

**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.