

Country profiles on the housing sector



Kyrgyzstan



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COUNTRY PROFILES
ON
THE HOUSING SECTOR

KYRGYZSTAN



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FOREWORD

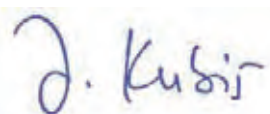
The country profiles on the housing sector are intended to assist Governments of countries with economies in transition to improve the performance of their housing sectors and at the same time promote sustainable development. The reviews analyse trends and policy developments and make an overall assessment of the political, economic and social framework of the housing sector. This work was initiated by the United Nations Economic Commission for Europe (UNECE) Committee on Housing and Land Management in the early 1990s, in response to requests from UNECE member States.

The studies are requested by member States and carried out by international teams of experts in cooperation with governmental bodies, other international organizations, non-governmental organizations, local authorities and the private sector. Through a process of broad consultations, the experts undertake a comprehensive review of the housing sector and develop recommendations to help policymakers draft strategies and programmes.

This country profile on the housing sector of Kyrgyzstan, prepared on request of the Government of Kyrgyzstan, is the thirteenth in the series published by the Committee on Housing and Land Management. The country profile programme continues to emphasize in-depth analysis and policy recommendations, but also focuses on specific challenges or achievements within the housing sector that are of particular concern to the country under review. In the case of Kyrgyzstan, these issues are housing maintenance and management, land administration and spatial planning, and decentralization. This country profile report puts forward a set of policy recommendations. Their timely and effective implementation is regarded as crucial to meeting the challenges that Kyrgyzstan currently faces.

I would like to thank the international and local experts who contributed to the preparation of the country profile as well as the Governments that provided funding for its development. I invite all those with an interest in the country's housing sector — policymakers and legislators, Government officials, academics, non-governmental organizations and other national stakeholders, as well as international organizations, lender and donor organizations, technical assistance agencies and private sector investors, to make full use of the information and recommendations contained in the study. They can serve as a framework for future action, and can help shape programmes at the national and local levels.

Finally, I would like to stress the relevance of the country profile reviews as unique instruments for UNECE countries to share experience on housing and land management issues, to compare trends and gaining knowledge from different practices, to adopt policies and planning tools, and to learn about actions implemented. I therefore trust that this exercise will continue to prove itself to be a practical and policy tool that all the stakeholders concerned can use to address the development challenges related to the housing and land management sectors, most particularly in countries in transition and emerging economies.



Ján Kubiš
Executive Secretary

PREFACE

This country profile on the housing sector of Kyrgyzstan was requested by the State Agency for Architecture and Construction and a research mission by the international expert team was carried out in 2008. The project's expenses were covered by extra budgetary funds provided by the Governments of Norway, the Netherlands, the Czech Republic, Italy and Switzerland. The successful conclusion of the project would not have been possible without this generous support.

The previous studies in this series include Bulgaria (ECE/HBP/101, published in 1996), Poland (ECE/HBP/107, 1998), Slovakia (ECE/HBP 111, 1999), Lithuania (ECE/HBP/117, 2000), Romania (ECE/HBP/124, 2001), Republic of Moldova (ECE/HBP/125, 2002), Albania (ECE/HBP/130, 2003), Armenia (ECE/HBP/132, 2004), Russian Federation (ECE/HBP/131, 2004), Serbia and Montenegro (ECE/HBP/139, 2006), Georgia (ECE/HBP/143, 2007) and Belarus (ECE/HBP/150, 2009).

Five other UNECE publications related to housing may also prove useful to Kyrgyzstan and other countries in transition: (a) *Guidelines on condominium ownership of housing for countries in transition* (ECE/HBP/123, 2003); (b) *Housing finance systems for countries in transition: principles and examples* (ECE/HBP/138, 2005); (c) *Guidelines on social housing: principles and examples* (ECE/HBP/137, 2006); (d) *Self-made Cities: In search of sustainable solutions for informal settlements in the United Nations Economic Commission for Europe region* (ECE/HBP/155); and (e) *Green Homes: Towards energy efficient housing in the United Nations Economic Commission for Europe region* (ECE/HBP/159).

This country profile and the other publications mentioned above are available on the Committee on Housing and Land Management website (<http://www.unece.org/hlm/welcome.html>).

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CONTENTS

Foreword	iii
Preface.....	v
Acknowledgments.....	vi
List of boxes, pictures, figures and tables	ix
Abbreviations and acronyms.....	x
EXECUTIVE SUMMARY.....	1
Chapter I. SOCIO-ECONOMIC CONDITIONS AND HOUSING POLICY FRAMEWORK.....	9
A. General information	9
B. Privatization and housing policy development	17
Chapter II. INSTITUTIONAL FRAMEWORK	19
A. Policy making and institutions at the national level.....	19
B. Regional and local levels.....	24
C. Other institutions	26
Chapter III. LAND ADMINISTRATION AND LAND MANAGEMENT	29
A. The state of land reforms and sustainable land management.....	29
B. Land registration and cadastral systems.....	30
C. Rural and urban land	33
D. Land allocation for construction	42
Chapter IV. HOUSING CONDITIONS AND NEW HOUSING CONSTRUCTION	47
A. Legal and policy framework	47
B. Existing housing stock and housing provision.....	50
C. Housing management and maintenance	51
D. Refurbishment and urban renewal	52
E. New housing construction	55
F. Housing market.....	59

Chapter V. FINANCIAL FRAMEWORK.....	61
A. Housing demand and availability of housing finance	61
B. Housing finance programmes.....	62
C. Generating housing finance at the local level	62
D. Banking system of Kyrgyzstan and mortgage market	63
Chapter VI. RECOMMENDATIONS	69
Recommendations — Institutional framework	69
Recommendations — Land administration and land management.....	72
Recommendations — Housing conditions and new housing construction.....	74
Recommendations — Financial framework	77
BIBLIOGRAPHY	80

LIST OF BOXES, PICTURES, FIGURES AND TABLES

BOXES

Box 1. Women's unequal access to and control over land in Kyrgyzstan	39
Box 2. Best practice — Cane Reed settlement of Habitat for Humanity	56

PICTURES

Picture 1. Map of Kyrgyzstan	xi
Picture 2. Bishkek	7
Picture 3. Administrative territorial division of Kyrgyzstan	10
Picture 4. UNECE discussing informal housing improvement with inhabitants	28
Picture 5. Inhabitants and informal settlements in Kyrgyzstan.....	44
Picture 6. Informal construction in Kyrgyzstan	60
Picture 7. Residential buildings in Bishkek.....	68
Picture 8. View over residential area	83

FIGURES

Figure 1. The territory and population density in seven oblasts.....	16
Figure 2. Average size of the agricultural land plots in different regions (in ha)	37
Figure 3. Land degradation trends.....	37
Figure 4. Information on land redistribution fund in regions, 2007.....	37

TABLES

Table 1. GDP composition by sector, as a percentage of the total	13
Table 2. Employment and unemployment in Kyrgyzstan, 2003	14
Table 3. Population data, in thousands.....	15
Table 4. Land reclassification in Kyrgyzstan, 1990 and 2002 (per cent).....	35
Table 5. Changes in different farm categories (number of farms)	35
Table 6. Distribution of households by plot size and region (per cent)	35
Table 7. Master plan documents for settlements in different regions	41
Table 8. Cities that have zoning regulations	41
Table 9. Expansion of human settlements (total size in ha).....	45
Table 10. Average prices of secondary market condominiums in Bishkek	60
Table 11. Number and volume of housing construction by public and private sectors	62
Table 12. Assets and deposits of the Kyrgyz banking sector.....	65

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AO	Акционерные Общества (Joint Stock Company)
ARIS	Community Development and Investment Agency
CDS	Country Development Strategy
CIS	Commonwealth of Independent States
DFID	Department for International Development (United Kingdom)
EBRD	European Bank for Reconstruction and Development
EECCA	Eastern Europe, the Caucasus and Central Asia
GDP	Gross Domestic Product
Gosregister	State Agency for Registration of Rights to Immovable Property
Gosstroy	State Agency for Architecture and Construction
GTZ	Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
IDA	International Development Association (part of the World Bank Group)
IFC	International Finance Corporation
ILO	International Labour Organization
KFW	Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute)
KICB	Kyrgyz Investment and Credit Bank
LALM	Law on Agricultural Land Management
LRERP	Land and Real Estate Registration Project
LRF	State Land Redistribution Fund
MDGs	Millennium Development Goals
NSC	National Statistical Committee
OECD	Organization for European Cooperation and Development
PPP	Public-private partnerships
SIDA	Swedish International Development Cooperation Agency
SLMP	Strategic land management plan/planning

SOE	State-owned enterprises
TACIS	Technical Aid to the Commonwealth of Independent States
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UN-HABITAT	United Nations Agency for Human Settlements
UNIFEM	United Nations Development Fund for Women
USAID	United States Agency for International Development
WESA	Women Entrepreneurs' Support Association of Kyrgyzstan



Picture 1. Map of Kyrgyzstan

Source: United Nations Cartographic Section

The Country Profile of the Housing Sector of Kyrgyzstan provides a detailed analysis of the housing and land management situation in the country. It is based on data obtained during a UNECE research mission to Kyrgyzstan. The study makes practical recommendations to the Government of Kyrgyzstan on how to improve the country's housing and land policies.

Socio-economic conditions and policy framework

Since 1991 the Kyrgyz housing sector has undergone major restructuring as part of the overall transition towards a market economy. Major changes in the housing system include the State's withdrawal from direct housing provision, decentralization of the housing functions to local government, mass housing privatization (by 1994 over 90% of the housing stock had been privatized), and the increased involvement of the private sector in housing construction.

The state of housing has deteriorated; the reforms in housing have been followed by a sharp decrease in housing construction, as well as an erosion of housing and utility services. Deteriorating living standards, the poor state of rural and urban infrastructure, increased construction costs due to a declining building-material industry, as well as the conversion of some housing into shops, cafes and pharmacies, have only aggravated housing problems.

Inadequate housing is linked to a high rate of poverty. The low purchasing power of the population negatively affects the state of existing housing. Although the poverty rate decreased from almost 50% of the total population in mid-1990s, it still remained close to 40% in 2006. In 2005, 51% of the rural population lived in poverty compared to 30% of the urban population. As living standards are low, many families live in houses that have received little or no due maintenance for a long time.

Mass rural-to-urban migration and natural population growth increase pressures on urban housing. Decreased construction due to reduction in budget resources in recent years and, as a result, lack of affordable housing lead to overcrowded apartment buildings, especially in major cities. It is important to analyse demographic and migration trends to inform housing policies.

Housing has received priority attention in the 2007 Country Development Strategy (CDS) for 2007–2010. The 2007 *Country Development Strategy for 2007–2010* proposed a reorientation of housing policy and identified affordable housing as a priority for the country's development. The *CDS* envisages the production of more housing through the development of the construction industry and improved housing accessibility through the development of affordable mortgages. Integrating housing into the overall national development framework represents major progress. However, the housing objectives in the Strategy are not underpinned by a comprehensive institutional framework and appropriate financial infrastructure, and fail to address the diverse housing needs of the population.

Institutional framework

A coherent governance infrastructure to support housing initiatives has yet to be set up. Currently, the State Agency for the Registration of Rights to Immovable Property (Gosregister), the Agency for Architecture and Construction (Gosstroy) and the Agency for Environmental Protection are State departments directly responsible for housing and land management. However, effective cooperation between these bodies has not been developed despite the requirements of the *National Programme on Housing Construction in Kyrgyzstan for 2008–2010*. A special Government body to formulate and oversee the overall institutional framework for the development of the housing sector should be designated.

At the national level, the National Programme on Housing Construction in Kyrgyzstan for 2008–2010 provides a framework for the cooperation among different Government bodies, including the Ministry of Finance responsible for affordable mortgage mechanisms and availability of finance for housing construction; the Ministry of Economic Development and Trade in charge of effective utilization of funding for affordable housing from international financial organizations and donors; the Ministry of Industry, Energy and Fuel Resources responsible for regulations concerning energy, production and local building materials; the Ministry of Labour and Social Protection responsible for subsidies for utility services, and the development of social housing, as well as housing standards, parameters and criteria for improving living conditions; the Ministry of Health in charge of sanitary and epidemiological requirements for building sites; the Ministry of Foreign Affairs entrusted with attracting foreign investments for housing projects; and the National Statistical Committee of Kyrgyzstan responsible for population censuses, household surveys and other demographic statistics. Joint cooperation should be seen as the first important step for a strategic cooperation in the housing field.

At the local level, decisions on housing and land management are made on the basis of cooperation between local State administrations and Government bodies. The local State administrations (acting as executing bodies) have the functions of ministries and agencies responsible for housing and land administration at the local level. According to the 2002 *Law on Local Self-Government and Local State Administration*, they coordinate their decisions on all crucial matters of territorial development with local councils (bodies of the local self-government acting as local representative bodies).

At the community level, condominium associations deal with maintenance of the privatized multifamily residential buildings. The 1996 *Civil Code* establishes rules for the organization of housing maintenance and management in the privatized, multifamily houses. The 1997 *Law on Condominiums* introduced the institution of homeowners' associations, and a framework for housing management. The associations are put in charge of the maintenance of common areas and management of the multi-apartment building through their elected representatives. However, the role of this institution remains limited; only 25% of the condominiums had established homeowners' associations by 2005. There is a need for further improvement, for example in terms of raising awareness among the homeowners about their responsibility for housing maintenance and the development of supportive financial mechanisms.

Importantly, decision-making in housing and land management should be based on the principle of subsidiarity or the delegation of power to the regional/local governments and communities/residents. Capacity-building should also be provided so that lower levels of government play a more strategic role in their territories.

Land administration and land management

Some progress in the establishment of a market-based land management has been made, but further improvements are limited by a fragmented and uncoordinated system of land administration. During land privatization and other land reforms the need for strategic land use planning was ignored. The existing legal framework for land management represents a patchwork of regulations, contained in the *Constitution of the Republic of Kyrgyzstan*, the 1996 *Civil Code*, the 1994 *Law on Town Planning and Architecture*, the 1999 *Land Code*, and the 2002 *Law on Local Self-Government and Local State Administration*. In order to facilitate sustainable land management, a comprehensive national strategic framework for land administration should be formulated.

The land registration and cadastral systems were unified in 1999 and this was followed by a number of successful projects supported by international donors. A single State agency for registration of rights to immovable property (Gosregister) has been established. Since 2000, SIDA, USAID and the World Bank have implemented a number of projects to support the development of a land market. These projects have contributed to the following: defining a legal and administrative basis for land and building

registration; establishing 50 well-equipped and self-sustained local land registration offices, of which 20 have a computerized registration system; conducting extensive training for officials and real estate professionals; registering of rights on virtually all land and real estate properties via systematic land registration; improving access to credit; increased the numbers of registered sales and leases; improving access to cadastre information and mapping, and categorization of some land plots; finalizing of the automated registration system and establishing the Kyrgyz Land Information System. These projects have also improved governance of public lands; established local initiatives in rural areas to resolve land disputes; developed a strategy for the use of the Land Redistribution Fund; formulated comprehensive strategies and action plans for pilot cities and rural areas; formed new homeowners' associations in existing housing, and developed regional associations; improved land legislation; and developed real estate valuation methods for taxation purposes. A number of challenges still remain, however, including the completion of a nationally unified land registration database, the improvement of access to and reliability of land and real estate information and the simplification of the procedures for registering land and other types of real property. The Government should review the successful projects and, based on their example, draw guidelines for all other rural and urban municipalities. These guidelines may consequently be developed as a national policy framework and codified as normative legal acts.

Private ownership of land, as well as the possibilities for sale, exchange and rent of land were introduced in Kyrgyzstan in 1998. Until then, reforms related to rural land involved the allocation of land shares to the employees of State and collective farms and the formation of the State Land Redistribution Fund. Between 1991 and 1996 workers on State and collective farms could claim shares in agricultural land and establish private farms. About 500 former collective and State farms were dissolved, and 75% of the land was distributed as agricultural land shares. The remaining 25% was reserved in the State Land Redistribution Fund (LRF), to be managed by local governments and used for either the expansion of human settlements, for experimental selection and seed-producing farms or for selling land use rights through auctions and leasing to agricultural producers. In 2003, 96% of households had rights over land and, by 2006, 313,061 private farms had been established. However, about 88% of the agricultural land is recognized as being degraded or subject to desertification. It is necessary to provide strong incentives for the creation of voluntary cooperatives and voluntary consolidation of land ownership by farmers. There also remain problems in managing the LRF, including unmapped land, non-transparent management and the lack of clear estimates of the amount of land managed by local governments. It is therefore necessary for municipal land to be inventoried and registered and for a plan to be developed for its use.

Good progress has been achieved in facilitating women's access to land. In the course of the transition, lack of a gender perspective in the redistribution of assets, changes in labour market institutions and welfare cuts have led to the "feminization of poverty". In rural areas, women are more likely to find themselves trapped in poverty and at the bottom of a gender system shaped by revived customary traditions and stereotypical family relations. Since 2005, the United Nations Development Fund for Women (UNIFEM), via a number of gender-related projects, has achieved an increased involvement of women in decision-making and improved women's access to land and other economic resources.

Spontaneous urban growth and the formation of informal settlements around major cities are exacerbated by ineffective land development control, and lack of both up-to-date master plans and strategic land management policies. While small and medium-sized cities in Kyrgyzstan are losing population, larger cities are experiencing overpopulation, growing demand for housing and a lack of social housing. These factors lead to the formation of large informal settlements. Land allocation for construction is regulated by the 1999 *Land Code*. Kyrgyz citizens are entitled to land free of charge for individual housing construction and agricultural production. However, land allocation remains a problem due to a lack of updated master plans (mainly because local governments have limited budgets for master plans), fragmented and unreliable information on municipal land and non-transparent land allocation. Zoning regulations were launched in 1999, but they have not been widely used. However, recent strategic land management plans for some cities have achieved the registration of municipal ownership, some

improved transparency in land management, the inventory of land parcels, and enhanced capacities of local government in land management. It is important that land allocation supports sustainable land management, and prioritizes agricultural land conservation and an increase in the density of the built environment.

Housing conditions and new housing construction

Decision-making in housing remains fragmented. Matters related to housing are divided between different authorities at national and local levels. After the country gained independence, the housing system underwent a process of decentralization, starting with the transfer of the ownership of the existing housing stock, housing-related services and financial responsibilities for housing to local government. Despite the decentralization, addressing housing matters beyond housing privatization and immediate local needs has not yet become part of local authorities' statutory commitments. Responsibility for policymaking in housing remains with national bodies. At the national level, it is the State Agency for Architecture and Construction that is responsible for the *National Programme on Housing Construction in Kyrgyzstan for 2008–2010*. Land management issues closely related to housing fall under the State Agency for Registration of Rights to Immovable Property.

A number of laws and housing programmes have been adopted to promote a market relationship in the housing sector but these legal and policy initiatives remain disconnected and address only specific problems, including the privatization of housing, organization of condominium associations and the targeted provision of mortgages. The systematization of housing rules into a new Housing Code is also under way. There will be major new rules on shared ownership, decentralization of decision-making and integration of commercial spaces into residential buildings. Nevertheless, it is necessary to develop a comprehensive and coherent national housing strategy to overcome the fragmented character of existing housing initiatives. Furthermore, housing strategies should also be developed at the regional (oblast) and local levels. It is also necessary to identify financial sources to implement housing programmes.

Since 2000 a more strategic approach to housing has been developed through the adoption of long-term housing programmes, but there is a lack of mechanisms to ensure their effective implementation. The 2004 *State Housing Development Programme in the Kyrgyz Republic until 2010* considered the development of mortgage instruments and State support for housing purchases. It also planned to boost new construction towards the level of the late Soviet era and to extend the total residential floor space. However, none of these objectives have been achieved. The recent *National Programme on Housing Construction in Kyrgyzstan for 2008–2010* focuses on improving living conditions and the socio-economic environment for citizens and acknowledges that the State should be responsible for solving housing problems. Major housing needs include: housing maintenance; increase in housing output via modernization of the industry and the development of domestic building materials; the provision of affordable mortgage financing; and ensuring earthquake resistant housing. Major tasks involve the provision of affordable housing via attracting investments, improvement of the legal basis and housing market infrastructure; modernization of the construction industry and the production of more housing; the development of master plans to ensure areas allocated for new housing constructions; and improvement of the bank sector and the development of affordable mortgages to stimulate housing demand.

A systematic census on the existing housing stock and services is in progress. The first housing stock census was conducted by the National Statistical Committee between 24 March and 2 April 2009. This census aimed to identify the characteristics of the living conditions of Kyrgyz citizens, such as total living space, housing construction material, seismic stability and availability of communal facilities. However, the data are not available yet.

Since 1991, the population has grown faster than the housing stock. Kyrgyz households are large, with more than four people on average. The housing stock cannot meet the demand of the fast growing population. Dwellings in Kyrgyzstan used to be between 60 and 70 m² in 1990. Today, newly built flats have reached almost 110 m², because private developers tend to build larger flats for the rich or upper-middle income homebuyers. However, the average “available floor space” per capita has decreased to less than 5 m². As estimated in the *Country Development Strategy of 2007* there are 166,000 families in need of new housing. Homelessness is on the rise. The *National Programme on Housing Construction in Kyrgyzstan for 2008–2010* estimates the necessary levels of new housing construction at 20,000 to 30,000 dwellings a year. Even so, it would take 15 years to recover to the same level of housing provision as was achieved before independence in 1991.

A large portion of housing lacks basic utilities and is in urgent need of repair. About 85% of the existing housing stock was built in the Soviet era. Multi-apartment buildings represent a large proportion of the overall housing stock. The owner occupancy rate is now more than 96% and presents a great challenge for the management and maintenance of multi-apartment buildings. Furthermore, only 40% of households have access to running water (in urban areas 70%) and 40% of dwellings are linked to public sewerage systems (in urban areas 70%). Only 27% of households have flushing toilets (in urban areas 56%) and 25% of households have bathrooms/showers (in urban areas 52%). Heating provision is also not satisfactory. Generally, the technical systems within multi-apartment buildings are in need of repair. There have been some refurbishment activities inside dwellings, but almost nothing has been done to deal with the common parts of the buildings. Urgent action is required particularly for roofs, elevators and façades. International donors have been involved in refurbishment through some activities such as a microcredit programme for incremental refurbishments.

Housing maintenance is defined as a key priority in the National Programme on Housing Construction in Kyrgyzstan for 2008–2010, but further practical support is needed. Management and maintenance of the privatized, existing housing stock is problematic. Condominium owners are meant to manage the premises themselves or to hire a specialized company. Running costs for maintenance and management are to be met by the homeowners. Yet there are hardly any sanctions for non-payment and fees are rarely paid on time or in full by homeowners. Even in those buildings with homeowners’ associations, maintenance and major repairs have been difficult to organize as the contributions of tenants to repair funds are very low and the proportion of the homeowners refusing to make any payment is also high. Homeowners’ associations are not eligible for State subsidies and it is difficult for them to gain access to mortgages. Professionalism in managing residential buildings was improved through training for housing managers in a USAID project. Furthermore, the Mayor of Bishkek has recently initiated a new type of the management company. It is expected that the inventory of the existing housing stock conducted in 2009 as part of the housing census will provide a basis for the development of a new system of housing management and maintenance. Compulsory homeowners’ association should be established.

Neither new construction, nor rehabilitation of the housing stock in Kyrgyz cities considers energy efficiency to be a priority concern. Some newly built, expensive housing estates meet modern standards for energy efficiency, including thermal insulation and triple glazing. Within the existing housing stock, however, incentives for energy savings are minimal as payments for district heating depend upon floor space, and not the actual consumption. In addition, the majority of the population cannot afford to pay for the installation of meters and thermostats.

The internal migration from southern Kyrgyzstan to cities led to the development of informal and semi-formal settlements (novostroiki) in Bishkek and Osh; some of them have been regularized but the issues of eviction and the provision of adequate infrastructure remain to be addressed. Migrants occupy land formerly used for agriculture and erect houses using discarded building material. Since no infrastructure for residential use is available, they live without electricity or water supplies. Some settlements resemble simple residential areas with brick houses, and others constitute an agglomeration of one-room huts, which have to accommodate entire families. The local authority in Bishkek and Osh has

used funds from donors to provide the *novostroiki* with electricity, but many settlements have no adequate access to basic infrastructure including medical services. Also, social tensions in the *novostroiki* are omnipresent. The cities have now regularized some of the land by registering it, but many residents of *novostroiki* complain about evictions.

Also, the provision of basic infrastructure and public transport for expanding urban areas will require substantial financial resources that cities do not have. A special strategy for informal settlements should be developed.

Attempts to develop not-for-profit housing have failed, but some new solutions are envisaged. *Novostroiki* present a major failure of previous housing policies. A social programme is envisaged to combine funding from municipalities, State and private investors, create incentives for private developers to complete unfinished buildings, convert some *novostroiki* into multi-storey residential and commercial buildings, and enforce the obligation to dedicate about 10% of newly built dwellings to social purposes.

Major cities like Bishkek require the low-density novostroiki areas and inner city areas with single-family houses to be redeveloped. Promoting urban renewal will require the clarification of municipal land ownership. Urban renewal activities in settlements with privatized individual houses and with large green spaces between houses represent a challenge. Ownership boundaries of the land around the buildings are not clearly defined. Taking control over municipal land is a major challenge for local authorities. Another major challenge is related to the seismic improvement of building structures, as well as the large-scale redevelopment of earthquake-prone settlements. Building an additional storey onto existing structures was considered another option to increase density in inner cities, but implementation turned out to be difficult due to the requirement to secure agreement from the majority of homeowners in the building.

The construction industry remains weak with only 20,000 employees, although in 1990 it was a major economic sector with 150,000 employees. The fall in the workforce in the construction industry is even more marked than the decrease in housing output in the same period. It may partly result from a higher productivity of construction companies. But it also reflects the drain of professionals, who have migrated in large numbers to the Russian Federation and other countries. In 2005, there were about 650 construction companies operating in Kyrgyzstan. Many of them were operating with foreign investment capital from Turkey, Kazakhstan, the Russian Federation, the Islamic Republic of Iran, the Republic of Korea and China.

Financial Framework

Over the last few years, private investments in housing production have made up 98% of the total and public investments have practically ceased. Nowadays two schemes to finance housing are being used. According to one approach, some companies operate on a joint stock basis with Turkish and Korean construction companies and are capitalized by the latter. According to another approach, housing construction is implemented with pre-financing by future homeowners. The *National Programme on Housing Construction in Kyrgyzstan for 2008–2010* allocates public investments mainly for the provision of subsidies; in addition, local authorities co-finance local housing programmes. However, due to a lack of finance at all governmental levels, these activities are almost frozen.

Some housing funds are to be generated at the local government level, but only 25% of all municipalities have a surplus in their budgets. The continuing reform of the local administration system empowers local authorities to collect taxes. Funds for housing policy can be generated by selling land plots for construction. Finance for housing can also be obtained by issuing securities for up to 20% of the total budget revenue.

The banking system is not ready to provide affordable loans for housing construction and mortgages for the majority of the population. There are 22 commercial banks in Kyrgyzstan. In 2008

mortgage loans comprised approximately 7.7% of the total banking assets. In 2007, the average interest rate on a bank loan was 25% for local currency loans and 19% for United States dollar loans. The maximum loan-to-value ratio is set at 50–60% of the purchase price. There are about 300 credit unions and 200 microfinance organizations operating in the country. The 1999 *Law on Mortgages* introduced a mortgage market in Kyrgyzstan. However, savings and loans institutions have not been created. Loans for construction are rare because of the high risks and absence of adequate security. Mortgages are affordable only for a small number of high-income households, yet about 40% of people in Kyrgyzstan live below poverty line.



Picture 2. Bishkek
Source: UNECE

Chapter I

SOCIO-ECONOMIC CONDITIONS AND HOUSING POLICY FRAMEWORK

A. GENERAL INFORMATION

Geographic situation

Kyrgyzstan is located along the eastern edge of Central Asia. Kyrgyzstan is surrounded by Kazakhstan on the north and north-west, Uzbekistan on the south-west, Tajikistan on the south, and also by China on the east and south-east. The total area of Kyrgyzstan is about 199,900 km²,¹ making it the second smallest of the Central Asian countries.

Kyrgyzstan is a landlocked country with no navigable rivers. Access to international centres of economic and cultural activities is possible only through the territories of the neighbouring countries. The majority of the country's rivers are small. The Tien Shan mountain range covers approximately 95% of the whole territory limiting the amount of land available for agriculture. The country's area is made up of about 191,300 km² of land and 7,200 km² of water, but arable land makes up only about 7% (approximately 80% of the arable land is irrigated). It has a generally mountainous terrain dominated by snow-covered mountain peaks and grassy highland valleys. The few relatively flat regions, the Kyrgyzstan part of the Fergana Valley in the south-western area, and the Chu and Talas valleys along the northern border, are the only suitable terrain for large-scale agriculture in the country.

The mountains divide Kyrgyzstan into two parts: northern and southern, resulting in the transport system between them being poorly developed. The only route connecting the northern and southern parts of the country is the

Osh-Bishkek road, which passes through the Naryn region. It passes through several mountain chains and is impassable during heavy snowfall making communication between the two parts of the country extremely difficult and dependent on weather conditions.

The climate in Kyrgyzstan varies regionally and is influenced partly by its mountains and partly by its continental location. The climate is subtropical and extremely hot in summer in the Fergana Valley region, temperate in the northern foothills, and dry continental to polar in the mountainous region of Tien Shan. While the soil is fertile, the continental climate provides little rainfall, insufficient for most crops.

Political system

Kyrgyzstan gained independence from the Union of Soviet Socialist Republics (USSR) on 31 August 1991. According to Articles 64 and 65 of the *Constitution* (with latest updates on 15 January 2007), Kyrgyzstan is a semi-presidential Republic.

The President of Kyrgyzstan is head of State, the supreme official and head of the executive branch of the Government, as well as the commander-in-chief of the armed forces. The President is elected for a term of five years. Referendums were held in February 1996 and February 2003 enhancing the power of the President.

The country's legislation is formulated by the executive and legislative branches. The executive branch consists of the Government of the Kyrgyz Republic, Ministers directly subordinate to the Government, State committees, administrative offices, other executive bodies and local administrations. The Government of the Kyrgyz Republic is led by the Prime Minister who is appointed by the

¹ Intergovernmental Statistical Committee (2007), Commonwealth of Independent States, Statistical Yearbook, Moscow.

President with the approval of a majority of the whole number of the deputies of the Parliament (*Jogurku Kenesh*).

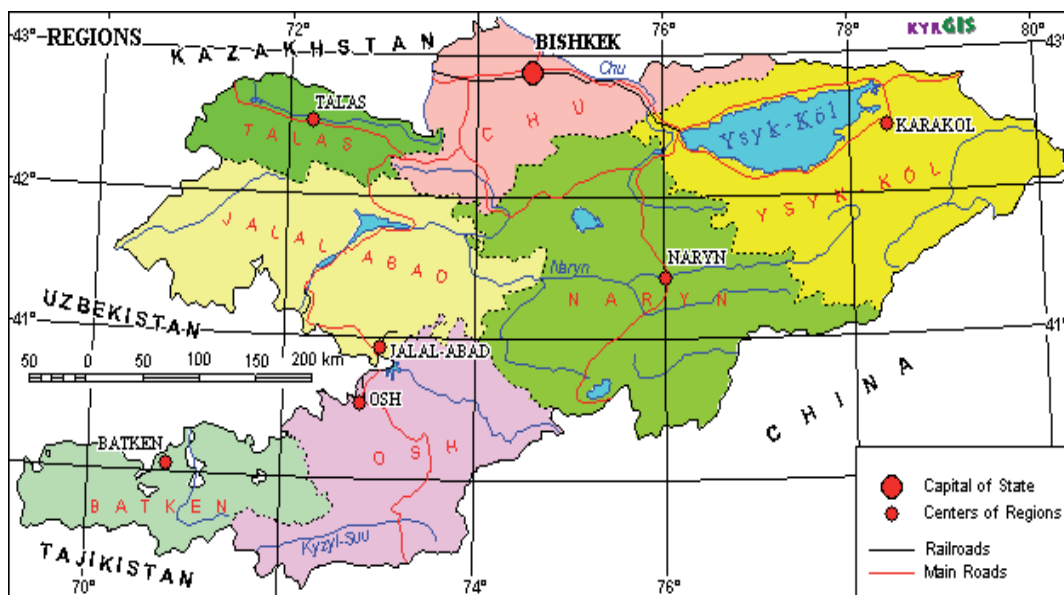
The Government is responsible for policy formulation and for drafting and commenting on draft legislation. The Prime Minister issues Government orders and regulations, and nominates candidates for ministerial positions who are appointed by the President.

Legislative power is vested in the Parliament (*Jogurku Kenesh*). Draft laws are introduced to the Parliament by the executive branch or by the general public through community initiatives, which require the signatures of 30,000 voters. The legislation on land or property issues is reviewed by the Ministry of Justice and the consequent bills are introduced to the Parliament. The laws that require financing from the State budget can only be adopted by the Parliament when the source of the financing has been identified as stated by the 2007 *Law Concerning a New Version of the Constitution of the Kyrgyz Republic*. Only the President of Kyrgyzstan and the *Jogurku Kenesh*, which is elected by the people of Kyrgyzstan, are entitled to act on behalf of the people of Kyrgyzstan.

The legal system of Kyrgyzstan was shaped and developed within the framework of the Soviet State law. Since acquiring independence, Kyrgyzstan has acquired some features of the French legal system (regarding the State structure), as well as the legal system of the Russian Federation. Justice is administered in Kyrgyzstan only by the courts. The *Jogurku Kenesh* selects, on the advice of the President of Kyrgyzstan, judges of the Constitutional Court and of the Supreme Court who serve a term of 10 years.

Administratively, Kyrgyzstan is divided into seven regions (oblasts) and the municipality of Bishkek — the capital (see Picture 3). Bishkek is administratively an independent city located in the Chu valley with a status equal to an oblast. The Chu, Talas, and Ygyk Kol oblasts, with Bishkek, comprise the northern part of the country. The southern territory is divided into three oblasts: Batken, Jalal-Abad, and Osh. Naryn, somewhat isolated, is situated within the Tien Shan mountain range. In terms of territory, it is the largest of the oblasts but the smallest in terms of population, according to the results of the 1999 Population Census. Osh is the most populous oblast.

Picture 3. Administrative territorial division of Kyrgyzstan



Source: The Sustainable Development Commission IFAS (2003), Bishkek, Kyrgyzstan

Overall economic development

The nineteenth century saw Russian Tsarist rule in Kyrgyzstan after the defeat of the forces of the Kokand Khanate. In 1876, the territory of Kyrgyzstan was annexed to Russia bringing the people under the control of the Tsars. During this time, landless Russians and other Slavic people came in large numbers enticed by a promise of free land and building materials by the Tsarists, taking the best and most fertile lands for themselves.

The Kyrgyz Autonomous Oblast was created in the early part of the twentieth century. The country experienced notable economic and social development around this time, free education was introduced, and widespread land reforms started whereby some of the lands taken by the Russian and Slavic settlers were given back to the Kyrgyz people. The land reform went on further with the introduction of mass collectivization that called for all land farms to be taken under the State control to be worked as collective farms, but most of the collective farms were headed by ethnic Russians. Collectivization forced the Kyrgyz to abandon their nomadic lifestyle and settle in towns and villages, which was something they were not used to, and led them to flee to the mountains and even into China.

The Soviet legacy has strongly influenced the direction, speed and results of reforms in Kyrgyzstan after gaining its independence. Under the Soviet system, economic planning efforts were focused on regional agricultural specialization and industrial development in the Central Asian region to which Kyrgyzstan belongs.

In agriculture, the Soviet strategy was to promote regional specialization in wool, livestock products and, to a lesser extent, cotton, in Kyrgyzstan. Thus, incentives were sharply shifted in favour of these crops and products.

In the industrial and service sectors, the Soviet strategy of industrialization was to emphasize a degree of self-sufficiency creating relatively broad-based manufacturing industries in Kyrgyzstan. It included manufactured goods

like electrical engines and centrifugal pumps; a variety of farm machinery and trucks; intermediate goods like cement and bricks; consumer goods like textiles, garments and processed food; and agricultural processing like cotton fibre. Kyrgyzstan was also a major producer of electrical energy and coal. Apart from catering to domestic demand, many of these industries were based on the processing of material supplied by the rest of the Soviet Union or on demand for export to other Soviet republics. The industrial sector was also heavily dependent on input supplies from and output markets in other parts of the former USSR and prices for the inputs and outputs were heavily subsidized by the central government.

The loss of the Soviet subsidies and the breakdown of established Soviet trading markets affected Kyrgyzstan severely. Kyrgyzstan relied on external borrowing to deal with the reduction in private consumption, and increased government expenditure. This resulted in the decline of the gross domestic product (GDP) to around 50% of the 1990 level between 1991 and 1995. Furthermore, all economic indicators deteriorated which led to the rise in poverty levels.

Kyrgyzstan was one of the first of the former Soviet republics to initiate a programme of structural reforms to facilitate the development of a market economy after gaining independence. However, the pace of the reforms was constrained by factors such as the serious deterioration in economic conditions and resistance to the changes. These constraints did not stop the Kyrgyzstan Government from pursuing its commitment to the transition to a market economy, and it instituted drastic structural reforms to accelerate the process. With the introduction of the new currency, price liberalization, reform of commercial and agriculture legislation, privatization of public assets and the adoption of an open external trade regime, starting in 1996, the economy began to recover. Improved economic performance was fuelled by the strong growth of the agricultural sector due to reforms made, such as land redistribution, price liberalization, restructuring of State-owned farms and the elimination of State controls over markets and State duties.

However, the external shocks from the 1998 Russian financial crisis had adverse effects on the Kyrgyz economy, bringing down real GDP growth from 9.9% in 1997 to 2.1% in 1998.

The economy started to recover again and by the end of 1999, GDP growth was 3.7%. Despite increased GDP levels, the growth trend declined from an annual average of 5.7% in 1996–1999 to 3.9% in 2000–2006. The major factors that caused the average GDP growth rate to fall in 2000–2006 were the zero growth in 2002, when gold output suffered a major decline, and negative growth of 0.6% in 2005 due to the impact of the “Tulip Revolution” in Kyrgyzstan. Acute poverty and pervasive corruption sparked the revolution in March 2005, with the alleged vote rigging during the parliamentary elections serving as the catalyst.

Strong economic performance has been observed since the Tulip Revolution. In 2006, the economy started to pick up again and GDP grew at an annual rate of 3.1%. The economy grew notably in 2007 despite continued political tensions. GDP growth at 8.2% at the end of 2007 was more encouraging because the Kumtor gold mine² had not achieved full recovery from an accident in 2006 and operational problems in 2007. GDP growth excluding gold was 8.7%. The services sector continued to be the driver of the strong performance of the economy, while agriculture remained weak with growth of 1.5%. The increase in food prices worldwide had a severe impact on inflation in Kyrgyzstan. In addition to the increase in prices of food items, the price of electricity, gas and other fuels also increased. From an average rate of 4% over the last five years, the inflation rate soared to 20.1% at the end of 2007.

Kyrgyzstan has a predominantly agricultural economy, with the agricultural sector contributing around 30% of the GDP in

2005 and employing 65% of the population. Since 1996, the sector has contributed significantly to Kyrgyzstan’s economic growth despite geographic barriers. The land and farm restructuring reforms introduced in 1993 were key factors contributing to agricultural growth. The reforms included the privatization of State and collective farms into privately owned ones, the establishment of institutions to support the process, and the introduction of a land market. This sector grew at an average rate of 9.6% for the period 1996–1999, dropping to 2.5% since 2000.

The agriculture industry is dominated by livestock breeding (meat, dairy and wool production) and the cultivation of tobacco, cotton and industrial crops. Osh is one of the most productive regions for agriculture in the country because of the melting snow from the Pamir and Ferghana mountains, which irrigates farms in the lower lands, whereas Naryn is only suitable for animal husbandry because of the topography and climate of the region.

The service sector has been growing since 1995, with an output share of 40.2% of GDP in 2005, while heavy and manufacturing industry has been losing its share in both output and employment. From 1996–1999, the average annual growth rate of the service sector was 1.9% and it has grown strongly since 2000 posting an average of 6.9%. The growth of the service sector is attributable to the growth of small private enterprises.

The collapse of the Soviet Union led to a considerable contraction of the industrial and manufacturing sectors of Kyrgyzstan. The supply of raw materials and fuels was disrupted and the Soviet market disappeared. Production declined in this sector, and by 1995 the industrial sector accounted for only 12% of the GDP and its contribution to employment became less significant.

The remaining industrial sector of Kyrgyzstan is concentrated in specific regions and products. Manufacturing plants are concentrated in and around the capital city, Bishkek. The industry’s main driving force is mining, and more importantly, gold extraction.

² The Kumtor gold mine is the largest gold mine operated in Central Asia by a Western company. It is located about 350 kilometres south-east of the capital, Bishkek, and about 60 kilometres north of the border with China. Between 1997 and 2007 over 6 million ounces of gold were produced from the Kumtor gold mine.

Kyrgyzstan is rich in mineral resources. The country has substantial reserves of coal, gold, uranium and other rare earth metals, but has to import oil and natural gas, which is a major expense. The country's mining industry has a strong potential for development, and thus the Government has encouraged the participation of foreign investors in extracting and processing gold, notably from the above-mentioned Kumtor gold mine.

ice-melt, enable the production of hydro-electrical power, which is successfully exported to the country's immediate neighbours, although the potential of this commodity has yet to be fully exploited. Kyrgyzstan's other principal exports are non-ferrous metals and minerals, woolen goods and other agricultural products, and scrap metal. Imports include fuel and natural gas, grain, medicine, machinery and agricultural equipment.

Kyrgyzstan's mountainous terrain and plentiful water resources, mostly in the form of

Table 1. GDP composition by Sector, as a percentage of the total

Sector	1991	1995	2000	2001	2002	2003	2004	2005
Agriculture	28.4	40.7	34.2	34.5	34.4	33.6	29.9	30.5
Industry	37.9	12.0	25.0	23.1	17.9	17.3	19.2	16.1
Construction	7.1	6.2	4.2	3.8	3.4	2.9	2.5	2.5
Services	22.5	33.9	29.6	31.4	35.6	36.8	38.3	40.2

Source: Government of the Kyrgyz Republic (2007), National Statistical Committee: *Kyrgyzstan in Figures, Annual Statistical Publication, Kyrgyz Republic, National Statistical Committee, Bishkek*

Overall, Kyrgyzstan has made considerable progress in its market reforms, but the rate of the country's economic growth has been modest. The service sector has now overtaken agriculture in terms of GDP share, which still remains an important sector of the economy because of its role in providing employment and food security to citizens. Diversifying the economy is crucial at this point with the gold deposits at Kumtor being depleted and the agricultural sector facing a serious production crisis.

Under the new CDS, in order to accelerate economic growth the Government has established the following priority sectors for development: energy, mining, agriculture and the food industry, small and medium-sized enterprises, construction, tourism development, transport infrastructure, communication and information, and innovation technologies.

Poverty

While the country has achieved notable economic advances, its economic growth is still far from being fully sustainable. To this end, a comprehensive new Country Development Strategy (CDS) for 2007–2010 has been developed. Its planned reforms cover a wide range of issues in four major areas: 1) accelerating economic growth, 2) combating corruption, 3) human and social development, and 4) environmental sustainability.

Poverty in Kyrgyzstan increased rapidly during the early years of the transition period and by the mid-1990s affected almost half of the population. The economic shock brought about by the radical reforms instituted after gaining independence from the Soviet Union had a negative impact on poverty. Poverty in Kyrgyzstan is concentrated in certain regions with the highest incidence in Naryn where income per capita is the lowest, followed by Talas, Jalal-Abad and Issyk-Kul.

In 1999, almost a quarter of the population lived below the extreme poverty line. Starting in

2000, the situation improved due to the economic growth in agriculture and trade and also to the decrease in the inflation rate to 2–3% a year.

Poverty is more severe in rural areas (where the majority of the Kyrgyz population lives) and reached its peak in 1998 at 62.4% of the population of the country. From then on, the level of rural poverty declined gradually. In 2005, around 51% of the rural population lived in poverty compared to 30% of the urban population. Extreme poverty in rural areas — at 14% of the rural population — was twice as high as in urban areas.

Urban poverty declined sharply in 1997, affecting 22.2% of the total national population, but it is not certain what accounted for the decline. The urban poverty level rose again in 1998 caused by the economic crisis. In 2005, it was estimated that 43.1% of the population of Kyrgyzstan lived in poverty and those living in extreme poverty, that is, people whose consumption was below the food poverty line, comprised 11.1% of the population.

In 2006, the poverty incidence rate decreased to 39.9% of the population.

Despite the decrease in the overall poverty level of the population, living standards remain low, especially in the countryside and remote mountainous regions. Poverty levels in the countryside exceed urban levels in all oblasts except Talas and Djala-Abad.

General macroeconomic situation

The inflation rate significantly increased in Kyrgyzstan in 2007 when the prices of some foodstuffs doubled and others tripled within a year. An import-dependent country, the soaring prices worldwide translated into price increases in Kyrgyzstan hurting the economy severely. Prices of other items such as petroleum, communal services and transport also increased. Currently, there are fears that there will be further food shortages in Kyrgyzstan. Again, the poor who form a large part of the Kyrgyz population are the most affected by this.

Several earthquakes hit Kyrgyzstan at the end of 2007 and beginning of 2008. The largest one occurred in the south of the country, 30 kilometres from Osh, causing damage to housing and infrastructure. Many families, mostly from poor households, were displaced. Currently an energy crisis, brought about by low water level at the Toktogul dam, which is the country's major source of hydropower, is affecting the country. This situation further worsens the living conditions of the impoverished population.

Table 2. Employment and unemployment in Kyrgyzstan, 2003

	Total	Rural	Urban
In thousands			
Population	5,037	3,276	1,762
Working age (above 15)	3,348	2,078	1,270
Labour force	2,143	1,351	791
Employed	1,930	1,244	686
Unemployed	212	107	105
Inactive	1,206	727	479
In %			
Employment rate	57.7	59.9	54.0
Participation rate	64.0	65.0	62.3
Unemployment rate	9.9	7.9	13.3

Source: World Bank (2007) Kyrgyz Republic: Poverty Assessment, Volume 2: Labour Market Dimensions of Poverty, World Report No. 40864-KG (Estimates based on Kyrgyz Integrated Household Survey in 2003), Washington, D.C.

In 2003, people of working age comprised 66% of the total population, but 1.2 million of them were inactive. Out of an active work force of 2.1 million, 9.9% were unemployed. The unemployment rate in rural areas was 7.9% in 2003, lower than the 13.3% rate in urban areas. The percentage of the employed labour force in rural areas is also higher than in urban areas. Labour data estimates from 2004 to 2006 also show that unemployment rates in rural areas are lower than in urban areas. The agricultural sector, benefiting from policy reforms in recent years, provides most of the jobs and as such, growth in this sector contributed greatly to lowering poverty rates in rural areas.

Demographic trends and migration

At the end of 2007, the population of Kyrgyzstan was 5.22 million. Around 35% of the population lives in urban areas. The total population increased only slightly in 2007, compared with 2006. Around two thirds of Kyrgyzstan's citizens live in the countryside. Based on census results since 1913, a process of urbanization continued in Kyrgyzstan until 1989. The succeeding years showed a decline in the urban population. In 2007, it accounted for only 34.7% of the total population.

Table 3. Population data, in thousands

	1959	1970	1979	1989	1999	2002	2003	2004	2005	2006	2007
De jure population*	2065.0	2934.1	3522.8	4257.8	4822.9	4984.4	5037.3	5092.8	5138.7	5189.8	5224.3
Urban	691.5	1095.4	1348.8	1624.5	1678.6	1729.9	1757.4	1790.6	1799.4	1807.8	1814.2
Rural	1373.5	1838.7	2174.1	2633.2	3144.3	3254.5	3279.9	3302.2	3339.3	3382.0	3410.1
Urban population as a percentage of total	33.5	37.3	38.3	38.2	34.8	34.7	34.9	35.2	35.0	34.8	34.7

* End of year estimate

Source: Data provided by the National Statistical Committee of the Kyrgyz Republic.

Kyrgyzstan is a multi-ethnic State and according to estimates at the beginning of 2007, the country's ethnic composition was 68.9% Kyrgyz, 14.4% Uzbek, and 9.1% Russian. Other ethnic groups make up the remaining population.

The population of Kyrgyzstan is relatively youthful, with around 34% of its population under the age of 16 years at the end 2005. The percentage of the working-age population is 57% and pensioners make up 9%. The growth of the working-age population is expected to continue in the coming years due to a high birth rate and population explosion in the 1980's.

One of the distinct demographic developments in Kyrgyzstan is mass migration, resulting in changes in population composition. Emigration peaked in the country during the early period of the transition when socio-economic conditions deteriorated. Different types of urban settlements have different migration patterns and a different scale of the problem. Small and medium-sized cities have mainly been experiencing de-urbanization. The collapse of the Soviet system and de-industrialization are the main causes of the migration. On the other hand, Osh and Bishkek have been experiencing inward migration and intensive urban growth. Poverty and unemployment in rural areas have also resulted

in migration to the major cities. Bishkek, which previously had about 600,000 residents, now has around one million people. It contains 44% of the total urban population of the country. Osh had a population of about 240,000 a few years ago but has now grown to 500,000 residents, including those in the peripheral settlements. Overpopulation, growing demand for housing and the lack of affordable housing have consequently caused acute problems, resulting in illegal land occupation and the emergence of informal settlements around the city. Figure 1 shows comparative population density in regions of Kyrgyzstan. Chu and Osh oblasts have less land available and the highest density, while Jalalabad, Issyk-Kul, Naryn and Talas have a much lower density.

In Bishkek city itself, there are about 50 so-called *novostroiki* (new settlements). It has been estimated that in Bishkek the number of people living in these new settlements is between 125,000 and 200,000, or up to one fifth of the city's total population. Mainly internal migrants occupy these places and most of them have not been registered. According to the World Bank Poverty Assessment Report in Kyrgyzstan,³ around 9% of Bishkek's population is not registered. In Osh 50,000 people are not registered. These two cities account for one third of the total population of the country. However, the processes of urbanization, housing and land use have not been properly accommodated. In contrast to an older plan, a recently completed master plan for Bishkek city does consider informal settlements; however, inhabitants of these new settlements lack social infrastructure such as water supply, roads, schools, health care and other public utilities (on the formation of informal settlement, see also chap. IV).

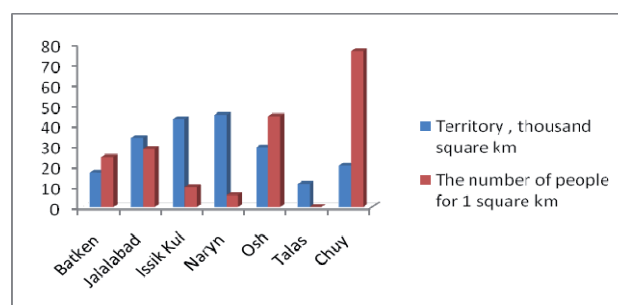
In 2006, 13,360 Russians emigrated from Kyrgyzstan, bringing down the percentage of Russians in the total population to 9.1%, as opposed to 12.5% in 1999. Recent emigration

flows have also shown an increase in the native Kyrgyz population migrating to the neighbouring countries, particularly the Russian Federation and Kazakhstan, in search of better employment and business opportunities. About a quarter of the labour force is working abroad, bringing about remittances, which made up 14% of the GDP in 2005.

External migration is now becoming an important source of income, because of the workers' remittances. It is estimated that 23% of the total labour force works abroad and around 60% of them in the Russian Federation. The majority of migrants come from the rural southern part of the country.

Internal migration has also been high since independence, and peaked in 1994–1998. Unemployment and poverty rates were higher in rural areas during the early period of the transition. This indicates that Kyrgyzstan's rural areas were more affected than its cities after gaining independence. People migrated from rural to urban areas. Bishkek and the surrounding areas in the Chu oblast are better developed economically, and therefore they are the most popular destinations for migrants. Although a significant number of Russians left these places, the native Kyrgyz have moved in, bringing about a positive net migration in these areas.

Figure 1. The territory and population density in seven oblasts



Source: Data provided by the National Statistical Committee of the Kyrgyz Republic, 2007.

³ World Bank (2007), Kyrgyz Republic: Poverty Assessment, Volume 3: The Main Conclusions of the Report, World Report No. 40864-KG, Washington, D.C.

B. Privatization and housing policy development

In 1990, the estimated share of the private sector in the GDP of Kyrgyzstan was only 5%. The private sector has grown since Kyrgyzstan's independence, starting with the privatization of State-owned enterprises (SOEs). Until the late 1990s private sector development was mainly driven by the privatization of SOEs. For the period between 1995 and 2000, most of the cooperative (*kolkhoz*) and State (*sovkhos*) farms were dismantled and around 62,000 private farms were created. By 1995, about 4,700 small SOEs were fully removed from State ownership under a mass privatization programme. According to the estimates of the Transition Reports of the European Bank for Reconstruction and Development (EBRD), the private sector share in GDP grew from 15% in 1991 to 40% in 1995, growing further to 60% in 1996 and reaching 65% in 2002. In 2006, the private sector share was estimated to account for 75% of GDP.

Currently, the private sector controls the overwhelming share in agriculture, construction and services. The private sector share in total employment was 80.9% in 2004; employment was almost entirely private in the agriculture, mining, and trade and repair service sectors. The financial sector is now almost entirely private.

In industry and infrastructure, the share of the State is still significant. The privatization of large State-owned enterprises (Kyrgyz Telecom, Kyrgyz Energy, Kyrgyzgaz, and Kyrgyz Airlines) has been planned since 1997, but none has been completed. In the mining industry, almost all mines remain State-owned or controlled, except for a few gold mines.

In the housing sector, whereas the nomadic Kyrgyz traditionally lived in yurts, during Soviet times the majority of them were provided with modern apartments in multifamily blocks subsidized by the Government. The State owned both the apartment buildings and land on which such buildings were built.

Despite massive privatization of the existing housing stock starting soon after

independence, housing remains one of the biggest social problems in Kyrgyzstan. Many families live in dilapidated houses which were built as public housing projects decades ago and which have received little or no maintenance in a long time.

With the migration of the rural population to the cities, housing shortages have become a major problem resulting in overcrowding of apartment buildings. One can find apartments shared by many families with no bathrooms or even running water and many families must share a living space of 12 m². or less. The housing problem is not limited to urban areas but is an issue of national concern.

Although in the recent CDS, housing construction is identified as a key priority, the volume of buildings constructed remains insufficient to meet the demand. Also, the CDS sees the provision of affordable dwellings for citizens and the solution of related issues (e.g., disregard for norms for maintenance of infrastructure facilities due to insufficient funding for the construction of dwellings) as main priorities of social infrastructure development. However, the country is currently facing a problem of lack of affordable dwellings due to sharp reductions in budgetary resources and suspension of the planned affordable housing projects. Added to this, housing problems in Bishkek and Osh have worsened due to increased internal migration to the cities.

Since independence, the Government of Kyrgyzstan has implemented agricultural land reform and the privatization of State property. As a consequence, there was a need to secure property and register land rights through the establishment of the State Agency for Registration of Rights to Immovable Property in 1999.⁴ Moreover, the insufficient availability of affordable housing required the development of a new national programme on housing construction. These reforms and developments have triggered changes and redefined the roles of institutions responsible for housing and land administration, which will be described in further detail in this chapter.

A. POLICY MAKING AND INSTITUTIONS AT THE NATIONAL LEVEL

Housing and land matters are dealt with in the broader policy framework of the country's strategic documents. In 2001, the *Comprehensive Development Framework Strategy up to 2010* (CDF Strategy) was adopted and was followed in 2003 by the Strategy's first mid-term plan known as the *National Poverty Reduction Strategy for 2003–2005* (NPRS). These documents determined key directions for policy and actions. Housing was not among the priorities, although the need for adequate and equitable living standards was articulated. Lack of an adequate attention to housing obviously contributed to the housing problems that the country faces today.

The growing housing problems were properly addressed in the CDS for 2007–2010. This document implements the second mid-term plan of the 2001 *CDF Strategy*. The CDS defines two major housing needs, including the

production of more housing through the development of the house-building industry, and the provision of housing accessibility through the development of affordable mortgages. While the development of social rental housing is also mentioned, no tools to achieve this are mentioned. Overall, the scope of implementation mechanisms is limited in this Strategy.

Nowadays, policies related to land and housing are formulated and implemented with the involvement of different ministries, agencies and international and local organizations, as well as the private sector. Currently, the State Agency for Registration of Rights to Immovable Property (Gosregister), the Agency for Architecture and Construction (Gosstroy) and the Agency for Environmental Protection and Local Government are the State bodies directly responsible for land management and administration. Moreover, the Ministry of Finance, the Ministry of Fuel, Transport and Energy and the Ministry of Labour and Social Protection have been involved in the housing sector through the *National Programme on Housing Construction in Kyrgyzstan for 2008–2010*.⁵ The policies and functions of ministries and agencies at the national level are implemented through their branches in the local State administration.

According to the *Law on the Structure of the Kyrgyz Government*, adopted by the Government Resolution No. 176 on 27 December 2007, the Gosstroy and the Gosregister are the two main State agencies that are specifically responsible for land and property registration, cadastre development, and urban planning.

⁴ Structure and Responsibility of the State Agency for Registration of Rights to Immovable Property under the Government of the Kyrgyz Republic were confirmed by the Government Resolution No. 133 on 1 March 2006, Bishkek

⁵ Government of the Kyrgyz Republic (2007), *The National Programme on Housing Construction in the Kyrgyz Republic for 2008-2010*, adopted by the Government Resolution No. 562 on 26 November 2007, Bishkek

The State Agency for Architecture and Construction (Gosstroy)

The Gosstroy is an organ of the State administration with local branches in oblasts⁶ and rayons.⁷ It exercises regulatory and monitoring functions in architecture, urban planning, construction, engineering surveys, transport infrastructure and production of construction materials. The Agency has three main units and two research institutes: the State Expertise Unit; the Social Housing Unit; the State Centre for Certification; the Urban Planning Institute; and the Institute of Seismology.

In collaboration with its units and research centres, the Agency implements five main functions: (1) it introduces standards, rules and regulations for construction activities; (2) it coordinates and controls building activities; (3) it administers architectural design and urban planning activities; (4) it supports communication between different authorities; and (5) it regulates land use and development.⁸

The first function of the Agency relates to selecting lands plots suitable for construction taking into account master plans, developing construction regulations and providing technical assistance for engineering surveys. The Agency harmonizes national standards for construction with international ones and develops the main principles for estimating construction costs.

The second function of the Agency involves the supervision of the quality of construction, implementation of administrative decisions and imposition of sanctions (in case of

violation of legal acts regulating construction activities and land use), such as cancelling licences. The Agency is also responsible for investigating the causes of construction accidents and for carrying out recovery operations. Finally, the Agency participates in valuations of the State properties to be privatized.

The third function relates to reviewing and approving documents related to architectural projects and urban planning activities. It prepares development plans, architectural and engineering drawings, and landscaping plans, which are the documents required to start the construction process. Together with other relevant agencies, it participates in the preparation of documents to certify ownership rights over land plots. Also, the Agency protects the intellectual property rights of architects, engineers and designers involved in the construction.

The fourth function of the Agency includes the development and maintenance of a network, through the creation of a database, linking the Agency's departments. This network contains information about the work implemented by the departments of the Agency. Also, the Agency provides scientific and methodological support for the maintenance of the urban development cadastre.

The fifth function of the Agency regulates land use, development and construction in urban areas as well as recreational zones in accordance with urban plans, land use and construction norms. The Agency issues licences and approves documents for urban planning and construction projects of residential, public and industrial buildings.

⁶ An oblast unit of the administrative territorial division of Kyrgyzstan is equivalent to a province.

⁷ A rayon unit of the administrative territorial division of Kyrgyzstan is equivalent to a district.

⁸ Structure and Responsibility of the State Agency for Architecture and Construction were confirmed by Government Resolution No. 7 on 11 January 2006, Bishkek.

The State Agency for Registration of Rights to Immovable Property (Gosregister)

The Gosregister was established in 1999 at the national level through merging the State Agency for Land Engineering, Geodesy and Cartography,⁹ Giprozem¹⁰ and the Urban and Regional Bureau for Technical Inventory.¹¹ It has been entrusted with the task of introducing a system of registration.¹² The Agency is an organ of the State administration, which implements the registration of rights to immovable properties, protects these registered rights and contributes to the functioning of the real estate market. It also maintains documents on the topography, geodesy and cartography of the territory of Kyrgyzstan.¹³

The current structure of the Gosregister consists of the Director's office and other departments under its supervision, namely the Administration on Land Management and Land Cadastre, Economics and Financial Policy Management, Management of the Immovable Property Registration and Development of the Property Market. The Agency has local registry offices in 49 rayons including the capital city

Bishkek. In particular, the Agency has the following functions:

- To develop a centralized, unified system for the registration of rights and conduct the registration of immovable properties.
- To issue documents confirming land property rights, including the identification of land boundaries in accordance with the decisions of other State bodies and local governments.
- To organize and maintain the State land cadastre and monitor all the registered properties and land plots.
- To conduct the monitoring of land by issuing an annual report on land use and the use of the LRF.¹⁴
- To create and maintain the State geographical information system of all land resources and immovable properties in Kyrgyzstan.
- To develop integrated programmes for the rational use of the LRF.
- To maintain the cartographic fund of Kyrgyzstan.
- To implement and monitor Government regulations on land use and its protection in accordance with the *Land Code of Kyrgyzstan*.
- To carry out geodesic, astronomical and gravimetric works, and organize the topographic mapping on the territory of the republic.

The administration and management of State-owned land such as forests and protected areas fall under the responsibility of the State Agency for Environment Protection and Forestry, which was established on 15 October 2005. It carries out the State policy on

⁹ Agency on Land Engineering, Geodesy, Cartography — a former State structure responsible for land surveying and for the cartography fund of the Kyrgyz Republic

¹⁰ Giprozem was a State structure working to collect and record data on landholdings of all enterprises existing on the territories of the former State and collective farms (from rural committee heads for annual land register)

¹¹ Previously, the Urban and Regional Bureaus for Technical Inventory collected information and maintained the database on immovable properties, including information on building location, the area of the building and owner names. These bureaus maintained the archive for all blueprints, building construction plans of houses, apartments, and other immovable property

¹² Bloch, P. et al. (1996) Land and Agrarian Reform in the Kyrgyz Republic, Land Tenure Centre University of Wisconsin-Madison LTC *Research Paper 128*

¹³ Structure and Responsibility of the State Agency for Registration of Rights to Immovable Property under the Government of the Kyrgyz Republic were confirmed by the Government Resolution No. 133 on 1 March 2006, Bishkek

¹⁴ LRF (Land Redistribution Fund) — 75% of land was distributed as agricultural land shares while the remaining 25% was reserved in the State Land Redistribution Fund.

environmental protection, the conservation of biodiversity, the rational use of the natural resources, and the development of forestry and hunting, mountainous regions and environmental safety. The Agency's functions include the formulation and implementation of national environmental policy; enforcement of environmental laws; monitoring and evaluation of biological resources; provision of information services for governmental bodies, economic entities and the public on the environmental situation, biodiversity, environmental threats, and environmental protection activities and measures.

Institutions responsible for the housing sector

As has been mentioned in the introduction above, over the last decade the lack of affordable housing has become a very acute issue in the urban areas of Bishkek and Osh. The problem is to be addressed by the Government within the framework of the *National Programme on Housing Construction in Kyrgyzstan for 2008–2010*.¹⁵ The programme aims to improve and stimulate housing construction through various mechanisms. The first stage of the programme considers the structural organization and interaction of institutions for housing construction; it designates responsibilities for different ministries whose functions will be discussed below.

Ministry of Finance

According to the *National Programme on Housing Construction in Kyrgyzstan for 2008–2010*, the Ministry of Finance is responsible for establishing mechanisms to provide affordable housing for vulnerable citizens. Currently, the Ministry's attention is mainly focused on the development of affordable credit-based financing. In collaboration with the National

Bank of Kyrgyzstan, the Ministry designs and implements the regulatory and normative framework for long-term credit lending and mortgages for housing; it is believed that a wide range of the population will be able to access housing via affordable mortgages. The Ministry of Finance also considers the availability of public and private funding for the housing construction envisaged in the *National Programme*. Regarding the private sector, the Ministry evaluates the potential private investors for each year and region in terms of their interest in contributing to the implementation of the housing programmes envisaged.

Ministry of Economic Development and Trade

According to the *National Programme on Housing Construction*, the Ministry of Economic Development and Trade is responsible for effectively utilizing external assistance and funding from international financial organizations and donors with regard to affordable housing. It focuses particularly on vulnerable citizens. The Ministry identifies, together with the State Agency for Architecture and Construction, the amount of investment in housing construction each year for each region, and develops projects taking into consideration the need for housing construction in the country.

Ministry of Industry, Energy and Fuel Resources

The development of the country's industrial and energy sectors is the main responsibility of the Ministry of Industry, Energy and Fuel Resources, carried out through its branches at the oblast and rayon levels. The Ministry is also responsible for introducing the regulations for the use of locally produced building materials throughout the country, the reuse of discarded industrial material for construction and the use of effective technology for construction (taking environmental protection into consideration). Also, the Ministry is responsible for modernizing construction materials with respect to cost, and it promotes the use of local substitutes to replace imported construction materials in order to reduce costs.

¹⁵ Government of the Kyrgyz Republic (2007), The National Programme on Housing Construction in the Kyrgyz Republic for 2008-2010 adopted by Decree No. 562 on 26 November 2007, Bishkek

Ministry of Labour and Social Protection

The Ministry of Labour and Social Protection implements the State policy on social development and labour and promotes the improvement of living standards of the population. The Ministry carries out its functions through its branches in oblasts and rayons in cooperation with other relevant State structures and local government. The Ministry has been assigned the task of developing norms for social housing and defining standards, parameters and criteria for improving living conditions.

Specifically, the Ministry contributes to the housing sector through allocating subsidies for utilities. There are two kinds of subsidies. The house utility service is a subsidy for electricity, heating and natural gas. Only families with a per capita income of less than 350 soms per month (approximately \$9.50) are eligible for this subsidy. The second is a subsidy for which only residents of Bishkek city are eligible. This subsidy has been provided since 1996, under the Housing Subsidies Programme. Only families whose monthly bill for utilities makes up more than 27% of their whole monthly income are eligible.¹⁶

Ministry of Health

The Ministry of Health, along with its regular functions, has responsibility for defining health and epidemiological requirements for new buildings as well as approving the sanitary and epidemiological conditions of building plots. The Ministry makes recommendations on the selection of construction sites. However, a major problem is that the Ministry's requirements and recommendations are based on Soviet-era building regulations, which have not been updated since then. Also, the Ministry has no clearly defined responsibilities for monitoring existing buildings.

Ministry of Foreign Affairs

According to Kyrgyzstan's CDS for 2008–2010, the Ministry of Foreign Affairs is responsible for attracting foreign investment to housing construction projects in Kyrgyzstan. Mainly, the Ministry operates through its consular offices in different countries. It offers information and direct assistance to domestic and international partners. The Ministry assists foreign citizens to invest in immovable property and obtain land use rights where reciprocal arrangements have been agreed with the other countries. Property ownership in Kyrgyzstan by foreigners is regulated and screened by a commission under the Ministry of Justice. This commission reviews and approves applications for sale, exchange and donation of residential buildings to foreigners, legal entities and individuals within the territory of Kyrgyzstan. This commission is composed of the Secretary of the Department of Notary and Advocacy and another five representatives, one each from the Ministry of Justice, the Ministry of Internal Affairs, the Ministry of Foreign Affairs, the State Committee on National Security and the Secretary to the Commission provided by the Ministry of Justice. This commission also maintains the registry of foreign legal entities and individuals applying for the sale or exchange of residential buildings.

National Statistical Committee of Kyrgyzstan (NSC)

The National Statistical Committee is the central national statistical body operating on a self-sustained budget. The NSC is responsible for conducting population censuses, household surveys and producing demographic statistics on a wide range of economic, agriculture, labour and social issues. There are over 1,200 statisticians working for the NSC. The Committee has its head office in Bishkek and regional offices in each oblast, as well as a research and training centre.

Following a general decision of statistical offices of all Commonwealth of Independent States (CIS) countries, the Kyrgyz National Statistical Committee has confined its tasks to

¹⁶ Ministry of Labour and Social Protection, <http://www.mlsp.kg/>

reporting observed data only. It publishes no forecasts, even though forecasts are made when data for GDP and population are processed.

B. REGIONAL AND LOCAL LEVELS

To ensure close interaction between the central and local government and also to promote local self-government at the national level, the Ministry of Local Self-Government and Regional Development was established at the end of 2000. In 2002 the *Law on Local Self-Government and Local State Administration* was adopted; on this basis the structures of regional and local governments and bodies of local self-government are now being formed in Kyrgyzstan.

As indicated in the Local Self-Government Law, local power at the level of administrative-territorial units (districts, cities, villages, small rural communities) is represented by both the local self-government bodies (acting as local representative bodies) and the local State administrations (acting as local executive bodies). There are 7 oblasts and 49 rayons in Kyrgyzstan.

Local State administrations as executive bodies

In general, the local State administrations operate as the executive bodies of general competence and are accountable to the President and the Government. The local State administrations exercise the functions of the ministries and agencies responsible for housing and land administration described above.

The local State administration at the oblast and rayon levels consists of the head of the local State administration, the governor; the rayon level is administered by a government-appointed official (*Akim*) and the mayor governs at the city level. All of them are appointed by the President of Kyrgyzstan. Departments within the structure of the local State administration that are responsible for housing and land administration involve oblast, rayon and city level departments of justice, departments of architecture and construction and departments of social protection, as well as departments responsible

for land use management and registration of rights to immovable property.¹⁷

The departments are the local branches of the national ministries and agencies, and implement national policies at the local level. The local State administrations prepare the local budget and drafts of local programmes for social and economic development and submit them to the local council (representing local self-government) for approval; monitor land use and construction of buildings within their territories to ensure these activities are in compliance with regulations established by the corresponding State administrations; manage resources of the State local administrations and decide on the allocation of land plots; manage municipally owned enterprises; and coordinate activities of the departments of the ministries and State agencies. The local State administrations consult and coordinate their decisions on all crucial matters of territorial development with local councils (bodies of the local self-government) on a regular basis.

Local representative bodies of self-government (keneshes/councils)

The system of local self-government is made up of local councils (local *keneshes*), heads of provinces, villages and cities of district importance, mayors of cities, and executive-administrative local government bodies. Also, various kinds of territorial public government (formed by the population itself) and assemblies of citizens may be created in a separate part of a city and village.

The members of the local council are elected by the people, while the head of the village community is nominated by the State with the agreement of the oblast governor and should be approved by the local council. Local councils and other bodies of local self-government are responsible for enforcing laws and reporting to the Government; they are also

¹⁷ Ministry of Labour and Social Protection, <http://www.mlsp.kg/>.

accountable to the local community for results of their activities.

Self-government in cities is structured according to two categories of cities — cities that are part of an oblast and those that are part of a rayon. While local self government for rayon-level cities was approved by a presidential decree in 1998, the oblast-level cities' right to manage local affairs was established in 2001.

The city council represents the highest elected representative body of local self-government in cities. The competence of the city council includes, inter alia: approval of the city budget and programmes for social and economic development in the city; levying of local taxes and duties; and the establishment of procedures and conditions for land use or for the use of other natural resources in accordance with national legislation.

The executive and regulatory branch of the local self-government in cities is represented by the executive committee. Among other functions, the committee develops draft programmes for social and economic development in the city and a draft local budget and submit them to the city council for approval; maintains and renovates municipal facilities; supervises sanitation in the city and the implementation of environmental measures; contributes to housing development, city transport and communications; designs and implements urban development plans; monitors compliance with construction standards and oversees the rational use of city lands; submits proposals to the city council to levy local taxes and duties according to the law; strengthens the material and technical foundations for institutions of health care, education and social security; assists in the completion of the privatization process; and regulates the use of land and other natural resources.

The City Council of Bishkek considers and approves administrative borders of the rayons of Bishkek city, and, together with the city administration, approves construction projects in Bishkek.

In terms of housing construction, the city council of Bishkek coordinates the development of master plans and ensures compliance with construction standards. The local self-governments of Bishkek and Osh are responsible for allocating urban land for private use and ownership in accordance with the master plan and the detailed project plan of the city. They also conduct land cadastre and land management projects. Together with the city council, they develop and supervise the implementation of programmes on rational land use and give permission to carry out preparatory work before the actual construction starts.¹⁸

The administration of Bishkek city has three structural divisions dealing with land administration.

The Land Committee of the City Council of Bishkek supervises the implementation of the 1999 *Land Code* within the territory of Bishkek city. The Committee is also in charge of organizing auctions for allocating land use rights or for directly selling land without auction to potential clients on behalf of the local self-government. It also represents the City Council of Bishkek vis-à-vis land users.

The Main Architectural Body of Bishkek City is a division of the City Council of Bishkek. It designs development projects based on the socio-economic development strategy that is in force at the time with the agreement of the State Agency for Architecture and Construction and the City Council. The Architectural Body enforces construction norms, commissions the preparation of the master plan of Bishkek city and supervises its implementation.

The Department of Individual Housing Construction in Bishkek is part of the City Council. It develops and monitors procedures for land allocation and individual housing construction. The Department also monitors the implementation of the legal framework for

¹⁸ Bishkek City Administration, <http://www.citykr.kg/en/bishkek.php>.

individual housing construction and designs the required documents, sets norms and exercises control over individual constructions. It also registers newly constructed and reconstructed buildings including individual houses and sets up a competent State commission that approves the completion and operation of newly built houses. The Department is responsible for reporting to the mayor and to the city committee on statistics about the number of newly constructed houses.

Condominium associations (partnerships of home owners)

After its independence, Kyrgyzstan started the privatization of the existing housing stock, and by 1994, about 90% of it had been sold off. Privatization of residential buildings raised the issue of maintenance of common areas in such buildings. The *Civil Code* adopted in 1996 addresses the problem by granting joint ownership rights to common areas and facilities to owners of individual units within the building. A voluntary organization of condominium associations is regulated by the 1997 *Law on Condominium Associations*. The condominium association is responsible for the maintenance of common spaces and management of the multi-apartment building through its elected representatives (see Chapter IV). According to this scheme, each unit owner is obliged to cooperate in solving problems pertaining to common living areas, make decisions about budgeting and expenditure and participate in setting rules for sharing the communal parts of the buildings.¹⁹

¹⁹ Undeland, C. (2002) Condominiums in Kyrgyzstan: Building Communities and Managing Housing Effectively, *Transition* newsletter Vol. 13, No. 1, January-February 2002, the World Bank and the William Davidson Institute <http://www.worldbank.org/html/prddr/trans/pdf/JanFeb2002.pdf>.

C. OTHER INSTITUTIONS

The Kyrgyz State University of Construction, Transport and Architecture

In 1998, the Kyrgyz Architectural Building Institute became the Kyrgyz State University of Construction, Transport and Architecture. The University is an active member of the International Association of Higher Institutions within the CIS. Since independence, the University has trained more than 10,000 specialists. It is also a source of pedagogical and research staff that includes 25 Doctors of Sciences, more than 30 professors and more than 500 teachers. There are 7,000 full-time and 4,000 part-time students.²⁰

Association of Cities of Kyrgyzstan

The Association of Cities of Kyrgyzstan is a voluntary, non-governmental organization established by city government bodies in order to promote political, economic, cultural and informational linkages, cooperation and development among the cities in Kyrgyzstan. The Association seeks to further develop local self-government and to represent and promote the common interests of its members. This organization has implemented several projects on the development of legislation in the sphere of local government, on increasing the role of local communities and self-government institutions in exercising rights over municipal property, on the creation of networks for local self-government for the cities of Kyrgyzstan and on international cooperation among cities for socio-economic development. These projects have been funded mainly by the Soros Fund, the Eurasia Fund, USAID and the World Bank.²¹

²⁰ Kyrgyz State University of Construction, Architecture and Transport http://www.ksucta.kg/article/inform_ru/1152743207/.

²¹ Association of the Cities of the Kyrgyz Republic, http://www.citykr.kg/en/proecti_assoc.php

Association of Realtors

The Association of Realtors has operated in the cities of Bishkek and Issyk-Kul since 1994. The main purpose of the Association is to carry out sales transactions and develop contracts of sale. Realtors serve as mediators between vendors and buyers of land and other property. Realtors also assist in property registration. For example, when a notary carries out the registration, realtors prepare the required documents checking their correctness and legality. The Association has only 10 members who pay a membership fee and who mainly work in Bishkek.

Overall, more than 200 real estate agents are operating in Kyrgyzstan, but no international agencies. There is no coordination among realtors and each of them works on their own. The *Law on Realtors' Activities* was adopted in 2003, but it has not been enforced. Recently, national standards (guidelines) for realtors have also been adopted, but there is no licensing of real estate brokers. An estimated 60–70% of real estate transactions go through real estate agencies whose service fee is 2–3% of the purchase price. Realtors have only loose cooperation with banks, and banks do not support their clients with mortgage loans.²²

Private sector

In the construction sector, private actors are filling a gap in the provision of housing by offering construction services to new housing and commercial projects. The private construction sector is represented by both local and foreign companies. In order to be able to operate, foreign builders are obliged to obtain construction licences from the State Agency for Architecture and Construction. In 2007, about 440 licences were issued. These licences have different categories, which determine what the private company may undertake. According to

these categories foreign companies have permission to build either one-storey houses or multi-storey houses. They operate throughout the country. Regarding land surveying, the Gosregister still has a monopoly.

International organizations

Since its independence, Kyrgyzstan has been assisted in improving land administration and management by several donor organizations such as the World Bank Group, the Asian Development Bank and USAID.

The World Bank Group has been operating in Kyrgyzstan since 1992; it has been assisting the country with overall development funding. From 2003 to mid-2005, half of the World Bank's assistance to Kyrgyzstan was provided in the form of a grant. Regarding credit support, the World Bank has funded a project on Land and Real Estate Registration for 2000–2005 together with SIDA. The main objectives of the project were the support of the development of land and real estate markets through introducing the system of registration of rights to immovable property. The World Bank is funding another project for improving urban infrastructure in Bishkek and Osh in 2008–2010.²³

The Asian Development Bank (ADB) has been operating in Kyrgyzstan since 1994. Regarding land management, ADB mainly works on the management of agricultural land and on developing the agricultural sector. Together with the Global Environmental Fund, a project on preventing land degradation and erosion has been planned. The project will address the question of soil salinity. The ADB's future plans in Kyrgyzstan envisage improving land productivity and developing market-based agriculture.

The United States Agency for International Development (USAID) has been

²² International Finance Corporation (IFC) (2006), *Central Asia Housing Finance Gap Analysis* (p. 74), World Bank Group Working Paper Vol.1, Washington, D.C.

²³ World Bank, <http://www.donors.kg/ru/donors/wb/www.worldbank.org.kg>.

providing development assistance for Kyrgyzstan since 1992. Through its projects, USAID has been contributing to the development of land legislation and the land market in Kyrgyzstan. So far one project supporting land reforms and land market development has been completed. The project has mainly contributed to the management of land resources of the LRF and it has also developed and introduced zoning regulations in some cities. Another project called Legal Assistance for Rural Citizens has been implemented since 2000. This project is aimed at resolving land disputes through legal consultation and representation and instructing local government structures about proper application of laws through its 22 offices located all over the country.²⁴

Non-governmental organizations (NGOs)

Habitat for Humanity in Kyrgyzstan (HfH) is a local affiliate of Habitat for Humanity International, a non-profit organization dealing with housing issues.

The organization has been working in Kyrgyzstan since 1999 and it is the only one to give interest-free mortgages for homes. The organization is governed by a Board of Directors, consisting of eight local volunteers. The Board selects families to support with construction of simple and affordable houses. Individuals and corporate donors provide funding and construction materials for building Habitat houses while volunteers provide most of the labour. Partner families themselves also contribute to building their own houses and the houses of others. Payments received from housing mortgages are used for building more houses.²⁵ The Government provided its initial support by granting a plot of land to this NGO for the construction of dwellings; this new housing development project was then named as the Habitat Region. The first phase of this project started in 2000 and 20 houses were allocated to people in November 2002.



Picture 4. ECE on a mission in Kyrgyzstan discussing informal housing improvement with inhabitants. Source: UNECE

²⁴ USAID, <http://www.donors.kg/ru/donors/usaaid>.

²⁵ Habitat for Humanity, <http://www.habitat.org/intl/eca/110.aspx>.

A. THE STATE OF LAND REFORMS AND SUSTAINABLE LAND MANAGEMENT

In the last two decades, the system of land management in Kyrgyzstan has undergone a series of changes bringing in new market elements such as land privatization, market-supporting legislation, land registration and cadastre, and the formation of the LRF. Some good progress has been noticeable with regard to land registration; other achievements include projects on strategic land use planning in urban areas and other community-based land activities.

Despite these successes, further progress in the establishment of effective and sustainable land management systems is inhibited by the fragmented character of the land reforms. Land administration remains poorly organized as far as the following policies are concerned: land allocation, systematic land legislation, land payments, land use planning and development control. Land privatization and land reforms have not taken the need for strategic planning for land use seriously. Furthermore, no consideration has been given to any social and economic impact of the land reforms.

Legal framework

The legal framework for land management is defined by the following laws.

The 1993 *Constitution of the Republic of Kyrgyzstan* (with the latest amendments in 2007) recognizes different types of land ownership, including private, municipal and state, as well as ownership to other kinds of real property (such as constructions), and obliges the State to protect ownership rights. The Constitution also recognizes the system of local self-government and local government functions. Local self-government includes local *Keneshes*, territorial self-governmental bodies (such as councils of city districts or committees of large residential complexes), and local referendums, people's

assemblies, meetings and other forms of direct democracy.

Furthermore, the adoption of the *Law on Local Self-Government and Local State Administration* in 2002 was a significant step towards empowering local communities to manage their own affairs. It clarified the responsibilities of local self-government institutions and State agencies operating at the local level. The law has officially delegated responsibility over the use of municipal land from the central to local government.

As indicated by the *Law on Town Planning and Architecture* adopted on 11 January 1994, the State Agency for Architecture and Construction and the local self-government bodies have had responsibility for planning and building control activities delegated to them. The law distinguishes between different types of urban and rural settlement and their status. It also establishes rules for urban development and gives citizens the right to participate in the planning process and construction decision-making. The law requires that construction and renovation activities should be in accordance with planning regulations. Compliance with development schemes and plans is mandatory for all physical and legal entities regardless of who owns them. Changes in master plans for built-up areas need to be agreed with the State Agency for Architecture and Construction, as well as with local self-government bodies.

According to the 1996 *Civil Code* (with the recent amendments in 2004) property rights are not valid until registered by a special state agency dealing with property right registration.

The 1997 *Law on Subsoil* (with amendments in 1999 and 2000) identifies different types of ownership rights to subsoil, including State, private and communal. The law stipulates the powers of the national government, local state administrations and the administration

of Bishkek City over using subsoil. The law also provides procedures for subsoil use, licensing and different agreements on the use of subsoil.

The 1998 *Law on State Registration of Rights to Immovable Property* aims at consolidating the registration system throughout the country. Under this law, the public has the right to access data in the State Register.

The 1999 *Land Code* of Kyrgyzstan (revised in 2001) identifies state institutions responsible for land administration and management as well as land allocation procedures and the transferring of ownership rights to land. Furthermore, the *Land Code* defines the rights and responsibilities of landowners and land users in terms of use and protection of land.

The Law on Pledge (Mortgage) was adopted in a draft form in January 2005 by the Parliament. The Law is modern in approach, incorporating internationally recognized best practices for the liquidation of collateral through non-judicial foreclosure proceedings.

B. LAND REGISTRATION AND CADASTRAL SYSTEMS

In parallel with the land privatization process, land registration has progressed significantly. In the early days of independence, responsibility for land registration was divided among a number of State agencies and there was an apparent need for simplification and rationalization²⁶. Due to changes in the legislation and with the help of government and international agencies (such as SIDA, USAID and the World Bank) some major steps forward have been subsequently made. Importantly, land cadastre and land registration systems have been unified in 1999 under a single state agency, the Gosregister.

An efficient and effective land registration service is in the interests of many sectors of the Kyrgyz economy and main stakeholders. For instance, for Kyrgyz citizens, land registration provides security of their property rights that can be used as collateral for borrowed capital. With a secure system of property rights registration in place, Government at all levels can stimulate faster economic development. Property developers and construction companies can have their rights secured and can access reliable information with regard to the land market. Also lenders, such as banks and other financial institutions require a guaranteed system of title in order to provide mortgages.

A World Bank funded project on *Land and Real Estate Registration* was implemented between 2000 and 2005. The project's main objective was to support the development of land markets by securing and protecting property rights through a parcel-based title registration system. Other specific aims of the project were to increase the productivity and value of land and other real estate; facilitate the use of property as collateral and reduce transaction costs in title transfer and mortgage provision. The project promoted (a) the establishment of management capacity at the national level in order to supervise, monitor and promote the registration system nationwide (this includes setting up registration offices and developing full legislative, regulatory, and procedural support for effective property transactions in coordination with a fiscal register); (b) the creation of a series of registration index maps and data collection records for rights in land and buildings, which will allow a systematic adjudication of rights; and (c) the establishment of training centres to provide on-the-job training for Gosregister staff involved in the project, a training programme for the promotion of real estate markets, and a long-term training programme to accommodate future needs of the Gosregister, as well as private land administration professionals.

Overall, the *Land and Real Estate Registration Project (LRERP)* has been successful in achieving its objectives. The project has established the legal and

²⁶ UNECE (2000), Country Review of Kyrgyzstan: Sustainable Development and Human Settlements (Overview and Recommended Actions), HBP/2000/2, Geneva.

administrative basis for registration of land and buildings, launched 50 Gosregister offices around the country and provided them with the necessary equipment, conducted extensive training for officials and real estate professionals, established a computerized registration system in over 20 local offices, and supported the systematic registration of over 2.4 million land parcels and real estate objects (houses, apartments) by the end of 2007.

In 2007 the LRERP's achievements also included: secured rights on virtually all land and real estate properties backed by appropriate registry records; the registration of almost 1.2 million real estate units in settlement areas (i.e., with buildings) including the regularization of almost 600,000; the incorporation in the registry of over 570,000 real estate units outside of settlement areas (without buildings), developed plans for the integration by the end of 2007 of the remaining 630,000 units; achievement of international standards in the registration of transactions (completing most transactions within three days for individuals and four days for enterprises); a substantial improvement of access to credit with the number and value of mortgages increased from 15,437 (US\$ 84.8 m) in 2002 to 43,001 (\$723.7 m) in 2006; a more efficient distribution and use of land and real estate assets (as demonstrated by the increased sales and leases); an increase in the number of registered sales from 25,901 in 2002 to 39,957 in 2006 and the number of registered leases from 3,184 in 2002 to 5,030 in 2006; an improved access to cadastre information and the creation of an enabling environment for improved governance of public lands; a very positive fiscal impact; and, finally, the operation of all 50 local registry offices on a self-financing basis²⁷.

Funding of \$6 million for a second project on *Land and Real Estate Registration* was approved by the World Bank in July 2008. This follow-up project is expected to improve further

the real estate registration activities in the country.

Also, USAID has implemented two major projects such as *Land Reform and Market Development Project (LRMD)* between October 2005 and September 2008 and *Local Government Initiative Project (LGI)* between 1999 and 2004. The first project was designed to stimulate the land market by making land administration more effective and transparent and by improving people's access to land data. For rural areas, the effort focussed on improving land administration, removing legal barriers, and the development of mechanisms to facilitate transactions with agricultural land. For urban areas, the project aimed at stimulating investment via the development of a real estate appraisal profession and promotion of transparent zoning regulations. *Land Reform and Market Development Project* has achieved mapping and categorization of some land plots according to their quality, the establishment of local initiatives (*Ayil demilgechisi*) in rural areas to work both with members of the public and local governments, the resolution of more than 18,000 land disputes within local communities through project-trained community-based rural activists and recommendations on the development of a strategy for the use of the LRF.

Between October 2008 and October 2009, the LRMD II was implemented aiming at securing agricultural land rights, stimulating the agricultural land market, and improving land management practices. The project has promoted legislative reforms resulting in the adoption of five laws on agricultural land mortgages, a broader pool of ownership, and also legal backstopping for investment tenders. Other accomplishments of this year included: the improvement of LRF land management in terms of the consolidation of land parcels and the assistance in the development of LRF land strategic management plans for about 60 AOs (Акционерные Общества or Joint Stock Companies); an increase in the local government revenue by 184% (US\$ 65,796) through project facilitated auctions. Furthermore, LRMD II organized several seminars for local authorities on developing strategic LRF land management

²⁷ International Development Association (IDA) (2007) *IDA at Work. Restructuring the Land and Real Estate Management Systems in the Kyrgyz Republic*, World Bank Publications, Washington, D.C.

plans and attracted investments into degraded land.

The second *Local Government Initiative Project* was carried out by the USAID-sponsored Urban Institute between 1999 and 2004 and focused on urban/municipal capacity-building for strategic development planning. In 2004, the project achieved: the adoption of procedures for transparent and effective utilization of municipal property in 12 cities; assistance to 7 cities and 2 rural municipalities in the formulation of a comprehensive strategy and action plan with associated prioritized lists of investment needs in the communities; the formation of nearly 500 condominiums (homeowners' associations) totalling over 50,000 units; the provision of training for officers of 300 condominiums; and the development of 3 regional associations.

Also, SIDA has been co-funding and implementing a project called *Strengthening of Land Administration in Kyrgyzstan* (2006–2010). The project includes the provision of technical assistance through cooperation between the Gosregister and Sweden's Lantmäteriverket (the Swedish Mapping, Cadastre and Land Registration Authority). The objective of the project is to improve the capabilities of the Gosregister to deliver integrated geographic and land information in an efficient manner. The extension of the period of cooperation beyond the World Bank credit and the LRERP (see above) is to support the development of land administration as a whole and not only the real estate registration system. Some results of the project include: the enhancement of knowledge and experience to support further development of land administration, while also observing the gender aspects; the finalization of the structure of an automated registration system and the setting up of the Kyrgyz Land Information System at the central level; the development of the infrastructure for geographical cadastral data; experimenting with and application of modern techniques for cadastral surveying; the improvement of land legislation; and the development and approval of real estate valuation methods for taxation purposes.

However, a number of challenges still remain, including the completion of a nationally unified land registration database, the improvement of access to and reliability of land and real estate information, and the simplification of the process of registering land and other types of real property.

Land registration process

Normally, land and buildings are registered locally in one of the 49 local Gosregister offices. The records are held in paper form, although increasingly, records are being computerized. At present, the computerized records do not have legal status.

In accordance with Kyrgyz legislation, the documents required for registration purposes include registration index maps (graphic part), registration cards (textual records), registration files and registration journals. In addition to these documents, the Land Code requires the establishment of the State Land Cadastre, consisting of cadastral maps and plans.

The process for registering a new title and mortgage is as follows:

- The Gosregister provides confirmation of ownership and confirms that the property is unencumbered.
- All property transactions are subject to notarization. The seller and buyer go to a notary who notarizes the agreement of purchase and sale, and oversees the payment of a State duty. (There is a tendency of understating deal prices in order to minimize the State duty.) Legislation regulates that “empty/agricultural/free land” does not have to be registered by a notary.
- The new owner goes to the local registration office and completes a registration form. A technical passport (property plan and description) is also needed and is provided by a surveyor.
- The notary also notarizes mortgage agreements.

- The Gosregister registers the mortgage agreement and the mortgage becomes legally valid.

Depending on the type of property to be registered, the land registration process in Kyrgyzstan can be rather difficult and time-consuming. For example, individuals and legal entities wishing to register a mortgage are required to provide a lengthy list of documents, some of which can be difficult or costly to obtain and some are only valid for a limited period. To register a mortgage, an applicant must submit:

- An application form
- Three copies of a mortgage agreement
- A technical passport (plan) of the property
- Documents confirming ownership (an agreement of purchase and sale or a privatization certificate)
- The owner's passport (or notarized shareholder documents if the owner is a legal entity)
- A certificate of registration (if a legal entity)
- A power of attorney from the owner (if the applicant is not the owner)

In some situations, it is impossible to obtain all the necessary documentation. The technical passport, for example, is a plan of the property provided by a surveyor indicating the structure of the building, dimensions, building layout, etc; it provides evidence that the building to be registered complies with all relevant building rules and regulations. If a property was previously registered, obtaining and updating a technical passport are no problem. However, as discussed elsewhere in this report, there are many informal settlements that do not comply with the relevant regulations and, therefore, obtaining a technical passport and hence completing the registration are not possible.

C. RURAL AND URBAN LAND

Land reforms in Kyrgyzstan have been implemented as part of the country's overall transition to a market economy. They have

included the introduction of private land ownership, land registration and the surveying of legal boundaries of land parcels, as well as decentralizing responsibilities for land management to local government.

Land reforms were implemented in two stages between 1991 and 1996. The first stage was carried out between 1991 and 1993 in accordance with the President's Decree of 10 December 1992 *On Measures to Continue the Implementation of Land and Agrarian Reforms* and involved a voluntary formation by workers of unprofitable farms of independent private peasant farms. The establishment of such farms was very slow, however. The second stage was implemented between 1994 and 1996 following the President's Decree of 22 February 1994 *On Measures to Promote Land and Agrarian Reforms in the Kyrgyz Republic*, which mandated the total dissolution of State and collective farms and redistribution of land shares.^{28,29}

The land was redistributed to each member of the farm workers' families, to medical workers and to teachers living in a certain area. The size of land plots was determined according to availability of land and the total number of people eligible. About 500 collective and State farms were dissolved. In accordance with the President's Decree of 22 February 1994 *On Measures to Promote Land and Agrarian Reforms in the Kyrgyz Republic*, 75% of land was distributed as agricultural land shares while the remaining 25% was reserved in the LRF. Initially only land use rights for 49 years were established, but, with the adoption of the *Land Code* in 1999, private land ownership was introduced. The *Land Code* also authorized sale, exchange and rent of land, which was a

²⁸ Mohinder, S. (1998), *Kyrgyz Republic Strategy for Rural Growth and Poverty Alleviation*, World Bank Discussion Paper No. 394, Washington, D.C.

²⁹ Bloch, P. et al. (1996), *Land and Agrarian Reform in the Kyrgyz Republic*, Land Tenure Center University of Wisconsin-Madison LTC Research Paper 128

major step towards the establishment of a land market³⁰.

Furthermore, the land has been reclassified. During the Soviet era, about 20 million ha of land were designated for arable farming, although due to environmental conditions it was not particularly suitable for cultivation. After reclassification, this land use was limited to 5.5 million ha. Table 4 shows the change in different land categories throughout the recent period, including a decrease in cultivated agricultural land from 73% to 27% and a corresponding increase of pastoral rangelands, forests and protected areas, and of settlement lands.³¹

In the last decade, the number of private farms has been growing dramatically. According to a World Bank report, the number of households with access to land has increased from 50% in 1998 to 75% in 2001.³² According to 2003 data of the World Bank, about 96% of households have landholdings (private land shares). As shown in Table 5, by 2006 the number of private farms had reached 313,061.³³

The land reforms have contributed to food sufficiency in the country and to the creation of alternative employment in rural areas. The number of private peasant farms has increased dramatically in the last decade and agriculture is one of the priorities in the 2007 *Country Development Strategy for 2007–2010*. In this strategy, creating and encouraging cooperatives are among the measures for agricultural development. However, unsustainable land use practices and the lack of capacity and finance have resulted in increased land degradation. Other issues for rural

agricultural land management include fragmented land farmed at a subsistence level (particularly in the south), inefficient water distribution, deteriorating machinery, availability of labour and undeveloped markets for agriculture. All these problems create significant barriers to long-term investment and the efficient use of agricultural land. In other countries where privatization of land was pursued without regard for its impact on agricultural productivity, land consolidation exercises have contributed to increased efficiency of farms. Alternative forms of land consolidation include voluntary lease exchange, voluntary land consolidation and mandatory land consolidation. Depending on the context, all of these forms have proven to be an important instrument for rural development. Land consolidation can enable farmers to become more competitive by both countering the fragmentation of parcels and allowing farmers to expand the size of their holdings.

The growing number of private farms in the country has resulted in large regional differences in land plot size due to varied population density. More land is available in the Northern regions compared with the South. The Southern part of the country is the Fergana Valley, which is a troubled area due to high population density, scarcity of resources, environmental degradation, ethnic tensions and the growth in poverty. The Osh oblast is where an inter-ethnic conflict arose between the Uzbek and Kyrgyz in 1991 over land distribution. Unresolved issues remain over national borders and ethnic enclaves in the Batken and Jalalabad regions of the country. Water scarcity for agricultural cultivation is another issue of confrontation with the inhabitants of bordering countries such as Uzbekistan and Tajikistan; it threatens the security and development of these areas.

³⁰ Ibid.

³¹ Asian Development Bank (2004), Kyrgyz Republic: Country Environmental Analysis.

³² World Bank (2007), Kyrgyz Republic: Poverty Assessment, Volume 3: The Main Conclusions of the Report, *World Report No. 40864-KG*, Washington, D.C.

³³ data was provided in an electronic form by the National Statistical Committee of the Kyrgyz Republic.

Table 4. Land reclassification in Kyrgyzstan, 1990 and 2002 (per cent)

Types of use	1990	1995	2000
Agriculture	73.7	55.0	27.7
Pastoral rangelands	6.6	27.0	50.9
Used by other Republics	5.6	4.0	0.0
Forest fund	4.9	5.2	13.3
Commercial and defence	4.2	4.2	1.1
Outside oblast administration	4.0	2.8	0.0
Water fund	0.4	0.4	3.8
Settlement lands	0.3	0.6	1.2
Parks and protected areas	0.2	0.7	2.0
All land use categories	100.0	100.0	100.0

Source: Asian Development Bank (2004), Kyrgyz Republic: Country Environmental Analysis.

Table 5. Changes in different farm categories (number of farms)

Categories of farms	2002	2003	2004	2005	2006
State farms	94	68	68	111	106
Farms of organizations	506	527	538	538	538
Private farms	251,526	255,882	259,701	300,162	313,061
Collective farms	726	971	1,111	1,124	1,448

Source: Data was provided in an electronic form by the National Statistical Committee of the Kyrgyz Republic.

Table 6. Distribution of households by plot size and region (per cent)

	0 ha	0<ha<2	2<ha<5	5<ha<12	12<=ha
Total	4	81	12	2	0.5
North	6	73	18	3	0.6
South	3	87	8	1	0.5

Source: World Bank (2007), Kyrgyz Republic: Poverty Assessment, Volume 2: Labour Market Dimensions of Poverty, World Report No. 40864-KG, Washington, D.C.

Table 6 shows the variation in average plot size between the north and the south. Osh, Batken, and Jalalabad oblasts have the smallest plot sizes compared with other regions. The southern regions also have higher poverty rates.³⁴

In the Soviet farms, irrigation, use of fertilizers and the type of cultivation were planned and decided by the central government³⁵. After the privatization of the land, farmers were given freedom to make their own decision about land cultivation, but there is a lack of experience of private farming and farm management. Moreover, lack of technical assets, alongside water distribution and fertilizer problems add further pressures. These issues have resulted in subsistence farming and land degradation. Production is based on low-value grain crops rather than on export-based products, since people produce merely for their own consumption³⁶ (see Figure 2).

The amount of arable land per capita is 0.26 ha. The productivity of arable land is declining, and so is the potential of natural pastures. Out of 10.6 million ha of agricultural land, more than 88% is recognized as degraded and subject to desertification. The areas affected by secondary soil salinity constitute three quarters of the whole arable land stock of the Republic. Kyrgyzstan joined the *United Nations Convention on Combating Drought and Desertification (UNCCD)* in 1997 and developed

a National Action Plan in December 2000³⁷. Figure 3 shows the dynamics of land degradation in Kyrgyzstan over recent years. It is obvious that salinization and wind and water erosion have been on the rise since 1985.

A number of factors are believed to contribute to the loss of ecological and economic productivity of land. They include: a weak system of expansion and transfer of technology, knowledge and market information; the continuation of monoculture, without crop rotation or other opportunities such as growing legumes; inadequate access by farmers to markets and credit support; lack of involvement of the private sector in service provision; deterioration of agricultural research due to a general decline in research infrastructure; and lack of an enabling policy framework.

The main activities in combating land degradation in the National Action Plan have involved the formulation of the *Concept of Agrarian Policy until 2010*, the *Concept of Forest Branch Development until 2025* and the *State Land Programme*. The *State Land Programme* aims to improve the use of land resources in compliance with the Kyrgyz land legislation through unified land cadastre and land registration, monitoring of land resources and creating a comprehensive database. Due to a lack of funding, however, the government has not completed these activities. Some of them have still been implemented through projects funded by donor agencies. The main projects on improving rural livelihoods involve the UNDP-funded *Poverty Reduction Programme*, the DFID-funded *Sustainable Livelihoods for Livestock Producing Communities* and the World Bank-funded *Village Investment Project*. The *Country Development Strategy for 2007–2010* also makes agricultural development a priority. It mainly focuses on developing agricultural production and the agro-processing industry in rural regions.

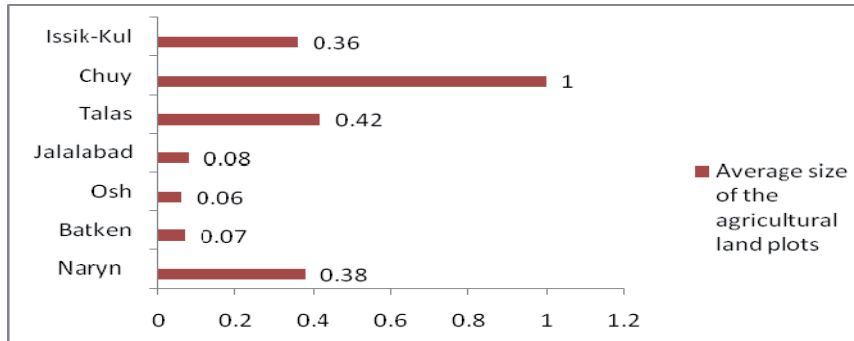
³⁴ World Bank (2007), Kyrgyz Republic: Poverty Assessment, Volume 2: Labour Market Dimensions of Poverty, *World Report No. 40864-KG*, Washington, D.C.

³⁵ Eriksson, C. (2006) Changing Land Rights, Changing Land Use: Privatization Drives Landscape Change in Post Soviet Kyrgyzstan, *Swedish University of Agricultural Studies*, SLU External Relations, Uppsala.

³⁶ Spoor M. (2006), Land, Markets and Rural Poverty in the CIS-7 (Paper presented at the conference on 'Land, Poverty, Social Justice and Development' organized by Institute of Social Studies, with FIAN and Via Campesina, ISS), Hague, 9-14 January 2006.

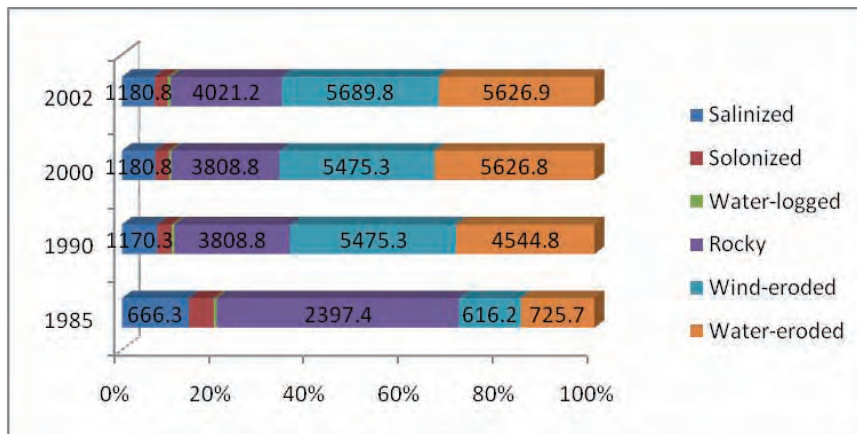
³⁷ United Nations (2006), Third National Report on Implementation of the United Nations Convention to Combat Desertification in the Kyrgyz Republic, Bishkek.

Figure 2. Average size of the agricultural land plots in different regions (in ha)



Source: Data provided by the National Statistical Committee of the Kyrgyz Republic.

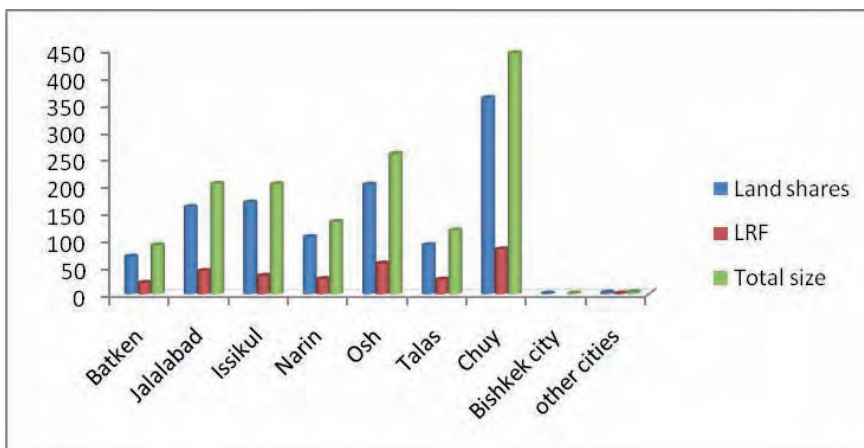
Figure 3. Land degradation trends



The figures in the bars indicate the number of hectares

Source: Asian Development Bank (2004) Kyrgyz Republic: Country Environmental Analysis.

Figure 4. Information on Land Redistribution Fund in regions, 2007



The vertical scale shows the number of hectares in thousands

Source: Ministry of Agriculture, Water and Processing Industry, 2008.

Land Redistribution Fund

About 25% of land is reserved in the Land Redistribution Fund (LRF). According to the 1999 *Land Code* and the President's Decree of 22 February 1994 *On Measures to Promote Land and Agrarian Reforms in the Kyrgyz Republic*, the LRF can be used for the following purposes:³⁸

- Expansion of settlements in accordance with their master plans.
- Creating experimental selection and seed-producing farms.
- Organization of experimental horticulture stations and fields/ the organization of agricultural enterprises.
- Selling land use rights through auctions.
- Renting land by agricultural producers.
- Allocation of land to citizens working and living away from the territory of a farm at present but who lived and worked on the farm before 1 July 1996.

Initially, the Ministry of Agriculture, Water and Processing Industry was responsible for the management of the Land Redistribution Fund. However, the 2002 *Law on Local Self Government and Local State Administration* transferred these responsibilities to local authorities. This has been a positive development towards decentralization, since local government is more familiar with local issues. Also local government is able to generate funds from the rent and sale of land plots and to use it for local economic and social development. However, a lack of capacity at the local level remains. Local record keeping about land and its use is often not effective. There is a lack of transparency in land administration and procedures for land allocation; rent and sale practices often contradict the law.

Kyrgyz women's access to land

Given the importance of land and the agricultural sector in Kyrgyzstan, the provision of land ownership or other modes of access to land and to related economic resources may provide a mechanism for land redistribution with a positive impact on reducing poverty and in particular for women. However, it should be taken into account that the relationship between land redistribution and the economic and social status of women is not straightforward but on the contrary rather complex, and for example, additional educational support for women is essential. Land redistribution mechanisms must be flexible to be able to keep prevalent traditional land tenure systems and achieve fair land distribution taking also the gender component into account.

It seems that a legal ownership title to land does not necessarily provide a secure land tenure option for women in Kyrgyzstan and therefore women's access to land through other mechanisms should be strengthened — for example through improving practices of the LRF. Women landowners have often reported that it has been rather problematic for them to keep the title due to financial hardship and prevalent traditional land relations biased against women. Women in rural areas also have limited access to necessary resources such as credit or other inputs to support production activities. However, they usually also lack entrepreneurial skills.

Recent activities of UNIFEM working with gender-related policies on land in Kyrgyzstan since 1999 have notably strengthened women's land rights in legislation. However, some challenges to women's control over their land in real life situations remain; this is discussed in Box 1.

³⁸ USAID Land Reform and Land Market Development project of 2007, www.landreform.kg

Box 1. Women’s unequal access to and control over land in Kyrgyzstan

The integration of gender aspects into existing Kyrgyz legislation has not yet fully addressed gender discriminatory practices in the land sector. Kyrgyz women still experience de facto unequal access to and limited control over land assets. Given the collapse of public services and a sharp decrease in women’s participation in the formal labour market (in rural areas women make up 18.9% of employees in small enterprises), land assets have served as the major source of livelihood for the impoverished female population.

Women have often reported restricted access to both ownership and leasehold land tenure opportunities. Moreover, access to agricultural credit and marketing facilities has also been unaffordable for female citizens. Women’s low economic and social status has also been reinforced by women’s insufficient knowledge about market-based agricultural practices and related technologies, as well as by low salaries for female labour in the agricultural production sector (with an average monthly income of less than US\$ 20). UNIFEM has been addressing gender discrimination in land ownership, ownership transfer and inheritance practices. The recent UNIFEM initiatives have resulted in amendments to the existing land legislation and to the *Law on Agricultural Land Management (LALM)*. Other notable achievements include: the removal of the limitation on the exchange of land plots between different villages, giving a divorced woman the right to exchange her plot of land regardless of geographical location; the possibility of using land plots either in their entirety as family plots or divided into independent ones enabling women to obtain and register individual rights to land shares; the possibility of dividing land plots into individual parcels for further transactions, allowing women to separate their land shares and manage them independently; and recognition of daughters’ rights to inherit land equally with sons.

Despite these positive legal changes, the ownership right to land for rural women remains insecure in real life situations due to domination of various customary rules (particularly the traditional law of “adat” which does not recognize equality between women and men, but rather strictly regulates women’s position in the family). The opportunity to receive land through allocating procedures of the LRF is also unclear since land auctions are not transparent and usually shaped by the cultural stereotype seeing women (particularly if they are single) as incapable of managing their land effectively. It has been reported that women’s applications for land allocation are often either not considered or, even if accepted, are not passed beyond the pre-selection stage for the land auction. Endemic corruption and a lack of proper knowledge on the part of women about what they can claim based on their rights to land represent other challenges.

As stated by UNIFEM, “the focus of today’s advocacy for women’s rights to land has furthered towards the improvement of the governance system, strengthening capacities of public entities and the justice system for better and more effective service provision”, but “the challenges of prevalence of customary law still remain which require longer term societal and behavioural changes”.

Source: Primary data provided by UNIFEM, January 2009.

The urban population accounts for only 35% of the total population of Kyrgyzstan, which is the second lowest after Tajikistan among European and Central Asian countries.³⁹ There are four types of urban settlements in Kyrgyzstan including cities of republican subordination (the capital city Bishkek), 14 cities of oblast subordination, 6 cities of rayon subordination, and 29 urban type settlements.⁴⁰

Urban land is subject to spontaneous development due to market pressure and unsustainable and ineffective land use, exacerbated by the lack of up-to-date master plans, effective zoning regulations and strategic land management policies.

The transition to a market economy requires land use and construction regulations to be reformed. It also requires long-term plans for urban development with recognition of different types of ownership. It is necessary that the private, State and municipal land ownership being introduced should be properly regulated in order to stimulate urban development activities. There is no system of centralized financing to support urban development projects but rather diverse investments sources.

Master plans

According to the 1999 *Land Code*, city *keneshes* should introduce urban land tax rates and procedures for renting land and approve master plans. However, current land administration and land management in urban areas are characterized by a lack of capacity and by poor strategic development practices.

As can be seen from Table 7, many cities do not have master plans or have outdated ones. The Urban Planning Institute is the only organization in the country that provides services

for drafting new master plans. Since the country's independence and institutional reforms, the Institute has had to rely on self-financing; consequently, this constraint has reduced its activities. Formally, local governments are to order master plans from the Institute, but they lack funding for doing so. The importance of new master plans has been mentioned in the *State Programme on Housing Construction for 2008–2010*; however, implementation mechanisms are not discussed there.

Zoning regulations

Zoning regulations establish specific conditions for land use planning and regulation in the longer term. Zoning regulations are based on the land use and building regulations, which is a legal document of the local administration consisting of town planning maps and the description of the envisaged administrative measures, investment decisions and city services. These regulations stipulate borders of zones and permitted use and changes to immovable property within these zones. They are used as a legal basis to regulate and coordinate building activities of property owners in the areas in question. The land use and building regulations for any specific location need to pass a transparent public approval process and to be published in local newspapers.

As part of the *Land Reform and Market Development Project*, USAID has developed the *Land Use and Building Rules* for 10 pilot towns. These *Land Use and Building Regulations* constituted the core of the zoning system launched in 1999 in 10 cities. The system of zoning regulations has not yet been introduced throughout the country comprehensively.

³⁹ Spoor M. and Visser O. (2001) The State of Agrarian Reform in the Former Soviet Union, *Europe-Asia Studies*, Vol. 53, No. 6 pp. 885-901.

⁴⁰ www.undp.kg

Table 7. Master plan documents for settlements in different regions

	Oblasts	Number of settlements	Number of settlements with existing master plans (percentage, years when adopted)	Regional centres
1	Issyk-Kul	172	80 (1968–1992)	Karakol has an old master plan
2	Osh	473	80 (1949–2003)	Osh-under development
3	Jalalabad	473	58 (1960–1997)	Jalalabad has an old master plan
4	Talas	91	86 (1967–1991)	Talas has an old master plan
5	Chu	346	80 (1966–1994)	Tokmok-Tokmok has an old master plan

Source: Based on USAID (2008) Land Market Development in Kyrgyzstan. Analysis and Recommendations, USAID Land Reform and Market Development Project.

Table 8. Cities that have zoning regulations

	City name	Date
1	Tokmok	September 2002
2	Osh	October 2003
3	Cholpon-Ata	November 2003
4	Jalalabad	March 2004
5	Karakol	July 2004
6	Naryn	July 2004
7	Kara-Balta	August 2004
8	Balykchi	June 2005
9	Talas	June 2005
10	Uzgen	April 2006

Source: Based on USAID (2008) Land Market Development in Kyrgyzstan. Analysis and Recommendations, USAID Land Reform and Market Development Project.

After the *Land Reform and Market Development Project* had been completed, the cities that introduced zoning regulations were surveyed for the impact. Cities such as Tokmok, Karakol, Balykchi, Jalalabad, Osh and Talas were compared with Kyzyl Kiya, Kant and Shopokov, which did not have zoning regulations. The assessment revealed that zoning strengthened the security of property rights and improved the property market; moreover a system of loans (mortgages) secured against property was set up, building volume was increased, and more inward investment was attracted.⁴¹

Strategic Land Management Plans

With the assistance of the Urban Institute (a not-for-profit organization) the Strategic Land Management Plans (SLMP) have been developed for Osh, Jalalabad, Karakol, Cholponata and Karabalta cities to ensure that municipal land is acquired, used and disposed of in a planned and transparent way, based on relevant information and explicit policy. Jalalabad and Karakol adopted these plans in 2006 and another three cities introduced them in 2007.

The development of strategic land management plans involved identifying vacant municipal land, checking the ownership structure and developing land management principles. The SLMP was based on the principles of land allocation through competitive procedures and, for sites sold for capital construction, of granting full ownership rights according to transparent procedures and according to a sale plan approved by the local council.

⁴¹ “Investment Round Table”(non-governmental organization), Analysis of the Influence of Zoning Regulations on the Economic Development of Towns and Cities, Bishkek,2007, http://www.landreform.kg/index.php?option=com_content&task=view&id=83&Itemid=62

Developing and supplementing strategic land management plans have resulted in: the registration of municipal ownership and improved transparency of land management; the identification of land parcels and conducting of land parcel inventory; enhancement of the capacity of the local government (e.g., a pilot project in Jalalabad) to manage municipal land under their control; the assessment of the ability of local government to develop strategic land management plans with very limited help from outside (e.g., a pilot project in Karakol city); an increased awareness on the part of the local government about the value of municipal land; the introduction by local branches of the Gosregister of a complete registration of vacant municipal land based on the *Land Code* (at least in five of the above mentioned cities); and the transposition of SLMP (e.g., in a pilot Jalalabad city) into two main policy principles requiring land to be sold and released through auctions, and revenues from sales and long-term leases to be invested in public infrastructure according to a list of projects approved by the city council.⁴²

D. LAND ALLOCATION FOR CONSTRUCTION

Land allocation free of charge

Land is a basic resource for construction. Kyrgyzstan has only 7% of land suitable for construction, as the rest is too mountainous. Therefore it is very important for government to keep a balance between settlement expansion and land conservation.

According to the 1999 *Land Code*, the citizens of Kyrgyzstan have the right to request land from a public stock for individual housing construction. Only vacant public land can be allocated to private parties through auctions or tender procedures. Another way of reallocating public land into private use is once-in-a-lifetime free-of-charge handover of land to individual

⁴² Kaganova, O. et al. (2007), Strategic Land Management in Kyrgyzstan's Cities (Presentation at the Fourth Urban Research Symposium World Bank)

citizens of Kyrgyzstan for housing construction. According to Article 32 of the *Land Code*, land plots can be allocated to citizens of Kyrgyzstan free-of-charge for three purposes: (1) for the construction of a residential house; (2) for the construction of a dacha; and (3) for agricultural land use for entitled citizens.

Article 73 specifies that only low quality and poorly productive agricultural land can be given for the purpose of construction. Article 33 of the *Land Code* specifies that citizens in need of a land plot should apply to the responsible State body in their territories.

The person applying for a land plot for construction free of charge should meet certain important eligibility conditions. In particular the person:

- should have been living in a given territory for not less than three years (not less than a year for Bishkek and Osh city);
- should not have any other land plot allocated within the Republic;
- should not have any property such as an apartment or a house in private ownership (however, there is an exception for citizens whose housing does not meet basic sanitary requirements);
- should not have been involved in any deals which might subsequently worsen their housing conditions, such as selling, gifting or changing their allocated property;

Once deemed eligible the person should submit the following documents:

- an application form;
- identification documents;
- a document from the State registry proving the person does not have any property or land;
- a copy of employment records or, if person is unemployed, an unemployment document;

- a document stating/defining the current living conditions of the person applying;

- a certificate from the permanent place of residence and about members of the family.

These documents are submitted to a State commission, which is convened in order to review the applications. The commission is formed by representatives of the local government administration, the Gosstroy, the Gosregister, and other public representatives in charge of reviewing and checking the eligibility of application documents.

The Gosregister conducts a land survey for the plots in question by checking plot borders and size, and negotiates plot borders with the neighbours. The Gosstroy is responsible for organizing a commission meeting. The Agency checks that the plot complies with town planning, construction documents and norms, as well as with fire and sanitary requirements and the conditions to connect the land plot to the engineering and technical support network. The Agency then issues a technical decision about the proposed use of the plot, a plan of the land plot and a final conclusion about the cost to be paid for engineering connections.

The commission meets at least once a month. Land is allocated in the order the applications were submitted. The decision of the commission is then documented as a protocol, which serves as a basis for the decisions on land allocation and for the State act on ownership. Land allocated for individual housing construction can be developed or used only after the borders of the plot are confirmed and the other documents have been issued and a construction plan of the house is approved.

Land allocation through auctions and direct sales

Another way of allocating municipal land for construction is through direct sales or auctions. The selection of plots is carried out by local offices of the State Agency for Architecture and Construction on the basis of: consistency of the land plot with the master plan

of the city/village; consistency with the land use norms and building rules; the possibility for the land to be connected to communication networks; the seismic conditions of the land; and the suggestions about the possibility of the land plot to be converted into private ownership.

This document is then passed to the Gosregister, which checks the legal status of the land, existence of encumbrances, ownership rights of other people and existence of any other buildings.

Decisions of both these bodies are passed to the commission, which makes a final decision about allocating the land for construction. The commission consists of representatives of local self-government, leaders of the local Gosstroy office, and the Gosregister, representatives of local technical services and of non-commercial organizations and the general public. The commission needs to be approved by the local *kenesh*. It makes a decision about the way of allocating the land (through auctions or direct sale), identifies the initial price and organizes and approves the sale.

The commission delivers its decision as a protocol. Gosstroy prepares a plan of the land. This plan is reviewed by ecological, sanitary and epidemiological and fire services, which also should give their approval for the plot to be sold. Only then can the land be sold through an auction or a direct sale. The fees received from the land sold go to the local or State coffers as appropriate.

As stipulated by the *Land Code*, land for construction should be allocated in accordance with town planning documents. However, there is a lack of master plans throughout the country. This situation effectively facilitates spontaneous expansion of urban areas and further absorption of agricultural land. In Bishkek alone, around 534 hectares of land have been given for construction with an absence of the master plan.

Furthermore, there have been cases of the land legislation being violated due to allocation of land to private parties without competitive procedures, privatization of land under active

public use, as well as corruption and abuse of power (e.g., the allocation of land for informal payments or to those who are in power or their affiliates).⁴³

Also, the information on municipal land is fragmented and unreliable, as are some data about vacant land in the State register and some data processed by the State Agency for Architecture and Construction. As a result, the information about the amount and location of municipal land is unavailable both to citizens and local governments.

Expansion of urban areas

Osh, Jalalabad and Chu oblasts are the fastest growing regions. The amount of land allocated for construction varies across the regions, but is mainly between 400 and 800 square metres. As shown in Table 9, in just three and a half years the built-up areas have expanded from 3,940.8 to 8,983.21 hectares.



Picture 5. Inhabitants and informal settlements in Kyrgyzstan. Source: UNECE

⁴³ Kaganova, O. et al. (2007), Strategic Land Management in Kyrgyzstan's Cities (Presentation at the Fourth Urban Research Symposium World Bank)

Table 9. Expansion of human settlements (total size in ha)

YEARS	2005	2006	2007	2008	TOTAL
Country as a whole	3,940.8	1,346.95	2,108.29	1,587.17	8,983.21
Batken	165.0	740.83	290.91		1,196.74
Djalalabad	1,133.1		585.53		1,718.63
Issyk-Kul	274.7				274.70
Osh	1,178.9	358.42	193.50	415.77	2,146.59
Chu	249.6	13.70	1,038.35	88.50	1,390.15
Talas				1,082.90	1,082.90
Bishkek	913.5	164.00			1,077.50
Osh	26.0	70.00			96.00

Source: Data proved by State Agency for Registration of Rights to Immovable Property, 2008.

Land market

The land market in Kyrgyzstan is rudimentary. Private ownership of land was only introduced in 1999. Before that all land belonged to the State. Two regions, Talas and Naryn, do not have any market valuation, people do not tend to buy or sell land due to their comparatively weaker economic development.

As was learned from the USAID *Land Reform and Market Development Project* (see chap. III, sect. B. Land registration and cadastral systems) there remain some major obstacles to the development of land market in Kyrgyzstan, including:

- most of the LRF land is unmapped and managed in a non-transparent way;
- local governments do not know how much LRF land they manage;
- LRF land is sold under favourable terms to personal connections of local government leaders irrespective of true market prices;
- some land plots of LRF are not ready to be farmed, but will require investment before they can be leased;
- legal entities, including companies investing in agricultural production, cannot own agricultural land;
- banks do not offer mortgages for agricultural land since they cannot take possession in the event of foreclosure;
- urban dwellers cannot own agricultural land (the pool of potential buyers of farmland is limited to the generally poorer rural population);
- the informal market is stimulated by urban dwellers buying land through rural third parties;
- rights of the buyer are not secure and often abused. The majority of the population remains unaware of important legal changes regarding land issues. Farmers and other types of investors cannot protect their rights and do not understand important procedures. Relevant laws are not correctly applied at all levels of the Government.

HOUSING CONDITIONS AND NEW HOUSING CONSTRUCTION**A. LEGAL AND POLICY FRAMEWORK**

Housing has received priority attention in the *Country Development Strategy for 2007–2010* and the *National Programme on Housing Construction in Kyrgyzstan for 2008–2010*; however, financial resources to implement the housing-related activities envisaged in these documents are not clearly defined.

Decision-making in housing remains fragmented. Responsibilities for housing matters are divided between different authorities at national and local levels. After the country's independence, the former Soviet housing system underwent a process of decentralization, starting with transferring the ownership of the existing housing stock, housing-related services and financial responsibility for it to local government. Local authorities have been put in charge of housing privatization programmes, the provision of housing and utility services, the development of housing-related infrastructure and the supervision of land development (including urban planning) within their territories. Despite the tendency towards decentralization in the housing sector, policymaking in housing remains with national bodies.

At the national level, it is the Gosstroy that is responsible for the *National Programme on Housing Construction in Kyrgyzstan for 2008–2010*. Land management issues that are closely related to housing fall under the Gosregister.

In 1997, with the assistance from a USAID housing reform project, the Government passed the *Law on Condominiums* that introduced the homeowners' association institution, which is formed on a voluntary basis, and provided a framework for housing

management. However, by 2005, only 25% of condominium buildings had established owners' associations.^{44,45} This is not enough to be recognized as an institution of major importance in the field of housing management and maintenance. Even though homeowners' associations are established as legal entities, their economic position remains weak limiting their opportunities to operate effectively in a new market environment.

There is also no law on rented housing. While at the national level rents are regulated by the *Civil Code*, local governments can also determine rents in municipal housing within their jurisdictions.

Article 33 of the *Constitution* guarantees the universal right to housing. In practice, this regulation causes serious problems as it prohibits foreclosure procedures, which is a major obstacle for the development of the mortgage market. The regulation also prohibits the homeowners' association from exercising a lien for maintenance fees due from an individual owner. Such a situation imposes barriers to effective housing management.⁴⁶

Currently a new *Housing Code* is under consideration. It has been drafted following the model of the Russian Federation's new *Housing Code*. Major new regulations include the possibility of shared ownership, decentralization of decision-making and integration of commercial spaces into residential buildings. The 1999 *Law on Condominiums* will be incorporated into the new *Housing Code*.

⁴⁴ Struyk, R., and F. Roy (2006). Pre-Feasibility Study on Housing Finance in the Kyrgyz Republic. Frankfurt, Germany: KfW.

⁴⁵ Undeland, C. (2002), *Condominiums in Kyrgyzstan: Building Communities and Managing Housing Effectively*, World Bank Group Publications, Washington

⁴⁶ Roseman, G. (2004), Residential Real Estate Market in Bishkek, Kyrgyzstan. Current Conditions and Prospects, *The Real Estate Issues*, June 2004

Housing programmes

Recently several concepts and programmes have been adopted that review the objectives for Kyrgyz housing policy.

The *Concept on the Development of Housing Construction until 2010* adopted in 2000 defines the following objectives: the provision of State funds for the construction of social housing; stimulation of housing demand by developing affordable mortgage financing in combination with State subsidies; increased housing output and quality of construction, mainly by the development of the capacity of the building industry; increased stability of life and well-being of citizens.⁴⁷

Based on this concept, the *State Housing Development Programme in the Kyrgyz Republic until 2010* was adopted in 2004.⁴⁸ The improvement of housing conditions was to be achieved via the development of mortgage instruments and State support for housing purchase. Before having established a primary market, the programme appealed to secondary market instruments. The programme planned to boost new construction to the quantities seen in the late Soviet era (22,000 housing units were completed in 1990. In this way, the total residential floor space should have been extended from around 60 million m² to 78 million m² by 2010), but almost none of these ambitious objectives have been achieved.

The *Country Development Strategy for 2007–2010* adopted in May 2007 reflected a reorientation of housing policy particularly arising from the political changes after the Tulip Revolution in March 2005. It states that affordable housing is a main priority for social

⁴⁷ Government of the Kyrgyz Republic (2000), *The Concept for Housing Construction Development until 2010*, approved by Decree No. 76 on 6 April 2000, Bishkek

⁴⁸ Government of the Kyrgyz Republic (2004), *The State Housing Development Programme in the Kyrgyz Republic until 2010* adopted by Decree No. 622 on 17 August 2004, Bishkek

development of Kyrgyzstan. The Strategy defines three programmes or means of state support for mortgage lending to help achieve the housing policy objectives:^{49 50 51}

1. Housing for young teachers and doctors in rural areas: a three year programme offering state assistance to the targeted homebuyers in a down payment of a commercial mortgage. Initially, the programme was planned for 1,000 beneficiaries per year (later changed to 500).

2. The creation of a contract savings scheme for housing: it has been planned that some 3,500 families per year would receive mortgages to buy flats.

3. A social housing construction programme: the programme should provide small owner-occupied dwellings for vulnerable groups, financed by a modest down payment from the tenants, public grants and public loans.

Taken together these three programmes should provide some 6,000 dwellings per year, which would cover approximately a quarter of the existing housing demand. The public cost for these programmes was calculated at around €150 million a year, but the strategy was not implemented due to the lack of mechanisms for realization, financing and distribution of subsidies.^{52,53}

The 2007 *National Programme on Housing Construction in Kyrgyzstan for 2008–2010* was adopted in response to the dramatic

⁴⁹ Government of the Kyrgyz Republic (2007), *Country Development Strategy for 2007-2010*, par. 264, par. 270, approved by Presidential Decree No 249 on 16 May 2007, Bishkek

⁵⁰ Struyk, R. and Roy, F. (2006), *Pre-Feasibility Study on Housing Finance in the Kyrgyz Republic*, KFW, Frankfurt

⁵¹ International Finance Corporation (IFC) (2006), *Central Asia Housing Finance Gap Analysis, World Bank Group Working Paper Vol.1*, Washington

⁵² Ibid

⁵³ Struyk, R. and Roy, F. (2006), *Pre-Feasibility Study on Housing Finance in the Kyrgyz Republic*, KFW, Frankfurt

housing situation, including increasing property prices, low rates of new construction and further deterioration of the existing housing stock. The programme suggests a reorientation towards the improvement of the social and economic status of the population. The responsibility of the State to solve housing problems is clearly acknowledged. The programme envisages the following actions:

- Housing maintenance is considered a State priority, although no concrete action plan has been provided to improve the present situation.
- Increased construction along with modernization of the industry, the development of domestic building materials production, the recovery of standardized production using prefabricated materials, a further development of mortgage financing, and the development of a functioning housing market are envisaged. As much as 85% of the new construction should be targeted towards needy groups. The total residential floor space shall be extended from almost 64 million m² in 2007 to almost 69 million m² in 2010.
- Earthquake-vulnerable housing in urban areas will be demolished and replaced by earthquake-resistant high-quality multi-storey buildings.
- Measures against inflation in construction costs and housing market prices are envisaged.
- The programme shall receive about €100 million per year, from both the State and local budgets.

The housing policy programmes for the state mortgage lending assistance defined in the *Country Development Strategy* from early 2007 are no longer mentioned in the programme, and it was soon after the adoption of the programme that new initiatives of the President of Kyrgyzstan and of the mayor of Bishkek in the housing field were reported.

According to the Economist Intelligence Unit, Kyrgyzstan spent 0.8% of GDP on housing and public utilities in 2007. This figure is in line with data from Struyk and Roy⁵⁴ who claim that current programmes for sitting tenants, including housing allowances and discounts on tariffs for energy for more than 500,000 households, account for around 1% of GDP.⁵⁵

Statistics

There has not been any systematic census on the existing housing stock and land use until recently. The data available are based only on official data from the State Agency for Registration of Rights to Immovable Property and the Agency for Architecture and Construction. The first housing stock census was conducted by the National Statistical Committee between 24 March and 2 April 2009. This census was intended to identify characteristics of living conditions of Kyrgyz citizens, such as total living space, housing construction material, seismic stability and availability of communal facilities;⁵⁶ however, the data are yet not available.

A lack of knowledge in this field is a problem for Kyrgyz housing policy. Previous surveys have only covered population data. The property redistribution that happened during the mass privatization in the 1990s was insufficiently documented. It is widely understood that data from the public property registration office differ from reality. However, such a property inventory is particularly important for municipalities — after the legal transfer of land titles from the State to municipalities, the latter are in need of valid information about their property ownership. The new census is also of major importance for fiscal reasons, as it will constitute a basis for the implementation of property taxation.

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ National Statistical Committee of the Kyrgyz Republic, <http://www.stat.kg/>

B. EXISTING HOUSING STOCK AND HOUSING PROVISION

Presently, the Kyrgyz housing stock consists of around 1.10 million dwellings,⁵⁷ e.g., 210 dwellings per 1,000 inhabitants. In comparison, the EU average is 446 dwellings per 1,000 inhabitants. At present, the housing situation in Kyrgyzstan is stagnant. Since the transition years, the population has grown faster than the housing stock. The existing residential buildings have increasingly deteriorated due to the lack of maintenance following the mass housing privatization in 1991.^{58,59,60,61,62}

Even before independence in 1991, the owner occupancy rate was at a level of 73%, rather high in the context of the Soviet Union. After independence, Kyrgyzstan embarked on further massive privatization of its housing stock. By the mid 1990s, more than 90% of the housing stock had been privatized. Today the owner occupancy rate is more than 96%, and less than 4% still remains as municipal rental housing. Bishkek has an owner occupancy rate of 98%. As in all countries in transition with intensive privatization, the very high owner occupancy rate is today one of the biggest obstacles for management and maintenance of multi-apartment buildings.

The privatization of dwellings to the sitting tenants was an administrative act, and it was performed almost free of charge. The

baseline cost for privatization was the nominal price level of a dwelling in 1984; in this way, an average dwelling was privatized for about €10.

Some 85% of the existing housing stock was built in the Soviet era. Since that era, a large part of the housing stock has been in multi-apartment buildings. Due to seismic risks, multi-storey buildings in Bishkek have at most 9 storeys.

Kyrgyz households are large, with more than 4 people on average. While, dwellings in Kyrgyzstan used to be between 60 and 70 m² in 1990, today newly built flats have reached almost 110 m². It is obvious that such an increase has occurred because of the tendency of private developers to build bigger flats for the rich and upper-middle-income homebuyers. Regarding the other two thirds of families, the average “useful floor space” per capita has decreased over the last 15 years to less than 5 m². Homelessness is also on the rise.^{63,64,65}

There are data that further demonstrate insufficiencies of housing quality in Kyrgyzstan:

- Only 40% of households have access to running water (in urban areas 70%).
- Only 40% of dwellings are linked to public sewerage (in urban areas 70%).
- Only 27% of households have flushing toilets (in urban areas 56%).
- Only 25% of households have bathrooms or showers (in urban areas 52%).⁶⁶

⁵⁷ Data provided by National Statistical Committee of the Kyrgyz Republic

⁵⁸ Ibid.

⁵⁹ UNECE database, <http://w3.unece.org/stat/HumanSettlements.asp>

⁶⁰ Eurostat database, http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1090_30_070682_1090_33076576&_dad=portal&_schema=PORTAL

⁶¹ Federcasa, Italian Housing Federation (2006), Housing Statistics in the European Union 2005/2006, Ministry of Infrastructure of the Italian Republic, Rome.

⁶² National Board of Housing, Building and Planning (Sweden) and the Czech Ministry for Regional Development (2005), Housing Statistics in the European Union 2004, Karlskrona, Sweden: Boverket.

⁶³ Data file UNHABITAT.Housing.and.Social.Indicators.doc was provided by UNECE as background information

⁶⁴ Government of the Kyrgyz Republic (2005), Report on the Work of the Government in 2005 adopted by Decree No. 270 on 13 April 2005, Bishkek.

⁶⁵ Government of the Kyrgyz Republic (2007), Country Development Strategy for 2007-2010, approved by Presidential Decree No 249 on 16 May 2007. Bishkek.

⁶⁶ Struyk, R. and Roy, F. (2006), Pre-Feasibility Study on Housing Finance in the Kyrgyz Republic, KFW, Frankfurt

- There is high dissatisfaction with the heating provision. In a 2002 review, only 40% of respondents expressed satisfaction.⁶⁷

- In the multi-storey housing stock from the Soviet era, hardly any elevators are working any longer.

- In many cases, the upper floors have no running water due to low water pressure.

- In very many cases, the roofs leak.

- In many cases, the entrances and staircases are dilapidated.

Generally, the technical systems within multi-apartment residential buildings are in need of repair.

C. HOUSING MANAGEMENT AND MAINTENANCE

Housing maintenance is defined as a key priority in the 2007 *National Programme on Housing Construction in Kyrgyzstan for 2008–2010*. The existing housing stock has been affected by decades of underinvestment, and a large portion of it is in urgent need of repair.

Privatization of almost all dwellings has entirely changed the former structures of housing management. During the Soviet era, housing was mainly provided as public housing or as cooperative housing. Public housing was attended by subsidized maintenance agencies. These agencies have since all ceased their activities. In case of cooperative housing, the same organization that provided construction services was transferred into a management cooperative. Some of these organizations still exist, but they are affected by changes in the 2004 *Law on Cooperatives*. Currently, the *Law on Cooperatives* has been changed with the assistance of German GTZ, in order to better match the requirements of agricultural

cooperatives. But for housing management cooperatives, these changes have been counterproductive.

As frequently stated with regard to other transition countries, tenants did not realize what kinds of obligations were attached to the privatization of their dwellings. For most new homeowners, maintenance of the common parts of their buildings had not been considered as part of their obligations according to the 1997 *Law on Condominiums*. In many cases, they were already overstrained with the financial consequences of becoming property owners.

Following the adoption of the *Civil Code* in 1996, homeowners became responsible for the common parts of their buildings. The *Law on Condominiums* introduced homeowner associations as legal bodies, but similar to the situation in many transition countries, their formation is voluntary. Today only 25% of multi-apartment buildings have owners' associations.

Housing management and maintenance in the privatized existing stock is problematic, although in upmarket new construction its organization is more efficient. Condominium owners are able to manage themselves or to hire a specialized company. Running costs for maintenance, management, cleaning services and the like are obligatory and should be paid by owners. But with 1.5 to 2 soms per m² per month (which is equal to €25 per dwelling per year), funding is marginal. Unexpected costs and even urgent repairs have to be budgeted separately. Yet there are hardly any sanctions for non-payment. According to a 2002 survey, only 6% of managers stated that the owners paid their fees in full and on time. The average maintenance funding was only some €8 per dwelling per year.⁶⁸ The difficulties in funding maintenance from the contribution of homeowners are further hampered by low

⁶⁷ Undeland, C. (2002), *Condominiums in Kyrgyzstan: Building Communities and Managing Housing Effectively*, World Bank Group Publications, Washington

⁶⁸ Undeland, C. (2002), *Condominiums in Kyrgyzstan: Building Communities and Managing Housing Effectively*, World Bank Group Publications, Washington

pensions (an average monthly pension in Kyrgyzstan is no more than €20).

Even in the small portion of the buildings with homeowners' associations, maintenance and major repairs have been most difficult to organize. The endowment of a repair fund is decided by a general assembly, but the contributions of tenants to these funds are altogether very low. The proportion of the homeowners who refuse to make any payment is also high. Even though owners' associations are legal persons, they are still not eligible for State subsidies. Furthermore, it is very difficult for them to access mortgages. Banks are very reluctant to lend, as the right to housing does not allow foreclosure procedures in cases of insolvency.

Today, most residential buildings are managed by one of the owners with a correspondingly low level of professionalism. To help improve the situation, a USAID project organized training for housing managers and a competition for the best housing manager. The Mayor of Bishkek has recently initiated a new type of a management company — a limited company which is also thought to be improving current practices.

In 2009 the Housing Census was carried out that involved the inventory of the existing housing stock. Based on the estimates of the census it is expected that a new system of housing management and maintenance will be introduced.

D. REFURBISHMENT AND URBAN RENEWAL

Despite the poor condition of a large part of the existing housing stock, only very few multi-apartment buildings have been refurbished. There have been some refurbishment activities inside dwellings, using mainly Western or South Korean appliances and fixtures, hot water heaters, plastic-framed

windows and flooring.⁶⁹ But, due to deficiencies in housing management as described before, almost nothing has been done to deal with the common parts of the buildings.

Urgent action is required particularly for roofs, elevators and façades. In most cases roofing outlived its technical durability a long time ago and in many buildings, roofs are leaking and rising damp is causing additional damage. Elevators in multi-storey apartment buildings have not been serviced for many years, as a result of which virtually all elevators in the old stock are broken. Façades and windows are of poor thermal quality; windows in many cases have exhausted their technical lifespan. It is often the case that the piping system for fresh water and sewage is in need for replacement. In the past, half of the modest investment on repair went into roof repair alone.⁷⁰

Experiences from other countries show very clearly that massive financial incentives are necessary to motivate private owners of multi-apartment buildings to refurbish their homes. For example, several countries in Central and Eastern Europe have introduced subsidy schemes with two thirds coming from public financing. Even so, it is difficult to organize restoration on a large scale.

With regard to international donor organizations, both KfW and Habitat for Humanity have been involved in refurbishment. KfW is preparing a microcredit programme to support incremental refurbishments. Habitat for Humanity has organized the incremental rehabilitation of a former workers' hostel in Bishkek as a model project.

⁶⁹ Roseman, G. (2004), Residential Real Estate Market in Bishkek, Kyrgyzstan. Current Conditions and Prospects, *The Real Estate Issues*, June 2004

⁷⁰ Undeland, C. (2002), Condominiums in Kyrgyzstan: Building Communities and Managing Housing Effectively, World Bank Group Publications, Washington

Urban renewal

Urban renewal represents a key mechanism to bring forward land and new housing within the city boundaries. This is of particular importance for the capital city Bishkek where urban redevelopment is required for both low density *novostroiki* areas (see *Informal settlements* below), and for many inner city areas with single-family houses. Not only does a more compact city discourage urban sprawl, but it also provides a necessary precondition to control the increasing traffic.

Promoting urban renewal will, however, require the clarification of the status of land ownership of municipalities. In many cases, municipalities do not provide building land for housing construction because of uncertain ownership title. Efforts are to be expected once the results from the 2009 National Housing Census are available.

Urban renewal activities in settlements with privatized individual houses and with large green spaces between houses represent another challenge. From an urban planning point of view, there is a good potential to increase the density there by means of new construction. But first, a legal question needs to be addressed pertaining to the definition of who owns the space between the buildings. With all dwellings being passed to individual ownership, the land underneath and the common spaces passed to a partnership in which all the residents own a share. However, ownership boundaries of the land around the buildings are not clearly defined. It is not clear, for example, whether the partnership of owners, the owners association or the municipality owns the right to use this land. Taking control over municipal land has turned out to be a major challenge for local authorities.^{71,72}

Another major challenge seems to be the seismic improvement of building structures. Programmes for large-scale redevelopment of earthquake-proof settlements are currently under consideration.

Another option to increase density in inner-city districts would be to allow an additional number of storeys. A foreign investor has offered a model to finance refurbishment of a whole building by extending additional floor space in the attic. However, using this approach has been difficult not only due to the requirement to secure agreement from the majority of homeowners in the building, but also because it depends on the prior implementation of the *Law on Condominiums*.

Energy efficiency in the housing sector

Neither new construction, nor rehabilitation of the housing stock in Kyrgyz cities regards energy efficiency a priority concern. Some newly built expensive housing estates meet modern standards for energy efficiency, including thermal insulation and triple glazing. Within the existing housing stock, incentives for energy savings are minimal as payments for district heating depend upon floor space, and not the actual consumption; the installation of meters and thermostats is not affordable for most people.

Informal settlements*

The internal migration from Southern Kyrgyzstan to cities led to the development of informal and semi-formal settlements (*novostroiki*) in the two economic centres, Bishkek and Osh. Since the first wave of inward migration in 2002, the number of *novostroiki* has constantly increased. Today Osh has 8 *novostroiki*, while Bishkek has 47, with an estimated population between 125,000 and 200,000 (up to one fifth of the city's total

⁷¹ Kaganova, O et al (2007) Strategic Land Management Plans in Kyrgyzstan's Cities. Fourth Urban Research Symposium 2007

⁷² Roseman, G. (2004), Residential Real Estate Market in Bishkek, Kyrgyzstan. Current Conditions and Prospects, *The Real Estate Issues*, June 2004

* introduced by Silke Rusch

population). These numbers may be higher, since many migrants are not officially registered.

The *novostroiki* are situated on land formerly used for agriculture. When migrants occupy the land, they build houses using discarded building material, but since no infrastructure for residential use is available they live without electricity or water supply. All four administrative districts of Bishkek have *novostroiki* with varying living standards. While some settlements resemble simple residential areas with brick houses, others constitute an agglomeration of one-room huts that have to accommodate entire families. During the harsh winters the huts are heated with coal ovens and insulated with plastic bags that close the windows and the partly open roof. While the local government has used funds from donor countries to provide the *novostroiki* with electricity, many settlements still have no water supply. Families cook and wash clothes in front of the huts using water that the women have to carry from sources that are sometimes several kilometres away. The situation seems to be particularly difficult in the Ak Bata settlement, situated near one of Bishkek's main markets.

Due to the bad condition of the houses and the dirty coal smoke inhaled during the wintertime, lung diseases like tuberculosis are common among the settlers. Medical care is only available in some of the *novostroiki* which have medical centres. Many others do not have any medical services. As a side effect of this, the capacity of district hospitals in the cities is overstretched and the overall quality of health-care provision is deteriorating. Most migrants who come to the cities are not welcome by official residents who treat them as *samozakhvatchiki* ("internal invaders"). Social tensions in the *novostroiki* are omnipresent and lead regularly to riots and protests among the population. To improve the critical situation of the *novostroiki*, the city has now regularized some of the land and registered it. The United Nations Office of the High Commissioner for Human Rights in Bishkek reports that the majority of individual complaints they receive are related to housing. These complaints mostly relate to evictions. Therefore, even if the land has been regularized, the houses do not

constitute secure accommodation for the families, particularly so as the future of the *novostroiki* is uncertain.

An analysis of the current situation in urban planning terms leads to the conclusion that informal settlements contribute to urban sprawl and this will ultimately result in high costs for the municipal administration. The provision of basic infrastructure and public transportation for a steadily increasing urban area will cost sums that the city cannot afford to pay.

The World Bank is supporting a project to improve urban infrastructure in Bishkek and Osh and has approved an IDA grant of \$12 million. The project is to be implemented over four years and started in mid-2008. The implementing actors are the Municipalities of Bishkek and Osh in collaboration with the Community Development and Investment Agency (ARIS).

International financing of infrastructure is, however, not the only solution to the country's housing and land management problems. In practice, costly modern infrastructure is provided for houses that are of low quality. It is necessary to introduce a long-term urban planning process that would include an internationally funded social housing component. For this purpose, funds could be raised from donor countries and international organizations to build multi-storey housing that offer affordable rental apartments. If the residents of *novostroiki* are willingly resettled to this better quality housing, the poor quality buildings in the *novostroiki* could then be demolished. Upgrading dwellings in *novostroiki* to appropriate standards may be considered as another solution. In any case, strong political will and determined policy measures need to be established for achieving the multidimensional task of integrating *novostroiki* into normal urban societies⁷³.

⁷³ Data obtained during a preparatory UNECE mission and research mission of a team of international experts to the Kyrgyz Republic in March 2008.

E. NEW HOUSING CONSTRUCTION

Housing demand

As mentioned earlier, the population of Kyrgyzstan has increased by 500,000 people since 1998 to 5.22 million inhabitants, despite a strong outward migration in the same period. This is an increase of over 10%. Due to migration from rural to urban areas, the biggest part of this increase concerns the capital city, Bishkek, and to a much smaller extent, the city of Osh.⁷⁴ In many parts of the country there seems to be no housing demand.

This situation contrasts to that of housing production. The housing stock grew in the same period of time only half as fast as the population, from ca. 1.05 to ca. 1.10 million units, i.e., below 5%.

The Country Development Strategy of 2007 estimates that 166,000 families are in need of new housing. The *National Programme on Housing Construction in Kyrgyzstan for 2008–2010* estimates the necessary levels of new housing construction at 20,000 to 30,000 dwellings a year. Under these conditions, it would take 15 years to recover to the same level performance of housing provision as was being achieved before independence.

Currently, housing demand has dropped significantly due to the growing costs of mortgages and market expectations that prices will fall.

<u>Driving forces for housing demand are:</u>	<u>Hindering aspects are:</u>
<ul style="list-style-type: none"> - population growth; - a high proportion of young people; - real estate is one of a few attractive investment opportunities. There are a large number of expatriates. Their remittances represented no less than 14% of GDP in 2005. They wish to use their savings for investments rather than consumption; - labour emigration usually concerns single members of families. Therefore it hardly alleviates housing demand; - overcrowded housing stock; - migration to the big cities; - gradually increasing incomes. 	<ul style="list-style-type: none"> - insufficiencies in supply, particularly in the medium- and lower-price segments and in affordable rental housing; - still very low average incomes of less than €80 per month (gross, 2007);⁷⁵ - slow development of mortgage financing due to low incomes or difficulties in proving real incomes;⁷⁶ - skyrocketing market prices.

⁷⁴ International Finance Corporation (IFC) (2006), Central Asia Housing Finance Gap Analysis, *World Bank Group Working Paper Vol.1*, Washington, D.C.

⁷⁵ Data provided by National Statistical Committee of the Kyrgyz Republic.

⁷⁶ International Finance Corporation (IFC) (2006), Central Asia Housing Finance Gap Analysis, *World Bank Group Working Paper Vol.1*, Washington, D.C.

Box 2. Best practice — Cane Reed Settlement of Habitat for Humanity

In 2004 the internationally acknowledged NGO, Habitat for Humanity, started an innovative housing project in Bishkek using locally grown cane reed. The settlement consists of 20 dwellings across four one-storey buildings located around a central green space. The tenants were selected in a complex procedure, considering criteria such as stable family incomes of at least €120 per month (which was at that time around three times the average personal income in Kyrgyzstan), and willingness to participate in a cooperative process of development and construction.

The size of each of the dwellings is around 45 m² including a bathroom (toilets are located offsite). The walls were built with a newly developed product of pressed cane reed, which provides good heat insulation, good static features (important regarding the seismic status of the Bishkek region) and low costs. An innovative floor heating system with energy costs of below €65 per year is integrated.

The total construction costs were as low as €7,000 per unit. This was possible because only the material costs had to be covered. The land was provided by the Bishkek Municipality free of charge (which is generally a precondition for the activities of Habitat for Humanity). Most of the work was done by the future tenants in a cooperative way. The overhead costs for project development and construction management were covered by Habitat for Humanity. The material costs were financed with a loan of Habitat for Humanity with interest that only covered the inflation rate, with a 15-year maturity. In this way it is possible to keep the monthly capital repayment as low as €35 per family. Title for the dwellings will be transferred to the tenants only after full repayment of the loan.

For its innovative concept of a “nineteenth century idea for a twenty-first century solution” the project won an award in the Development Marketplace Global Competition 2006 of the World Bank.

Presently, the Habitat Kyrgyzstan Foundation is facing difficulties in repeating this successful model, as under the new Kyrgyz law no building land is provided free of charge; another obstacle is heavily increased prices for construction materials.

Housing construction

In 1990, construction output was 22,400 units or 5.1 completions per 1,000 inhabitants. This was compatible with international standards and even slightly higher than the EU average at that time. For the same construction rate, the number of dwellings completed would need to increase to 26,500 units a year today. Achieving this housing output is also considered in the *National Programme on Housing Construction in Kyrgyzstan for 2007–2010*.

In practice, however, the increase in the housing output envisaged between 2008 and 2010 has not yet been achieved. For the 10 years prior to 2007 some 500 apartments and 4,700 single-family homes were built annually (5,200 housing units per year), and in 2007 housing output amounted to 6,300 apartments. It is now difficult to see any further increase in housing output in the short term due to rising interest

rates and the international property crisis that affects the Kyrgyz housing market as well. Furthermore, lack of workable solutions that achieve affordable housing may worsen the situation further.

The quality of new construction differs greatly. Whereas parts of multi-apartment housing construction come close to the European standards, a large part of the smaller houses and huts in *novostroiki* are built from mud bricks with no heating, bathroom, toilets, running water or sewerage services. Only electricity is available in most cases.

Construction costs

At present, it is difficult to calculate housing construction costs precisely. Most new construction is developed by building companies. Therefore, costs for construction services and development services are separated;

and there are no public housing activities with public tenders to give a real picture of construction costs.

In the *National Programme on Housing Construction in Kyrgyzstan for 2008–2010*, the average construction costs are estimated to be 11,000 soms/m², (€215). It is 9,000 soms/m² (€180) for social housing units, and 16,000 soms/m² (€320) for private market construction.⁷⁷ The construction costs are estimated to be half of the sale price of condominiums (see Table 10), which corresponds to the €320/m² referred to above. However, considering factors such as demand for construction services, quality of construction, construction products as well as labour costs, total construction costs ought to be much lower.

The current *National Programme on Housing Construction in Kyrgyzstan for 2008–2010* has defined actions to address the problem of growing construction costs and also other initiatives to develop the building materials industry. The programme is critical of prevailing monopolistic structures in the construction industry as well as of the lack of transparency in the provision of construction services, which contribute to the high construction costs.⁷⁸

Not-for-profit housing construction

Although it is recognized that migration to the big cities with no corresponding supply of affordable housing is “political dynamite”,⁷⁹ all attempts to relaunch the construction of not-for-profit housing have failed. The State programmes offering mortgage lending support to middle and low income groups have also been unsuccessful due to the growing housing prices and interest rates (see Table 10). Furthermore,

the failure of affordable housing programmes in Kyrgyzstan is also linked to the exclusive promotion of homeownership, while ignoring the diversity of housing needs in the country. Homeownership (even if it is subsidized via state support schemes) remains unaffordable for the majority of the Kyrgyz citizens, while the provision of a wide range of housing choices has not yet been considered.

The last year when affordable housing of any statistical significance was built was 2006, with 200 units for all Kyrgyzstan. In Bishkek, since the early 1990s, only a handful of municipal housing projects have been completed. Today there is no public housing construction in any of the remaining 24 cities in Kyrgyzstan.

This situation shows a lack of financial commitment from both municipalities and State authorities and also the lack of a common strategy to improve the organizational structure of housing provision. Furthermore, there have been significant problems in securing land for affordable housing projects on the part of municipalities, although a direct provision of land for social purposes is critical.

For Bishkek municipality, existing land reserves (to be used for green areas, social infrastructure and housing) are estimated at around 400 ha, but in many cases the legal status of land remains unclear. Also, the procedures for land allocation are not transparent although the Government is urged to provide land only via public auctions. Such barriers prevented the follow-up housing projects of the successful Cane Reed Settlement of Habitat for Humanity (see Box 2).

One of the consequences of the shortfall in affordable housing to accommodate inward migrants to the capital city Bishkek is the sudden emergence of *novostroiki* (informal settlements). Avoiding this shortfall would have required less money in infrastructure investment today, saved precious agricultural land and mitigated and controlled urban sprawl.

Officials responsible for housing issues see future prospects to facilitate social housing

⁷⁷ Government of the Kyrgyz Republic (2007), *The National Programme on Housing Construction in the Kyrgyz Republic for 2008-2010* (Chapter 3 and 4), adopted by Decree No. 562 on 26 November 2007, Bishkek

⁷⁸ Government of the Kyrgyz Republic (2007), *Country Development Strategy for 2007-2010* (par. 268/vii, xii), approved by Presidential Decree No 249 on 16 May 2007. Bishkek

⁷⁹ *Ibid* (p. 35)

construction through the implementation of the following strategies:

- funding should be based upon three pillars: municipalities, State and private investors;
- there are still around 400 semi-completed buildings in Bishkek that remain in public ownership (it is envisaged that private investors will be invited to complete these works under the obligation to provide parts of them for municipal purposes);
- parts of the *novostroiki* are designated to be converted into multi-storey residential buildings, which, combined with space for small businesses, will attract residents from the informal settlements and induce them to leave their huts;
- consideration is being given to tying new sales of public land to the obligation to dedicate 10% of the dwellings or more for social purposes.

One can argue that cooperation with international donor organizations in housing is ambivalent. On the one hand, organizations like Habitat for Humanity or KfW have achieved important pilot projects (see Box 2) or programmes. On the other hand, such organizations resist integration into a coherent housing policy scheme. Attempts by the Government to persuade KfW and Habitat for Humanity to go into multi-apartment housing did not receive a positive response from these organizations because of diverging objectives of the parties involved.

Construction industry, housing developers

Construction and housing development businesses are not clearly separated in Kyrgyzstan. Most housing developments are launched by construction companies in order to occupy their own construction capacity.

The construction sector used to be a core economic sector with 150,000 employees in 1990. Today it comprises only 20,000 workers. The fall in the workforce in the construction industry is even more marked than the decrease

of housing output in the same period. It may partly result from a higher productivity of construction companies today. But it also reflects the drain of professionals, who migrated in large numbers to the Russian Federation and other countries.⁸⁰

According to the National Statistical Committee,⁸¹ in 2006 the construction sector was represented by 673 construction companies, some of them on a joint stock basis with Turkish and Korean construction companies.⁸²

Lack of transparency is a core problem related to very high construction costs in Kyrgyzstan. The 2007 *National Programme on Housing Construction in Kyrgyzstan in 2008–2010* also mentions problems with monopolies and malpractice in the construction industry.⁸³

In Soviet times, multi-apartment housing development was organized by the House Building *Combinats*, cooperatives and smaller public companies. Most of the larger building enterprises have collapsed and a few have been converted into private business.

Many real estate development companies are operating with foreign investment capital, mainly from Turkey, Kazakhstan, the Russian Federation, the Islamic Republic of Iran, the Republic of Korea and China.

Development procedures have so far been only slightly formalized. Developers acquire building land through public auctions, or by

⁸⁰ Data from United Nations database (2002), <http://data.un.org/Data.aspx?d=ILO&f=srID%3A4670>

⁸¹ Government of the Kyrgyz Republic (2007) National Statistical Committee. Kyrgyzstan in Figures Annual Statistical Publication, Kyrgyz Republic, National Statistical Committee, Bishkek, p. 127

⁸² International Finance Corporation (IFC) (2006), Central Asia Housing Finance Gap Analysis (p. 74), *World Bank Group Working Paper Vol.1*, Washington

⁸³ Government of the Kyrgyz Republic (2007), Country Development Strategy for 2007-2010 (par. 268/vii, xii), approved by Presidential Decree No 249 on 16 May 2007. Bishkek

purchasing private land. A frequent strategy in Bishkek is to buy several neighbouring single-family houses, tear them down and replace them with multi-storey buildings. The building height is roughly defined by regulations, but the final shape and size of a building is decided by the Construction Council in a bargaining process with the developers.

Mortgage markets are still underdeveloped. Therefore, housing construction is mostly financed by the pre-sale of dwellings, which is very risky for the buyer (see the next Chapter “Financial Framework”).

F. HOUSING MARKET

In 2007, there were 37,000 registered market transactions for houses and condominiums and around 800 rental transactions.⁸⁴ That is, a “housing mobility rate” (registered) of ca. 3.5% per year. Over a longer period an increase in market activities is observable; between 2002 and 2006 market transactions almost doubled. Even more impressively, the transfer volume increased nine times over the same period.⁸⁵

Areas of growing housing markets are Bishkek, Osh and the region around the Issyk-Kul Lake. Other regions are characterized by outward migration and very low prices.

After the start of the economic transition, housing prices kept at low levels until the early 2000s.⁸⁶ Table 10 shows irregular price variation since then. The average price for secondary market condominiums in Bishkek grew from €75/m² in 2002 to €480/m² in 2005, and reached €650/m² in 2008. The growth rates have been

highest in 2004–2005, with the peak of price development occurring in autumn 2007. Yet, the quality of offered dwellings is not at all comparable to European standards.

The ratio of average house prices to average yearly income is 30 to 40, whereas the respective number for most European countries is 4 to 5. This ratio summarizes quite well the dramatic situation of affordability of housing in Bishkek.

New condominiums used to cost €550/m² in 2005, and they cost almost €800/m² in 2008. The completed dwellings for sale are usually only the “shell: without any fixtures or fittings. If finishing and furniture are included houses may be marketed at even €2,000/m². At an early stage of pre-selling (i.e., before the construction started), the prices might be one third lower or more than the prices for the finished dwellings.

In 2008, market rents in Bishkek were €100–150 for a one-room apartment, €150–200 for a two-room apartment, above €250 for a three-room apartment and up to €1,000 for an individual house. On average, rents are at €4.00 to €4.50/m².⁸⁷

More recently, market prices have been stagnating or falling (particularly for lower quality second hand dwellings). This situation indicates the saturation of demand from a certain segment of the population, the continuing international real estate market crisis, and more severe financing conditions. Market expectations for falling prices are further decreasing demand and might unleash a downward spiral of prices.

⁸⁴ Data provided by the State Agency for Registration of Rights to Immovable Property

⁸⁵ International Development Association (IDA) (2007), IDA at Work. Restructuring the Land and Real Estate Management Systems in the Kyrgyz Republic, World Bank Publications, Washington

⁸⁶ Roseman, G. (2004), Residential Real Estate Market in Bishkek, Kyrgyzstan. Current Conditions and Prospects, *The Real Estate Issues*, June 2004

⁸⁷ Interview with Zavgorov, the Realtors’ Association of the Kyrgyz Republic

Table 10. Average prices of secondary market condominiums in Bishkek

	1 room (28–35 m ² , in Khrushchevki)	2 room (42–44 m ²)	3 room (62 m ²)	Indiv. housing (80–100 m ² , 500 m ² land)
2002	€ 2,500 € 4,000–5,000	€ 3,500–4,000	€ 5,000	€ 7,000
2005	€ 12,000–16,000	€ 20,000–28,000	€ 32,000–35,000	€ 20,000–28,000
2008	€ 16,000–20,000	€ 23,000–30,000	€ 30,000–45,000	€ 32,000–45,000

Source: interview with Zavgorov, the Realtors' Association of the Kyrgyz Republic; International Finance Corporation (IFC) (2006), Central Asia Housing Finance Gap Analysis (p. 74), World Bank Group Working Paper Vol.1, Washington, D.C.



Picture 6. Informal construction in Kyrgyzstan

Source: UNECE.

A. HOUSING DEMAND AND AVAILABILITY OF HOUSING FINANCE

Private investment in housing production has been constantly increasing over recent years with a 5.1 billion soms (98% of total investment) peak in 2006.⁸⁸ However, public investment in housing at the national and local levels has practically ceased in the same period without having put in place alternative mechanisms to support the development of the housing sector. A lack of mechanisms available to facilitate the construction of affordable housing, including the availability of housing finance, has resulted in a small increase in the housing stock in the recent past. Apartment construction in the shrinking market has been mostly concentrated in the three largest cities (Bishkek, Osh and Jalalabad) and primarily targeted towards the luxury end of the market. As estimated by the International Finance Corporation (IFC), in 2006 in the capital city Bishkek alone, new housing construction was 44.3% of the overall new housing output.

In such a situation, self-built housing becomes the easiest and most affordable way for the population to improve their housing situation. In 2007, individual housing built by tenants made up 87% of the total housing output.

According to market price dynamics and experts' estimates, there is an overwhelming demand for new and affordable multi-storey housing, but the supply of such housing stock is insufficient due to a lack of financial mechanisms to support construction companies. According to the National Statistical

Committee,⁸⁹ in 2006 the construction sector was represented by 673 construction companies, of which more than 84% had fewer than 50 workers. As also noted by the IFC in 2006,⁹⁰ nowadays at least two schemes for housing financing are possible. One approach is when companies operate on a joint stock basis, setting up partnerships with Turkish and Korean construction companies and are well capitalized by the latter. Another approach is adopted by companies without foreign shares; in this case, housing construction is usually implemented with pre-financing by future home owners.⁹¹

Lower housing prices at the beginning of construction (usually 50–60% of the price of a completed apartment) are more attractive to buyers, despite the fact that no legal protection of their rights is provided. The registration of rights to unfinished buildings is not possible. In theory, such a situation puts the buyer in a position to be “double sold” an apartment, but in practice, there have been no such cases yet. In order to make the registration of rights to unfinished buildings possible, the Gosregister is now preparing instructions and methodology to estimate the level of completeness of buildings under construction.

⁸⁸ Government of the Kyrgyz Republic (2008), National Statistical Committee. Construction of Housing and Social Building in January-December, 2007, Express Information on 15 January 2008, National Statistical Committee of the Kyrgyz Republic, Bishkek.

⁸⁹ Government of the Kyrgyz Republic (2007) National Statistical Committee. Kyrgyzstan in Figures Annual Statistical Publication, Kyrgyz Republic, National Statistical Committee, Bishkek, p. 127.

⁹⁰ International Finance Corporation (IFC) (2006), Central Asia Housing Finance Gap Analysis (p. 74), *World Bank Group Working Paper Vol.1*, Washington, D.C.

⁹¹ Roseman, G. (2004), Residential Real Estate Market in Bishkek, Kyrgyzstan. Current Conditions and Prospects, *The Real Estate Issues*, June 2004.

Table 11. Number and volume of housing construction by public and private sectors

Years	Public Sector		Private Sector	
	Number of apartments	Volume of construction	Number of apartments	Volume of construction (in 1,000 m ²)
2002	200	9,000	4,300	425
2003	50	4,000	4,600	444
2004	90	5,000	5,000	492
2005	0	0	5,000	539
2006	200	8,000	4,900	572
2007	0	0	6,300	688

Source: Government of the Kyrgyz Republic (2007) National Statistical Committee. Kyrgyzstan in Figures Annual Statistical Publication, Kyrgyz Republic, National Statistical Committee, Bishkek, p. 127.

B. HOUSING FINANCE PROGRAMMES

The 2007 *National Programme on Housing Construction in Kyrgyzstan for 2008–2010* defines the main direction of public investment in housing, which is focused mainly on subsidies for low- and middle-income households. Under the programme, local authorities are made responsible for preparing and adopting local housing programmes and co-financing activities. The programme expects that financing for the first stage (2008–2010) will be 58.2 billion soms (of which 3.9 billion soms or 6.7% should come from budget or public organizations). The volume of housing construction is planned to reach 1.9 million m² per year in 2010, of which only 64% will be individual (self-built) dwellings. Both Government and independent experts say it is very ambitious but due to the lack of financing both at the State and local levels the implementation of the programme is almost frozen.

Other State programmes which have State and local financing, (Young Teacher Deposit and Young Doctor Deposit) provide assistance for young members of these professions in rural areas under special savings and loan schemes subsidized by the government (see *Housing programmes* in chap. IV, sect. A). In 2007 the

volume of such financing was about 14 million soms. Victims of natural disasters are also eligible for State support and can receive a 20-year interest-free loan of 200,000 soms for housing repair, construction or purchase or a subsidy of 50,000 soms (US\$ 1,130).⁹²

At the local level, the Bishkek city administration provides interest-free loans for low- and middle-income households to finance a 30% down payment in selected construction projects; the administration also provides land plots for housing construction in exchange for 10% of housing (units or square metres as agreed between the administration and developer) constructed on such plots for provision to low-income households in housing need.

C. GENERATING HOUSING FINANCE AT THE LOCAL LEVEL

Particularly at the level of local government, where the main responsibilities for

⁹² Government of the Kyrgyz Republic (2007), On the Approval of the Regulations on the Issue of State Mortgage Certificates for State Subsidies Provision for Construction, Reconstruction of Individual Dwellings by Victims of Natural Disasters in the Kyrgyz Republic, approved by Government Decree No. 155 on 8 May 2007.

the implementation of housing policies are located, financial resources are very tight and often only sufficient for performing basic administrative duties. Local budgets are prepared locally, but only 25% of all municipalities have a surplus. The ongoing reform of the local administration system intends to reduce financial transfers between the State and local authority budgets; it delegates power to local authorities to collect and keep all taxes that depend upon local policies. The budgets are usually designed one financial year ahead using a cost-based approach without any subsequent monitoring. In 2009 the State expects to start drafting the budget for three years ahead, which should improve the predictability and soundness of the State and local budgets. This is of crucial importance, as local government gains access to sufficient financial resources of its own to exercise responsibilities for implementing housing policies.

Regarding land tax, the Ministry of Finance estimates that the revenue from the tax amounts to 80–90% of local budgets. However, the lack of a cadastral valuation system is an obvious drawback. Land tax is calculated in accordance with zoning regulations. The Government establishes a normative value for different types of land by using a number of coefficients established for a zone of the city where a land plot under consideration is located. The local government could vary tax rates for agriculture land within a 30% range depending on land fertility. An independent appraisal of land value is undertaken only when it is necessary to determine starting prices for auctions or tender for sale of land plots.

Property tax can be another source of revenue for the local government; the tax was expected to be effective from 1 January 2009 with the adoption of a new Tax Code. Tax rates are determined by the Tax Code at the rate of 0.35% of the normative value for housing and 1% of the normative value for commercial property. Normative values are determined in the

Tax Code⁹³ according to the property's location, size, construction material and type of usage. It is the responsibility of the citizen to calculate the correct tax value of his/her property.

Previously, housing transactions were subject to taxation based on the value of the purchase agreement. Such a non-transparent tax encouraged parties to declare lower dwelling values in the agreement. In 2007, stamp duty based only on the size and location of property was introduced. It is collected upon the notarization of the purchase agreement and distributed between the State and local budgets.

Earnings generated by selling land plots for construction could provide sufficient funds for housing policy. However, no obligation has been placed on local government to use income generated from sales of land for housing purposes.

Another way for local authorities to finance housing policy is to issue securities up to 20% of total budget revenues. The issuance should be proved by the Ministry of Finance, but still there is no clear procedure. External borrowings are prohibited for municipalities.

D. BANKING SYSTEM OF KYRGYZSTAN AND MORTGAGE MARKET

The Kyrgyz banking system comprises 22 commercial banks. A number of banks have ratings from international agencies such as Moody's and Fitch⁹⁴ but the country does not have a sovereign credit rating. The banking sector of Kyrgyzstan has experienced healthy growth over the past years. Total assets increased from 7.9 billion soms in 2002 to 44 billion soms in 2008.⁹⁵ However, it is important

⁹³ Government of the Kyrgyz Republic (2008) Tax Code, Article. 327, Bishkek.

⁹⁴ International Finance Corporation (IFC) (2006), Central Asia Housing Finance Gap Analysis (p. 74), *World Bank Group Working Paper Vol.1*, Washington, D.C.

⁹⁵ National Bank of the Kyrgyz Republic (2008), Trends of Development of Commercial Banks System on 31 March

to note that 60% of total assets belong to foreigners, of which 35% to investors from Kazakhstan. Mortgage loans currently comprise approximately 7.7% of total banking assets.⁹⁶ The banking sector is fairly profitable with an average return on equity (ROE) of 17.2%.⁹⁷

The depth of the banking sector has likewise increased. As a percentage of GDP, total banking sector assets almost tripled in six years (from 10.4% in 2002 to 30% in 2008). Bank deposits as a percentage of GDP increased almost three times, indicating an increase in confidence in the banking system. Moreover, in 2008 a State deposit insurance system was created with the guarantee of 20,000 soms per deposit.⁹⁸ However, only a tiny share of the population uses banking services: 8% of adults have bank accounts, 1% use credit and debit cards and banking services are hardly accessible for the rural population.⁹⁹ Long-term funding, especially from local sources, is limited: domestic deposits do not usually exceed 1 year, only about 40% of all assets and 15% of all liabilities are long-term (more than one year).¹⁰⁰ Without sources of long-term capital, growing capitalization still remains insufficient to fund mortgage lending.¹⁰¹

In 2007, the average interest rate on bank loans was 25% for local currency loans and 19% for United States dollar loans.¹⁰²

There are about 300 credit unions and 200 microfinance organizations operating in the country.¹⁰³ Unlike banks, credit unions generally do not have the right to accept deposits, so they refinance loans through shareholders' equity or the refinancing facility offered by the Financial Company for Support and Development of Credit Unions organized by the National Bank of Kyrgyzstan.

The development of the mortgage market in Kyrgyzstan started in 1999, when the *Law on Mortgages* was adopted.¹⁰⁴ The Law establishes a legal framework not only for mortgage lending, but also for loan and saving schemes. The Law also allows municipalities to create agencies for the development of mortgage lending and issue housing certificates — securities, which could be accumulated and exchanged for housing. A separate chapter of the Law is devoted to the creation of a State mortgage agency responsible for the development of the mortgage market and provision of a refinancing vehicle through issuing mortgage-backed securities with a State guarantee. Unfortunately, all these initiatives were not realized due to a lack of finance.

2008, National Bank of the Kyrgyz Republic Publications www.nbkr.kg/ubn/tendencia_razvitia.htm.

⁹⁶ Data provided by the National Bank of the Kyrgyz Republic on June 2008.

⁹⁷ National Bank of the Kyrgyz Republic (2008), Trends of Development of Commercial Banks System on 31 March 2008, National Bank of the Kyrgyz Republic Publications www.nbkr.kg/ubn/tendencia_razvitia.htm.

⁹⁸ Government of the Kyrgyz Republic (2008), the Law of the Kyrgyz Republic on Protection of Deposits adopted by Government Decree No.78 on 7 May 2008.

⁹⁹ Government of the Kyrgyz Republic (2007) Concept of Social-Economic Development of the Kyrgyz Republic until 2015, Economic Strategies Centre of the Ministry of Economic Development and Trade, Bishkek

¹⁰⁰ Data provided by the National Bank of the Kyrgyz Republic on June 2008

¹⁰¹ The average price for a two-bedroom apartment in Bishkek is US\$ 40,000. Thus, the total bank equity of US\$ 248 million could hypothetically finance a maximum of about 9,000 apartment units.

¹⁰² Data provided by the National Bank of the Kyrgyz Republic on June 2008.

¹⁰³ National Bank of the Kyrgyz Republic (2007), Trends of Development of Non-Banking Finance-Credit Institutions in 1st half of 2007. National Bank of the Kyrgyz Republic Publications on website: www.nbkr.kg.

¹⁰⁴ Adopted by Government Decree No. 41 on 29 May 1999, changes made on 28 June 2001, 2 March 2002. In 2005 was replaced by the Law on Pledge adopted by Government Decree No. 49 on 12 March 2005, changes made by Government Decree No. 133 on 6 August 2007.

Table 12. Assets and deposits of the Kyrgyz banking sector

	2002	2003	2004	2005	2006	2007	2008
Assets (millions of soms)	7,860	11,385	17,703	21,904	28,269	42,153	43,898
GDP (%)	10	14	19	22	25	30	30
Deposits (millions of soms)	3,529	4,781	7,976	12,091	14,976	19,332	18,971
GDP (%)	5	6	8	12	13	14	13
Share of deposits in foreign currency (%)	63.2	65.7	70.7	76.4	69.5	58.1	53.1

Source: National Bank of the Kyrgyz Republic — www.nbkr.kg.

The mortgage market has grown significantly since 2002, albeit from a low base. Currently, mortgage loans outstanding in the banking system are approximately 3.4 billion soms (2.3% of GDP and 15% of the total loan portfolio). New mortgage issuance is about 16% of all loans (in 2002, 1%),¹⁰⁵ but the market is quite heavily concentrated.¹⁰⁶ IFC estimates there is substantial room for further growth of the market.¹⁰⁷ Mortgages are offered by all banks mainly in United States dollars for up to 10 years at a fixed rate of 20–24%.¹⁰⁸ The maximum loan to value ratio is set at approximately 50–60% of purchase price while it used to be up to 75–80% before the United States subprime mortgage crisis. Banks prefer to issue mortgages to the borrowers with verified incomes. The average size of a mortgage issued by a bank is about US\$ 30,000.¹⁰⁹ Home improvement loans are also very popular in the

country, but loans for construction are rarely known because of high risks and absence of adequate pledges (banks require to mortgage existing dwellings because unfinished buildings cannot be registered). Moreover, banks rarely provide financing to developers to assist construction projects.¹¹⁰

At this stage of development in the mortgage market, mortgages are affordable only for a small share of high-income households. According to the National Statistical Committee,¹¹¹ in 2006 about 40% of people in Kyrgyzstan lived below the poverty line (i.e., their annual per capita income was less than 10,325 soms), of whom more than three quarters lived in rural areas. Today, less than 2% of workers can afford monthly payments for a typical mortgage. They are mainly employed in the financial sector. A huge challenge for banks and borrowers is a significant share of hidden or underreported incomes, which makes the underwriting process more difficult and reduces the maximum size of loan available.

¹⁰⁵ Data provided by the National Bank of the Kyrgyz Republic on June 2008.

¹⁰⁶ In 2005 two largest mortgage originators accounted for 41% of the market, while five largest — for 71% (see Struyk, R. and Roy, F. (2006), Pre-Feasibility Study on Housing Finance in the Kyrgyz Republic, KFW, Frankfurt).

¹⁰⁷ International Finance Corporation (IFC) (2006), Central Asia Housing Finance Gap Analysis (p. 74), *World Bank Group Working Paper Vol.1*, Washington, D.C.

¹⁰⁸ Some banks, like KICB, offers 12–18% rate to their employees or most valued clients.

¹⁰⁹ IFC estimates the average size to be 25–30 thousand US dollars, while Kyrgyz Investment and Credit Bank reports it is about US\$ 30,000–40,000.

¹¹⁰ Struyk, R. and Roy, F. (2006), Pre-Feasibility Study on Housing Finance in the Kyrgyz Republic, KFW, Frankfurt.

¹¹¹ Government of the Kyrgyz Republic (2008), National Statistical Committee. Kyrgyzstan: Short Statistical Publication. National Statistical Committee of the Kyrgyz Republic, Bishkek.

A number of non-bank financial institutions also offer mortgage loans, but for smaller amounts.¹¹² The microfinance sector has a potential to offer housing microfinance loans as in India, but is focused mainly on trade and agriculture lending.

One of the biggest problems that Kyrgyz banks face in originating mortgages and expanding their mortgage portfolios is the lack of cheap long-term capital.¹¹³ Given that the banks with a short-term deposit base constantly operate without an appropriate match in the maturity of assets and liabilities, this leads to high interest rates and liquidity risks. Another problem is the absence of sound risk-management policies, methods and tools. It is encouraging to note that some Kyrgyz banks are beginning to implement these systems (e.g., EBRD minimum quality standards) but most banks still do not actively use insurance as a tool to mitigate mortgage risks. The insurance sector is undercapitalized¹¹⁴ and lacks the necessary links with the developing residential mortgage industry (standardized insurance policy documentation related to residential mortgages is lacking). Insurance companies working with banks engaged in mortgage lending offer mainly two insurance products: one-year life and property insurance. This carries additional risks to the lender since there is no mechanism to ensure that insurance policies are renewed yearly. Most banks require property insurance, but life insurance is viewed as excessively expensive. Moreover, some of the products necessary to support the developing mortgage industry do not exist, such as title insurance and primary mortgage insurance (insurance against bank losses on defaulted mortgages).

The insurance legislation does not contain specific provisions regarding primary mortgage

insurance. This product mitigates the mortgage lender's risk by insuring against default by the borrower, often where the borrower is highly in debt. The value of this insurance product is that it makes mortgages more accessible. Currently, Kyrgyz banks usually require a down payment of at least 30%. Given the relatively low level of personal savings and high real estate prices, only very few people can afford such a large down payment. With primary mortgage insurance, banks may be willing to offer financing with a lower down payment, making mortgages accessible to a substantially larger segment of the population.

There are no regulations with respect to title insurance. This product mitigates the banks' risk associated with a third-party claim against the property. It ensures that banks have sound collateral and that borrowers have adequate compensation for termination in their ownership rights. Thus, title insurance would lower the overall financial risk for both mortgage lenders and borrowers. Title insurance is also important for the development of the secondary mortgage market, since it would provide comfort to potential investors in secured mortgage portfolios by protecting them from the consequences of possible title disputes.

Currently, the National Bank of Kyrgyzstan is preparing a credit register system while the first credit bureau "Ishenim" (Trust) in the country has been in operation since 2003 within a general legal framework because no special law for credit bureaus exists. It was created as a for-profit company with the support of EuropeAID and now 15 banks, 11 microfinance organizations and 3 credit unions are members.

Though the appraisal sector is developing quite actively in Kyrgyzstan, mortgage-lending banks still employ special staff to appraise residential property as part of the process of mortgage origination and underwriting. This creates a potential conflict of interest, raises the question about quality and objectivity of the appraisals and makes investment less appealing to third parties. Periodical re-evaluation of pledged property is not obligatory so banks do it

¹¹² According to the National Statistics Committee, in 2006 micro loans were mainly short-term (up to 12 month) and did not exceed 25 thousand soms.

¹¹³ Currently banks are able to attract foreign funding at about LIBOR + 5%.

¹¹⁴ As of January 2008, the aggregate reserves of insurance companies were about 41 million Soms.

only in cases of foreclosure, which is very rare now.

Although realtors are quite active in the housing market, banks do not cooperate with them in promoting mortgages. The main reason is lack of confidence in realtors because anybody could start such a business. To address these issues, the Parliament has already adopted amendments to the *Law on Realtors' Activities* introducing a licensing system.

Although the mortgage sector of the financial market is expanding rapidly, a number of legal concerns limit further development. A crucial problem is that foreclosure reportedly may take up to several years in practice, especially when court decisions are involved. This arises from the ability of the borrower in default to exercise the option of having the bank's claim adjudicated in court at any time, even when an out-of-court settlement is near completion. Moreover, because almost no defaulted mortgages have been reported, there is no clear practical experience of foreclosure and eviction. The main issues of concern are related to the *Civil Code* and they were carefully identified in IFC and International Business Council studies in 2006.¹¹⁵

Another important problem is a time lag between title transfer and mortgage registration. Under the current legislation, registering a residential real estate transaction involving a mortgage must be done in two stages. A mortgage agreement can be registered only if the buyer has already registered the purchased property. The time lag between title transfer and mortgage registration, which can be approximately 11 to 12 days, is therefore the biggest risk in the existing registration process.

Mandatory notarization of the mortgage agreement as well as the purchase and sale agreement is also a challenge. The *Law on Pledges* requires obligatory notarization of the

pledge agreement if it is necessary to notarize an underlying agreement (e.g., agreement of purchase and sale). Moreover, the Gosregister will not register a pledge agreement until it has been notarized. Notarizing the mortgage agreement is redundant because the notary's function at that stage (to verify the seller's ownership) is fully duplicated in the subsequent registration of the purchase and sale agreement and prohibits simultaneous registration of the mortgage agreement and the purchase and sale agreement.

The existing ban on the sale of agricultural land to town dwellers and the moratorium on the transactions of plots of land, imposed after 2004, seriously limit market liquidity and the possibility to use such land plots as the pledges for mortgages.

Currently, two key tax elements in the development of mortgage lending are missing, including mortgage interest deductibility and the tax treatment of capital gains on the sale of residential property. The new draft *Tax Code* will introduce these features: it will be allowed to deduct the mortgage interest of up to 230,000 soms per year from the tax base while capital gains will be taxable for property owned less than two years.

Despite these obstacles, the mortgage market has a good potential for growth but it is limited by a lack of affordable financing. The German Development Bank KfW (*Kreditanstalt für Wiederaufbau*) is preparing to launch a mortgage-refinancing programme for commercial banks and microfinance companies. The programme will target low- and moderate-income households, who need small mortgages for home repair and improvement. The country's capital markets are underdeveloped. The total capitalization of Kyrgyz companies traded on local stock exchanges is about 5.3 billion soms or less than 3.8% of GDP.¹¹⁶ There is no large institutional investor, the menu of available financial instruments is very limited and lacks

¹¹⁵ International Finance Corporation (IFC) (2006), Central Asia Housing Finance Gap Analysis (p. 74), *World Bank Group Working Paper Vol.1*, Washington, D.C.

¹¹⁶ Data of the Kyrgyz Stock Exchange. Published on www.kse.kg.

corporate debt securities. Outstanding Government securities (1.6 billion soms) are short term (two years maximum).¹¹⁷ However, it is not certain whether there is sufficient liquidity or appetite among potential bond purchasers for large issues with longer maturity periods, as the assets of non-governmental pension funds are 14.3 million soms and unit investment trusts are just being created, but demand exists for instruments that have a positive yield and are affordable for households.

The draft *Law on Mortgage Securities* was prepared in 2005, but it is still under discussion in Parliament. The main problem, which is very hard to overcome, is a lack of budget resources for the implementation of this law.



Picture 7. Residential buildings in Bishkek

Source: UNECE

¹¹⁷ Government of the Kyrgyz Republic (2007), Concept of Social-Economic Development of the Kyrgyz Republic until 2015, Economic Strategies Centre of the Ministry of Economic Development and Trade, Bishkek.

RECOMMENDATIONS — INSTITUTIONAL FRAMEWORK

Recommendation 1

A special Government body to formulate and oversee the overall institutional framework for the development of the housing sector should be designated

Ensuring effective and sustainable development of housing as a key sector of Kyrgyzstan's economy requires the establishment of a special body in charge of the overall institutional framework for housing policies. In the medium term, the Government may find it necessary to set up (to complement the existing housing division dealing with technical issues) a special division on housing matters that will deal with strategic activities within the existing State Agency for Architecture and Construction. In this way, the important housing and planning dimensions of socio-economic development can be better integrated in one Agency. In addition, special bodies for housing should be created at the regional and local levels.

In the long term, in order to strengthen the Agency within the Government's structure, and also to increase the role of housing in the national development agenda, the State Agency on Architecture and Construction could be transformed into a Ministry of Housing and Spatial Planning.

Recommendation 2

Decision-making in housing and land management should be based on the principle of subsidiarity or the delegation of power to the regional/local governments and communities/residents. Capacity-building should also be provided so that the local authorities play a more strategic role in the organization of their respective territories

Regional/local governments should be given more flexibility to decide on housing and land matters within their territories, while, at the same time, their activities should be consistent with the guiding national framework on the development of the housing sector. Regional/local authorities should have the capacity to strategically manage regional/local housing and land matters and to achieve good living standards within their respective territories. Furthermore, solutions to regional/local housing challenges will likely require action by multiple agencies, including the private and non-profit sectors. It is at regional/local level that these actors can be brought together and the necessary cooperation be achieved.

Although local governments/municipalities are formally in charge of land management and some of the housing matters at the local level, their strategic housing and land roles have not yet been clarified. They consequently face an overall weak institutional capacity, land disputes and a lack of reliable data and transparency in the land system. Several pilot projects (such as the development of *Strategic Land Management Plans* for 10 cities with assistance of the Urban Institute) on capacity-building for long-term land management that have been already implemented in rural and urban settlements can serve as a foundation for developing a comprehensive local housing strategy.

Recommendation 3

The Urban Planning Institute should be better integrated with the State Agency on Architecture and Construction

The Urban Planning Institute is currently part of the State Agency for Architecture and Construction, but it operates on a self-financed budget, offering fee-based services. Local governments are expected to commission the Urban Planning Institute to draw master plans for their settlements; however, such arrangements have been limited and most of the master plans have not been updated since the Soviet era with the result that the expansion of settlements and urban sprawl cannot be dealt with effectively. The *National Programme on Housing Construction in Kyrgyzstan for 2008–2010* indicates a need for new master plans, but does not provide mechanisms to achieve this.

The activities of the Urban Planning Institute should be better integrated with the strategies and activities of the State Agency on Architecture and Construction, so that the Institute can both act as a planning division of that Agency and continue as an expert team on a self-sustained budget, offering its fee-based services. The Institute should also cooperate with the private sector.

To have an efficient and coherent spatial planning system, the Government should introduce the spatial planning budget to be administered by the Urban Planning Institute. Furthermore, the Urban Planning Institute should be put in charge of the formulation and implementation of a national spatial development strategy. The Institute should cooperate with other ministries and agencies and establish efficient links with and between regional and local planning offices to support and oversee their regional/local development strategies and plans and to promote best practices. Nevertheless, local governments should consider funding urban planning activities also from their budget.

Recommendation 4

A coordinating body to develop and implement an integrated institutional framework for sustainable land management should be established

Ad hoc and disconnected urban and rural land management represents a major challenge for the Government of Kyrgyzstan. No executive body or strategic national programme has been established to take a holistic approach and comprehensive actions in the field of rural and urban land management. Furthermore, there are several agencies that deal with different land aspects and therefore collecting and maintaining land information has been of a fragmented nature.

A coordinating body including representatives of the above agencies, NGOs and local governments should be set up to promote an integrated institutional framework for sustainable land management. The body should ensure good cooperation between different authorities and institutions working with land issues. Transparency, accessibility, accountability and efficiency of such an integrated land management system should be ensured. Also, it should support and encourage the implementation and dissemination of good practices throughout the country through the exchange of information, and through the organization of workshops and training. Guidelines for local government should be provided, drawing on those good practices.

Recommendation 5

Reliable comprehensive housing and land datasets should be developed by the National Statistical Committee to support decision-making in the housing sector

Current housing programmes or land management practices are not supported by reliable and comprehensive statistical data. There is a need to develop a quality dataset that will support the Government in identifying and understanding housing and land-related problems, investigate possible policy options and monitor and evaluate their implementation. A good housing dataset, for example, would include indicators on the types and conditions of housing, on the characteristics of population and the neighbourhood and market values. The major work for data collection should be organized at the regional/local levels.

Recommendation 6

Support for research, education and training in the field of land management, housing, housing finance and spatial planning should be provided

Limited research cannot adequately inform the Government's initiatives in housing and land management, and thus weak policy decisions remain a problem. For example, the Urban Planning Institute does not carry out any research (mainly due to the lack of financing) and therefore cannot adequately evaluate the complexity of spatial development and challenges in the new market environment and frame and develop effective planning tools. The Government should strengthen the capacity of the research institute and systematically support research on urban planning to ensure the national spatial planning system delivers effective results for national growth. Additional funding and donor assistance should be sought to strengthen the capacity and continuous professional development of the staff of the Urban Planning Institute.

With regard to the increase of effective demand for housing finance, the Government should implement training programmes for inexperienced borrowers (commercial developers, municipal enterprises, households), including the development of proper construction proposals, market analysis and possible sources of loan repayment. It is also important to encourage training programmes for improving the residential mortgage lending skills of bank staff. This will benefit the stability of the whole banking sector.

RECOMMENDATIONS — LAND ADMINISTRATION AND LAND MANAGEMENT

Recommendation 7

A national strategic spatial development framework should be formulated to facilitate sustainable land management. The framework should establish links between land and housing programmes and be used as a key spatial instrument to implement the Country Development Strategy

In Kyrgyzstan, urban and rural land management is based on an ad hoc approach to emerging issues, which often relies on donor assistance. The only programme aiming comprehensively to introduce a sustainable land management approach is a national action plan on the *United Nations Convention to Combat Desertification*. However, this plan is restricted in focus to rural land management. There are several other programmes such as the *Country Development Strategy for 2007–2010* and the *National Programme on Housing Construction in Kyrgyzstan for 2008–2010*, which also consider land management issues. But there is no holistic approach or coordination among these programmes. Furthermore, most master plans in towns and other settlements are outdated or do not exist, although many Government guidelines on land administration refer to such master plans.

It is recommended that the Government formulate and introduce a national strategic framework for spatial development to facilitate sustainable land management. The framework should ensure the coordination and integration of sectoral policies as well as consider the cohesion of economic, social and environmental policies. It should also enable predictable conditions for investment and development, ensure a sustainable use of land and consider the redistribution of urban growth among medium-sized urban centres. In addition, the densities and regeneration of existing housing stock and infrastructure should be considered.

The framework should identify priorities in land use management, agricultural land cultivation and conservation, food security, urban development, sustainable housing, environmental protection and investment. It should also consider the development of a legal framework, define responsibilities of the agencies and ministries at the national, regional and local levels, and suggest measures for capacity-building.

Recommendation 8

The development of a nationally unified land registration database should be promoted and made more accessible

A unified land registration system facilitates land administration. However, access to the Land Registry in Kyrgyzstan is complicated and time-consuming. For example, it is difficult to collect all the documents required for land registration, and some of them are valid for a limited period only. Additional costs may also be involved (e.g., notarization of these documents).

It is therefore recommended that the Government continue to prioritize the establishment of a unified national land registration system. Furthermore, the land registration process should be made more accessible. The Government should adopt a one-window approach to streamline and improve transparency of land registration via, for example, an inter-agency information exchange mechanism. The development of electronic land registration should also be considered to enhance the quality and efficiency of services. Setting up ad hoc procedures for informal settlements should also be considered.

Recommendation 9

The size of land plots for construction should be reconsidered and the density of the built environment increased

The main issues concerning land allocation relate to the transparency of the allocation process. Land allocation should support the long-term goal of sustainable land management, and prioritize agricultural land conservation and an increase in the density of the built environment. It is therefore recommended that the size of land plots allocated for construction should be reduced. The Government should also consider whether it is more appropriate for the sake of sustainable development to discontinue the practice of land allocation free of charge for individuals in urbanized areas. In other areas, such as for affordable rental housing construction, land allocation free of charge should be transparent for the general public.

Recommendation 10

Municipal land should be inventoried and registered and there should be a plan developed for its use

Municipal land should become one of the main sources of income generation for rural and urban municipalities according to the principle of self-government. Such land should be sold and leased in a transparent way. Accountability to the communities and community participation should be secured and encouraged. Pilot projects on managing the Land Redistribution Fund's land reserves have been carried out in 180 rural village settlements, and they have produced some successful results. This type of project model has been approved by the Government of Kyrgyzstan and will be integrated as a national policy in the future. It is recommended that the Government review these successful projects on rural and urban municipal land management and, based on their example, draw guidelines for all other rural and urban municipalities. It should also encourage and provide assistance to introduce these principles and to monitor their implementation. With time, these guidelines can be developed as a national policy framework and codified as normative legal acts.

Recommendation 11

Strong incentives for the creation of voluntary cooperatives and voluntary consolidation of the land by farmers should be provided

In order to increase the efficiency of agricultural production, it is recommended that, along with other agricultural development programmes, the Government focus on providing strong incentives for the creation of voluntary cooperatives and the voluntary consolidation of land by farmers. A specific programme with a timetable and budget should be developed for the creation of the cooperatives. Local government, local NGOs, donor organizations and private parties should be invited to participate in developing the guidelines and principles for creating cooperatives. The creation of cooperatives should be based on principles that will enhance sustainable land use practices, transparency and accountability among the members of the cooperative. The most efficient size of land for cultivation should be identified for each particular case. The problems of inefficient water distribution should also be addressed. Finally, the members of the cooperatives should receive capacity-building assistance. However, in cases where voluntary cooperatives cannot be created, then mandatory land consolidation should be considered by the Government. As already recommended in a previous UNECE human settlements report (UNECE 2000), there should be transparent institutional mechanisms that would allow the land that has not been used for its designated purpose or not used effectively to be brought back into the Land Redistribution Fund and cultivated in a more effective way.

RECOMMENDATIONS — HOUSING CONDITIONS AND NEW HOUSING CONSTRUCTION

Recommendation 12

A comprehensive and coherent national housing strategy should be developed to overcome the fragmented nature of housing initiatives in the 2006 Country Development Strategy (CDS) and to ensure that the housing sector operates in a sustainable way

Housing needs and responses according to the CDS remain limited in scope and are not sufficient to deal with the complex and multidimensional housing issues in the country. It is necessary to develop an effective and comprehensive housing strategy with clear goals and an action plan. It should include the following elements:

- Changes in the legislative structure and the establishment of a consolidated housing law.
- Introduction of investment targets, covering both new construction and maintenance of the existing stock.
- Social financial assistance in the housing sector, including for rent.
- Encouraging and assisting the development of feasible municipal housing programmes.
- Private sector involvement in housing development.
- Identification of sources of municipal funding for a long-term stable support for municipal activities in housing development.
- A system for financial assistance to support municipalities to implement municipal housing programmes.

Taking into account a high percentage of people living in rural areas (65% of the population in 2006) and employed in the agricultural sector (52% of the country's employment in 2003), housing policy should specifically address the housing problems in rural areas. Furthermore, housing policy should also be aimed at creating an affordable housing finance mechanism, which could improve the situation in the informal housing sector.

The relation between housing and other areas such as population, land, spatial planning and energy should also be taken into account. Indeed, the overarching housing strategy with clear goals and objectives will enable all of the participants to identify their role more clearly.

Recommendation 13

Housing strategies should also be developed at the regional (oblast) and local levels

In order to achieve the national housing objectives it will be necessary to collaborate across all administrative levels. At the regional level, housing strategies should identify priorities for housing provision and links with other regional economic and spatial strategies. Moreover, it is the regional level that can offer opportunities for strategic public-private partnerships with regard to housing provision in the respective region and local areas. Regional housing strategies should include an analysis of the current housing situation across the region, a vision for the development of the region and priority actions in the medium and long term, define subregions based on the housing market situation and demonstrate explicit connections with the economic and spatial development programmes.

Local governments, in turn, should be responsible for translating national and regional housing policy into the context of their areas and should have the possibility of influencing housing construction. They should be able to use the full range of housing, land and urban development tools and involve local communities and other stakeholders in the planning and decision-making process.

Recommendation 14

Compulsory homeowners' association should be established

Homeowners associations are core institutions to facilitate housing management and maintenance. It is crucial for a successful implementation of any new strategy to have access to the greatest possible number of housing associations. It is recommended to change the *Law on Condominiums* to make the formation of owners associations obligatory for all existing multifamily residential buildings. There are no major legal obstacles to achieving this goal.

Recommendation 15

Housing policy should promote the supply of different housing tenures in order to meet the needs of different income groups

The organization of the housing sector in Kyrgyzstan today is mostly oriented to meeting the housing needs of upper- and upper-middle income residents through housing ownership, while shortages persist for the rest of the population. It is therefore necessary to stimulate the development of rental not-for-profit and social housing as segments alternative to homeownership. In order to re-establish rental housing it will be necessary to change the privatization law. There should also be transparent mechanisms to establish and regulate the rent payment levels. Land for the construction of affordable housing should be supplied by municipalities. The *1999 Land Code* stipulates that the allocation of vacant land to private parties should be conducted through auctions or tender procedures (except for land for individual housing). However, affordable housing construction cannot be implemented unless land is provided at low cost or free of charge. In return, the municipality may require the right of allocation of the dwellings according to its official public housing lists. The mechanisms for land allocation in this case must be transparent and barriers to misconduct and corruption must be established.

Recommendation 16

A strategy for informal settlements should be developed

Acquiring property titles for single-family homes in the self-built *novostroiki* used to be simple and cheap, even when illegal land occupation was involved. However, informal or semi-formal settlements are a major burden for the future development of cities such as Bishkek. It is recommended that possibilities to reverse the process of illegal occupation of land be sought. The Government may wish to establish an ad hoc commission for informal settlements that would develop a practical action plan for dealing with them. Such a plan has to be multidimensional and involve, for example, considerations related to urban planning, land ownership and financial and legal support — such as the provision of legal security of leasehold tenure as alternatives to ownership rights, provision of good quality affordable housing in exchange for the existing land rights and offering attractive conditions while targeting households for affordable housing alternatives. In order to be successful, it needs to adopt a participatory approach and to be developed in close consultation with all stakeholders, including local residents, assessing their needs.

Furthermore, in cities like Bishkek, it is necessary to increase population density in low-density residential areas. The following strategies may be applied: re-accommodating the inhabitants of illegal settlements either in the countryside or in urban districts with higher density levels and developed urban infrastructure; improving the infrastructure and increasing density in existing informal areas where feasible and desirable; clarifying the tenure status of land plots between existing privatized residential buildings; and providing seismic hazard assessment for the construction of high-rise buildings.

Recommendation 17

Measures to decrease construction costs should be developed

The following measures could help to decrease construction costs in the housing sector:

- Lower material costs through an ongoing initiative to develop the domestic building material industry.
- Increased capacities of the construction industry, e.g., by tendering extra public works among domestic companies.
- Creating incentives for skilled expatriates to return (at the moment the Kyrgyz construction industry cannot offer salaries comparable to foreign companies, particularly in the construction industry in the Russian Federation, but stable jobs in the home country may be attractive enough).
- Increased transparency of the construction market — e.g., launching public tenders might reveal what real competitive prices are.

Recommendation 18

Strategic municipal asset management plans should be encouraged and supported by the Government

Although municipalities hold substantial land assets under the current legislation, they are not sufficiently advanced to use these assets to effectively address their local needs. It is therefore recommended that the Government encourage and support the development of strategic asset management plans that would help municipalities to structure their land and housing assets in optimal ways, in the best interest of the localities. This would also have positive impacts on the nationwide outcomes of housing and land initiatives due to decentralization of housing and land functions. The Government should also promote cooperation and knowledge transfer between municipalities and support capacity-building.

An asset management plan should show how the local government intends to manage their housing and land assets and to ensure this is aligned with national and regional housing and land strategies and programmes. The plan should propose mid-term programmes with clearly defined objectives for each asset, for instance considering options for underused assets, financing of new assets and maintaining existing assets, as needed. For example, the programme may outline means to modernize housing and utility services, to perfect land tenure regulations, to work with a variety of partners and to monitor implementation performance.

RECOMMENDATIONS — FINANCIAL FRAMEWORK

Recommendation 19

Financial means for housing projects at the municipal level should be increased

These could be funded by local self-government units' own revenues, as foreseen in the corresponding budget law. Revenues from land tax and the sale of municipal land should be earmarked for housing purposes. In addition, land tax collection has to be simplified and managed by tax authorities rather than taxpayers (currently the problems with tax fines and penalties arise because taxes for taxpayers are not defined by tax authorities but it is the taxpayer who is responsible for his/her tax calculation). On the national and local levels, parts of additional tax revenues resulting from economic growth should also be allocated for housing purposes. Municipalities should consider the possibility of partnerships with private developers in order to receive contributions to municipal budgets for social programmes.

Recommendation 20

Legislation on land/real estate mass valuation should be adopted

Mass valuation is crucial to determine the taxable value of land and real estate. Full use should be made of the UNECE study on Land (Real Estate) Mass Valuation Systems for Taxation Purposes in Europe (*Federal Land Cadastre Service of the Russian Federation, on behalf of the UNECE Working Party on Land Administration, Land (Real Estate) Mass Valuation Systems for Taxation Purposes in Europe, Moscow, 2001*).

Recommendation 21

Options to stimulate the involvement of the private sector and citizens in affordable housing should be explored and implemented

Systematic investment promotion through the simplification of administrative procedures, the creation of a favourable investment climate, the reduction of entry barriers and the creation of appropriate incentives, like differentiated tax rates and tax exemptions, should be carried out. Within this framework, private (local and foreign) investment should not only be directed to new construction, but also to renewal, repair and maintenance of the existing buildings.

Furthermore, various co-financing arrangements may facilitate the involvement of citizens and the private sector in affordable housing. For example, the State may contribute to the financing of repairs and maintenance under the condition that owners/tenants share a part of the costs. Also, local governments might consider the establishment of funds at the municipal level or within homeowners' associations to carry out repair and maintenance in collaboration with residents.

Another arrangement to implement local housing projects may involve the provision of municipal land for the construction of affordable housing projects (as indicated in the recommendations on the housing conditions).

Recommendation 22

Legislation on mortgages needs to be improved

The Government should improve the foreclosure process by speeding it up. However, any legal regulation on eviction along these lines needs to be supplemented by the provision of social assistance. A unified registration process needs to be introduced to allow a simultaneous registration of title transfers and mortgages.

Amendments to the existing legislation to provide for the functioning of “escrow accounts” should be introduced to facilitate the development of the mortgage market.

Introducing legislation with respect to credit bureaux would be a useful step in developing not only the mortgage industry, but also the consumer finance market generally. In mortgage lending specifically, credit bureaux can play an important role by providing lenders with historical information about the creditworthiness of the potential borrower. Credit bureaux can also play a role in educating potential borrowers about how to maintain a good credit rating and how to assess their borrowing capacity.

Full use should be made of the UNECE housing finance guidelines (Housing Finance Systems for Countries in Transition, Principles and Examples, 2005) when developing the mortgage system.

Recommendation 23

The development of the banking sector and microfinance institutions should be supported

The development of long-term refinancing facilities for banks should be promoted. Authorities should continue efforts to implement goals set out in the Kyrgyz Banking System Development Strategy (*the National Bank of Kyrgyzstan, Kyrgyz Banking System Development Strategy up to 2009*), namely to increase the competition in the banking sector; to raise the levels of financial intermediation; to improve investor and client confidence in the banking sector; and to improve access to banking products. The Government should take measures to increase banks’ confidence in the housing market and, in particular, in the system of property valuation and in the security offered by the property. With increasing transactions in the housing market, the Government should improve its information systems on mortgage finance and real estate markets, including property valuations and values of transactions. This information should be published regularly.

Microfinance organizations are quite successful in targeting households with low and moderate incomes, but classical mortgage loans are too big for them to issue. The creation of a conducive legal framework could help to address issues of home improvement and/or repair, especially in low-income areas, such as *novostroiki*. It could enable people in poverty or in depressed areas to access essential financial resources (i.e., there should be not only a targeted subsidy approach, but also alternative financial mechanisms to develop social housing as is recommended in the UNECE guidelines). The low income of the population in Kyrgyzstan is a very significant challenge for the future development of the housing and financial sectors.

Recommendation 24

Creation of loan refinancing mechanisms should be promoted

Financial institutions need to develop options for access to long-term capital for mortgage financing. A covered bond system, which is a common instrument in Europe, or mortgage-backed securities (MBS), which are common in the United States, could be analysed. A law regulating MBS and a law regulating the operation of the secondary residential mortgage market should be developed and adopted. The Government should also consider ways to increase international attractiveness of the country for foreign investors, such as obtaining of sovereign credit rating from international credit agency.

Recommendation 25

Implementation of more advanced risk management systems and the introduction of a special bank regulation on mortgages should be promoted

Mortgage lenders could substantially improve their residential mortgage operations by implementing basic residential mortgage lending policies and procedures, standardized documentation and internal structures to encourage larger-scale mortgage lending and servicing.

The banking legislation does not provide specific regulations with respect to residential mortgage lending by banks. For example, banks are not regulated with respect to their mortgage portfolio risk management policies and procedures. This is understandable, given the early stage of the development of mortgage lending in Kyrgyzstan. However, given the specific features of mortgage lending, the lack of regulation is a potential risk for the economy generally, and for the banking sector in particular. Since banks are not required to report on their mortgage portfolios to the central bank, Government authorities may not have sufficient and accurate information to make policy decisions with respect to the development of the mortgage industry.

Recommendation 26

Effective mortgage lending practices in the banking sector should be established

Standardizing policy would be an important step, for a number of reasons. Firstly, Kyrgyz banks could realize operational efficiencies and cost savings, and they would be encouraged to operate in a transparent manner. Secondly, it is a paramount prerequisite for the future development of the secondary mortgage market (MBS and/or mortgage bonds), which is a major source of long-term capital in many established mortgage markets. Finally, standardization of policy would increase transparency in the mortgage market, levelling the playing field and thereby increasing consumer confidence. The Government should support ongoing cooperation between the National Bank and IFC on this issue. To reduce time and expense, the list of documents required for registering real estate transactions could be streamlined, without compromising protection for the parties.

Recommendation 27

Housing financing should be integrated with effective land management practices

Policies that intend to increase housing financing and affect the demand side of the residential market must be supported by effective land supply by the national or local governments. If there is a mismatch because of increased housing demand due to the availability of financial tools, insufficient land supply will only lead to upward pressure for housing prices and cause problems of affordability.

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Picture 8. View over residential area

Source: UNECE

The UNECE Committee on Housing and Land Management, an intergovernmental body of all UNECE member States, provides a forum for the compilation, dissemination and exchange of information and experience on housing, spatial planning and land administration. The Committee supports the economic and social stabilization of transition countries by suggesting innovative ways the different levels of Government can cooperate. Through its various workshops, research on urban issues and land administration, and analyses of the housing sector, the Committee advises member countries on human settlements policies and strategies, and encourages their practical implementation.

Within the Committee's programme of work, the country profiles on the housing sector represent a tool for Governments to analyse their policies, strategies, institutions, and legal and financial frameworks for the housing sector. These profiles are analytical studies, drafted by independent international experts and conducted at the request of the countries themselves. Recommendations for improving policies and practices are an essential part of the exercise.

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