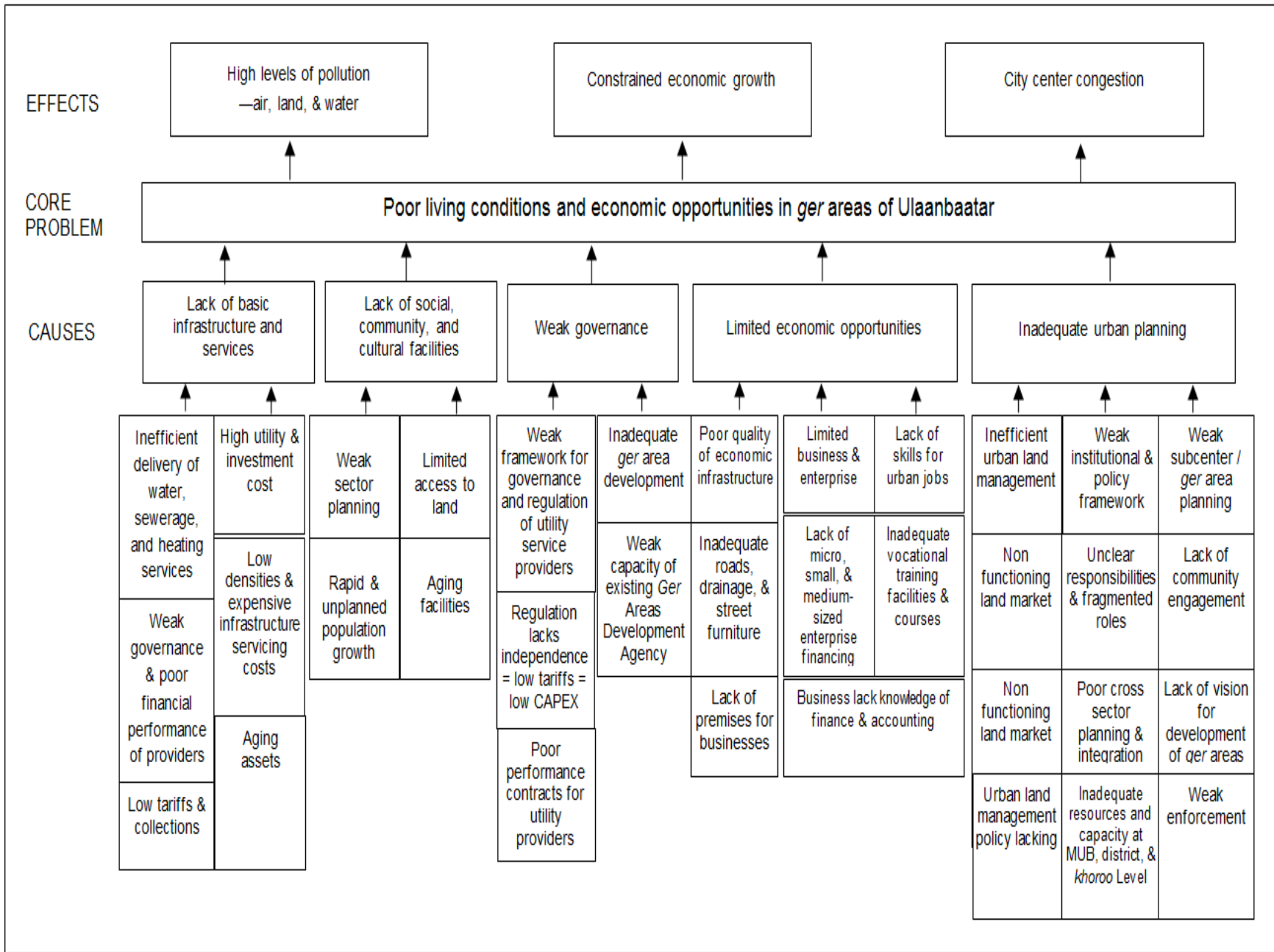
16. Existing district heating systems in *ger* areas consist of small, privately owned networks that mainly supply government buildings. Despite the demand and growth potential, private boiler companies in *ger* areas are constrained from expanding their services by the existing low tariff. The program will help the service providers become technically and financially better prepared to plan and deliver urban services.

¹⁴ The community-led *ger* area upgrading project commenced in 2010. As part of this project, UN-Habitat worked with the community in Bayankhoshuu. TA 7970-MON further developed this partnership and engagement with the community. This has contributed to high levels of participation in the development process.

¹⁵ UN-Habitat's people's process has also been adopted. This approach has been proven to have worked in many countries where UN-Habitat operates, including in Mongolia through the ongoing community-led *ger* area upgrading project in Ulaanbaatar City funded by the Government of Japan.

¹⁶ Within the targeted areas, 60% of respondents surveyed indicated a willingness to exchange part or all of their land in return for fully serviced apartments.

¹⁷ An intensive 3-year capacity building program in partnership with a Dutch water utility has laid the foundation for USUG to become a stronger and better performing water operator.



Sector Results Framework (Urban Development 2011–2015)

Country Sector Outcomes		Country Sector Outputs		ADB Sector Operations	
Outcomes with ADB Contribution	Indicators with Targets and Baselines	Outputs with ADB Contribution	Indicators with Incremental Targets	Planned and Ongoing ADB Interventions	Main Outputs Expected from ADB Interventions
Greater availability of municipal services and improved living conditions in urban areas	<p>65% of urban population with access to potable water supply by 2016 (2008 baseline: 46%)</p> <p>40% of urban population with access to adequate sanitation by 2016 (2008 baseline: 27%)</p> <p>Average water consumption in <i>ger</i> areas at 10 l/c/d by 2016 (2010 baseline: 6.5 l/c/d)</p> <p>Prevalence of intestinal and pulmonary infections decrease 15% by 2016 (12,000 cases in 2010)</p>	Basic urban services in selected <i>aimag</i> towns and Ulaanbaatar are expanded and delivered with greater efficiency	<p>20 km of water supply pipe and 20 km of sewage pipe constructed or under construction by 2016</p> <p>Ulaanbaatar water and sewage operator's per-unit operational costs decrease 10% by 2018 (2010 baseline: \$0.28 per cubic meter of water sold)</p> <p>Densification in targeted <i>ger</i> areas increased to 200 persons per ha by 2018 (2010 average baseline: 50 persons per ha)</p> <p>Improved and integrated district plans are produced, and <i>ger</i> area development is fully integrated in Ulaanbaatar's master plan by 2016.</p>	<p>Planned key activity areas: Water and sanitation infrastructure (80% of funds) Other municipal infrastructure (20% of funds)</p> <p>Pipeline projects with estimated amounts: Ulaanbaatar Urban Services and Ger Area Development Investment Program (MFF) (\$163.7 million)</p> <p>Ulaanbaatar Urban Planning Improvement CDTA (\$1.5 million)</p> <p>Urban Services capacity development TA (\$1.2 million)</p> <p>Ongoing projects with approved amounts: Urban Development Sector Project (\$28 million) Southeast Gobi Urban and Border Town Development</p>	<p>Planned key activity and pipeline projects: About 60 km of water supply, sewerage and heating pipeline built</p> <p>Assistance for strengthened contractual and regulatory arrangements for delivery of efficient water and wastewater services</p> <p>Assistance for improved urban planning system and capacity, and community engagement</p> <p>Ongoing projects: 14 water supply bore wells, two reservoirs, about 110 km of water mains, 48 km of sewers, 10 heating boilers, and 19 km of heating pipeline installed</p> <p>47 water kiosks, 14 km of paved roads, six solid waste landfill sites, and 2 km of storm water drainage constructed</p>

ADB = Asian Development Bank, ha = hectare, km = kilometer, l/c/d = liters per capita per day, MFF = multitranches financing facility, TA = technical assistance.
Source: Asian Development Bank estimates.