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Shelter Sector Reform Project ISN 97923
Newly Independent States of the Former Soviet Union

An ICMA Report

Prepared for the Office of Housing and Urban Programs
Agency for International Development



PJ-ABX-738

**Managing the Stock of Uncompleted Housing Construction to Further Develop the
Housing Market in the Republic of Kazakstan**

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**By
Marilyn M. Brody**

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**Shelter Sector Reform Project for
the New Independent States of the Former Soviet Union**

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MANAGING THE STOCK OF UNCOMPLETED HOUSING CONSTRUCTION TO FURTHER DEVELOP THE HOUSING MARKET IN THE REPUBLIC OF KAZAKSTAN

ABSTRACT

Since late 1993 ICMA has been providing technical assistance to the Republic of Kazakstan in a variety of areas, all focused on creating private markets capable of a more efficient and equitable allocation of economic resources for housing. Recently, ICMA has been assessing the feasibility of a possible pilot project to demonstrate a housing and construction finance project. *The project's goal is to exhibit market based land use and housing development, and market oriented housing finance.*

In conjunction with developing a pilot project, *ICMA advised officials and private developers in the Republic of Kazakstan on ways to manage its stock of uncompleted housing projects.* With ICMA assistance, the Republic of Kazakstan recently approved new legislation transferring to Zhilstroibank, the rights to construct and use unfinished housing in order to promote market based housing and finance.

This paper describes the magnitude of the problem, the legislation drafted and approved and the steps taken to effect these efforts in promoting a market based housing system and market based housing finance.

INTRODUCTION AND PROBLEM STATEMENT

Since late 1993 ICMA has been providing technical assistance to the Republic of Kazakstan in a variety of areas, all focused on creating private markets capable of a more efficient and equitable allocation of economic resources for housing. ICMA has been assessing the feasibility of a possible pilot project to demonstrate a housing and construction finance project. *The project's goal is to exhibit market based land use and housing development, and market oriented housing finance.* In conjunction with developing a pilot project, *ICMA advised the Republic of Kazakstan on ways to manage its stock of uncompleted housing projects.*

At the national level, government officials are seeking ways to stimulate housing production. In former times huge state construction enterprises monopolized housing construction, but now are largely idle. Major objectives of the Presidential Decree issued by Nazerbayev in September 1993 included the development of housing within the emerging market system and the promotion of new building technologies. *The Decree envisaged the emergence of the commercial developer to perform the central entrepreneurial role in housing development.*

Throughout Kazakstan, there are thousands of unfinished apartment buildings waiting for financing to be completed. With a plan for completion, a commercial developer may be able to obtain funds from various sources to complete construction, sell the apartments, generate a profit and provide for individual homeownership.

The Chief Architect of Almaty, Sultan Baimagambetov, and the Deputy Chairman of the City Economics Committee, R. Maimakov, prepared lists of unfinished apartment sites for privatization . In Almaty alone, there are over 400,000 square meters of uncompleted construction (Appendix A, List of Uncompleted Housing Projects in Almaty) or 8000 apartment units, assuming an average of 50 square meters per apartment.

TRAINING IN HOUSING MARKET DEVELOPMENT

ICMA has trained government officials and private developers in private market development concepts at various seminars. These seminars included Construction Management (Pratt), Land Use Planning and Zoning (Falk/University of Maryland), Development Techniques (Abeles), Home Ownership Development for Profit (Hemphill), Construction Finance (Brody), and Mortgage Lending (Mawhinney).

ICMA discussed with the Ministry of Construction, Housing and Territorial Development (Minstroï), the State Housing Bank (Zhilstroi) and other Ministries and Enterprises about completing construction of a building as demonstration project to exhibit construction and mortgage finance techniques.

The essence of the discussion was that the government would transfer the ownership rights of uncompleted buildings to a commercial developer, or investor. This new partner would mobilize the resources necessary through a local bank or Zhilstroibank, a homeowners association or foreign donor agency to complete construction. The new partner would negotiate an agreement with a developer or contractor to complete construction, market the project and sell the apartments. The bank would then provide either market based financing or Zhilstroibank would provide 5%, 30 year loans to those on the housing list for over 10 years, per the Presidential Decree. In this way, too, Zhilstroibank would meet the needs of those individuals demanding new apartments. Both the original owner and new partner would share in the prearranged profit from the sale of the units.

REGULATIONS CONCERNING UNFINISHED HOUSING CONSTRUCTION

Decree Concerning Further Development of the Housing Market

This decree was approved September 25, 1995 (Appendix B) and deals with the government owned unfinished buildings throughout Kazakstan. Minstroï, the State Property Committee, the State Privatization Committee and Zhilstroibank will have authority over the disposition of these construction projects. The draft Regulations to Complete Construction of Residential Buildings (Appendix C) sets out the detailed procedures for the transfer, sale and completion of these unfinished housing projects, as described in Ms. Weis September 1995 Trip Report. The decree is summarized as follows:

1. The government intends to dispose of all unfinished state owned housing construction projects, including projects owned by state enterprises, agencies and organizations, which were terminated due to lack of funds.

2. Construction projects over 50% complete will be transferred to Zhilstroibank's charter fund, as a capital contribution. State commercial developers will be the project developers. Financing for the projects will be funded in part by deposits of individuals in "housing savings and loan account (Zhilsberschet)" and the balance through loans from Zhilstroibank at a 5 percent interest rate for a maximum maturity of 10 years.

This provision conflicts with Article 8 of the "Decree On Banks and Banking Activity in the Republic of Kazakstan" which prohibits banks from engaging in real estate trade, as the National Bank of Kazakstan regards the ownership, completion and sale of unfinished construction as activities prohibited to a bank. Zhilstroibank has already formed a real estate subsidiary (see Appendix D) to develop properties and hold the title until title is conveyed to the buyers of completed housing units .

3. Zhilstroibank will reserve 20 percent of the completed units for the government or state owned enterprise, agency or organization that was the original owner of the property for allocation to people who are on the housing list.

4. Those projects less than 50 percent complete will be sold through competitive sealed bid auctions. The net proceeds of the sale, after deducting auction expenses, will be transferred to Zhilstroibank to reimburse Zhilstroibank for the revenue lost from reserving 20 percent of the units to those on the housing lists.

5. Representatives from Minstroi, the State Property Committee, the State Privatization Committee will administer the disposition of unfinished construction through competitive sale.

Within one month of the effective date of the regulations, oblast and the Almaty City Administrations are to compile a list of all unfinished construction projects financed with state budget resources, including detailed information on each project. Within two months, the State Privatization Committee, Zhilstroibank, Minstroi and the Ministry of Social Protection must submit proposals to the Cabinet of Ministers concerning the individuals use of housing coupons.

Regulations to Complete Construction of Residential Buildings is still awaiting approval from the Cabinet of Ministers (Appendix C).

Zhilstroibank will use a lease-purchase agreement instead of a contract for sale. ICMA delivered copies of the lease-purchase financing documents, developed for Russia. Zhilstroibank will mitigate its risk by using lease purchase financing since the laws regarding the rights and responsibilities of tenants and landlords may be more clearly defined in current Kazakstani laws than the rights of buyers and sellers under a contract for sale. Of particular concern is the right of the banks to take possession of the housing unit and evict the contract buyer if the buyer defaults in his payments. Also, a mortgage is considered risky due to the lack of mortgage law and an unreliable real estate registration system.

Another draft of the regulations envisages forming a housing cooperative association

to mobilize funds to complete construction.

Kazakh Property Fund, A Subsidiary of Zhilstroibank

Zhilstroibank and investor, Grititz, approved and formed the Kazakh State Property Fund, as a subsidiary of Zhilstroibank. The Agreement and Charter are included (Appendix D). This holding company was formed as Kazakstani banking laws prohibit banks from entering into real estate transactions. Zhilstroibank contributed assets worth 510,000 tenge and Grititz contributed 490,000 tenge for a total registered fund of 1 million tenge. The Bank's contribution consisted of a car, computer and two years free office rent of 54 square meters.

The Property Fund was formed to pursue commercial and residential real estate investment and financing, construction, and trade of goods and services. The Property Funds main functions are as follows:

- ◆ finances housing to implement the new housing policy
- ◆ operate income producing real estate properties
- ◆ invests in real estate for its own account and for clients
- ◆ appraises real estate
- ◆ exchanges, buys and sell shares, bonds and other securities
- ◆ provides mortgage credits
- ◆ provides construction credits
- ◆ provides credits secured by real estate
- ◆ invests in production, commercial and technological activity
- ◆ opens checking (?) and savings accounts
- ◆ fulfills insurance activities
- ◆ promotes privatization
- ◆ studies the market
- ◆ promotes profitability of products and services
- ◆ establishes companies for the holding company
- ◆ carries out foreign economic activities (trade).

The Agreement and Charter outlines distribution of profits, rights of the owners, and the managing bodies of the fund, including the President, Board, auditing committee, and shareholders.

Regulations of a State Company with the Function of Commercial Developer

On March 30, 1994, Minstroi approved the Regulations of a State Company with the functions of a commercial developer (Appendix E). The company is created as a for profit, legal entity, to construct residential apartment buildings. The primary tasks of a company are:

- ◆ arranging the investment and financing to construct apartment buildings
- ◆ organizing auction to construct apartments, thereby reducing construction prices
- ◆ profitably use funds obtained through Zhilstroibank branches
- ◆ increase housing construction projects and the number of single family houses
- ◆ create competition within the residential construction sector, with the goal of reducing costs and increasing quality.

The company has the right to receive land lots for temporary use for construction, to compete for financial and credit resources from Zhilstroibank and to purchase uncompleted apartment buildings with the goal of completing and selling the units. The Company may use special purpose funds from Zhilstroibank's branches and be responsible for observing the rules set by Minstroï, defining the developer's activity.

ACHIEVEMENTS AND NEXT STEPS

To further housing development, the government encouraged the development of a market oriented housing finance system through the creation of Zhilstroï Bank. With ICMA input, Zhilstroï has moved toward establishing itself as a potential "apex" financial institution and has developed appropriate legislation to dispose of the unfinished apartment buildings.

The government has also moved forward to encourage market based allocation techniques for real estate. The State Committee on Privatization and the State Property Committee scheduled the second auction for October 1995. These committees are selling premier businesses, associated improvements and the rights to use land. The results of this second auction are forthcoming. Apartment building auctions should be next.

The next step is to find one or two projects with promise. These projects will be over 60% complete, have a stable of ready buyers or presold to either a cooperative or a Ministry. A potential pilot project requires access to infrastructure and clear local government support. The project should also be inspected from an engineering standpoint. Once a project is found to be feasible, ICMA can provide technical assistance in developing the housing, and technical assistance in arranging construction and mortgage financing.

APPENDIX A

**UNCOMPLETED HOUSING CONSTRUCTION
IN ALMATY, January, 1995**

	Area 1,000 square meters	Estimates in 1991 prices, million tenge	% complete	Developer
TOTALS	422.12			
I. REPUBLIC BUDGET				
<u>Supreme Soviet Department of Finance</u>				
30 units, Al-Farabi-Markova	2.5	1.6	60	AKBS
<u>Ministry of Finance</u>				
43 units, Al-Farabi-Markova	2.5	2.7	50	AGS
<u>Ministry of Agriculture</u>				
40 units, Rozybakiyeva-Utepova	2.5	2.8	55	PMK MSH
36 units, Samal 2, dom 16	2.5	1.4	85	PMK MSH
<u>Ministry of Education</u>				
192 units, Rozybakiyeva- Zhuravlyova	4.1	4.5	70	ADK
600 person Hostel Kosmonavtov-Timiryazeva	6.1	6.67	45	MGP Dostyk
<u>AZVI</u>				
30 units, Nauryzbai batyr-Seifullina	4.1	1.9	100	AO AOTS
<u>KzGU</u>				
64 units, Al-Farabi-Vesnovka	5.4	5.1	40	AZhS
<u>Ministry of Internal Affairs</u>				
116 units, Gogolya-Baribayeva	6.9	6.1	35	SMU MVD
78 units, Sovetskaya- Michurina	4.07	2.6	30	PKF Aprel
<u>HOZU Presidential apparat</u>				
35 units, Kunayeva-Vinogradova	4.2	4.0	35	SMU HOZU
<u>Ministry of Health</u>				
60 person Hostel, Yemeleva- Tulebayeva	1.1	3.72	15	
<u>Ministry of Economy</u>				
89 units, Tole bi - Baizakova	6.02	3.51	85	AZhS
<u>Almaty Regional Administration</u>				
79 units, Taugul-1, 4,5	4.9	3.04	25	ADK
<u>MZhK Otyrar</u>				
81 units, Taugul-1, 34	4.7	1.91	20	MP Bazis
81 units, Taugul-1, 34	4.7	1.91	20	MP Bazis
II. FINANCIAL ASSETS OF ENTERPRISES				
<u>National Center of Radioelectronic Communications</u>				
90 units, Rozybakiyeva- Lisyanskaya	5.1	2.04	40	SMU AZhS

	Area 1,000 square meters	Estimates in 1991 prices, million tenge	% complete	Developer
<u>NPO Alamaly</u>				
81 units, Almagul, 3	4.3	5.81	45	AZhS
<u>Almatygioprogor</u>				
116 units, the 4th Kirpichnozavodskaya	5.7	2.0	45	ADK
Apartment building, Abaya- Gagarina, 3.5	2.8	1.42	70	Agropromtek
<u>Kaztelecom</u>				
144 units, Tozybakiyeva-Kihtenko	6.05	2.4	40	ADK
<u>Ministry of Agriculture</u>				
Hostel (480 people), Raimbeka	4.9	3.3	20	PMK MSH
36 units, Samal-2	2.2	1.4	100	PMK MSH
36 units, Samal-2	2.2	1.4	70	SP Bazis
61 units, Kulager	3.1	-	20	SPMK-1
<u>Dostar Firm</u>				
12 units with offices Lenina-Rubinshteina	1.2	1.1	75	
<u>Lesproect</u>				
48 units, Zhibek Zholy - Buzurbayeva	2.75	1.79	75	MGAT Profil
<u>Kramdsstroy</u>				
35 units, Gogolya - Baribayeva	2.4	1.58	65	SMU Kramds
<u>Main Directorate of Internal Affairs</u>				
48 units, Brusilovsky	2.75	1.17	90	ADK
15 units, Samal-3, built-in bank	1.1	0.83	65	KP Mediger
30 units, Zhetysu-4	2.0	1.13	90	ADK
<u>Stroyindustriya</u>				
36 units, Pushkina-Gogolya	2.2	1.5	25	
<u>General Post Office</u>				
25 units, Samal-2	1.76	1.28	15	MP Sheber
<u>PSF Turmys</u>				
53 units 8th of March - Kabanbai batyra	2.88	2.04	90	
28 units, Gogolya - Isayeva	1.5	1.21	95	
<u>Informservis</u>				
74 units, Pushkina - Vinogradova	4.5	3.1	10	SMU HOZU
<u>Almatykuryivs</u>				
Apartment building, Samal-2	6.7	3.59	25	POO Keleshek
146 units, Samal 2	9.2	4.9	30	AZhS
<u>Union of Peasants Economy</u>				
18 units, shop, Tulebayev- Kabanbai.Batyr	2.0	1.9	40	YuEMS
<u>Almaty Railway Department</u>				

	Area 1,000 square meters	Estimates in 1991 prices, million tenge	% complete	Developer
84 units, Seifullina Shevchenko	4.4	1.33	10	Dorstroitrestr
2x40 units, Zhuldyz	4.6	1.83	60	ADK
86 units, furniture shop, Sholohova olstogo	4.3	1.68	60	AGS
<u>PSO Blagoustroistvo</u>				
69 units, Gabdullina - Markova	5.1	4.1	70	SMU HOZU
<u>MP Zhalin</u>				
116 units, Aidehema Al-Farabi	9.7		10	AZhS
<u>NPO Kaznedr</u>				
30 units, Rosybakieva - Basenova	2.85	2.0	60	MP Temp
<u>MAK AGS</u>				
144 units, Al-Farabi Vesnovka	6.1	4.4	50	MP Mamyr
<u>MChP Delta</u>				
128 units, Kihtenko Gagarina	5.1		80	PMK-51
<u>MO Almatymeliorsiya</u>				
78 units, Rozybakieva - Ohotskaya	2.98	2.2	60	PMK-51
<u>Almatystroyinvest</u>				
39 units, Auezova - B.Bulvar	3.2	2.1	60	SMU-11 GAA PSO
27 units, Aksai 5	1.5	1.4	50	ADK
26 units, Aksai 5	1.5	1.4	55	ADK
52 units, Aksai 5	3.0	2.8	25	ADK
<u>SEZ, Kalinin district</u>				
30 units, Kablukova Kihtenko	2.8	2.2	15	Kazspetskommunstroj
110 units, Zharokova Druzhba	6.85	5.9	5	
<u>Kaztehenenergo</u>				
45 units, Aitike-bi Nurmakova	2.79	2.5	70	Oblytzhstroj
<u>GorFU</u>				
52 units, Dzambula Shagabutdinova	3.5	2.4	80	ADK
<u>Ministry of Defense</u>				
52 units, Aitike-bi - Baibursynova	4.7	3.3	55	SK Bazis
Apartment building, Mamyr	4.6	3.5	70	SK Bazis
<u>Almatyna</u>				
30 unit building, Kulager	1.54	1.67	30	VPTO Vozhus
30 unit building, Kulager	1.54	1.67	30	-//-
<u>SEZ, Leninsky district</u>				
30 unit building, Kulager	1.56	1.73	50	SMP -625
<u>Technical Service of Aviation</u>				
72 units, Kulager	2.18	2.1	45	MP Agroremmashstroj
<u>MP Agroremmashstroj</u>				
40 units, Kulager	2.18	2.1	45	H/SP
<u>ARO-1</u>				
51 units, Mukanova - Aitike-bi	3.2	2.06	20	Kazavtotransstroj

	Area 1,000 square meters	Estimates in 1991 prices, million tenge	% complete	Developer
<u>AZTM</u>				
60 units, Nurmakova - Kazbek-bi	3,7	1.74	20	H/SP
<u>AO Kanat</u>				
85 units, Kabanbai.Batyr - Nurmakova	2.5	4.6	25	Kaztorgstroj
<u>Gidromash</u>				
72 units, Muratbayeva - Kabanbai batyra	3.9	1.75	45	MP Progress AMNS
181 units, Auil	9.1	6.37	55	
<u>ATTU</u>				
45 units, Aytieva - Atike-bi	4.6	3.13	40	AO Zhaisan
<u>Volkovgeologiya</u>				
25 units, Baiganina - Kabanbai Batyr	2.1	0.98	40	SMU Volkovgeologiya
<u>Mashzavod</u>				
52 units, Tole-bi - Auezova	2.7	1.33	35	ADK
53 units, Kazbek-bi - Dzumaliyeva	2.8	2.1	35	AZhS
<u>AMIT</u>				
family hostel, Masanchi - Shevchenko	1.74	0.91	40	SMP-734
<u>Thermal Electric Power Station 1</u>				
79 units, Kulager	4.49	3.15	25	Energozhylstroj
<u>AO Massaget</u>				
44 units, Kurlyshy	2.3	1.1	8.5	ARSSU Kaztsetmash
<u>Dzerzhinsky factory</u>				
45 units, Liteynaya	3.1	3.07	45	PMK Kazselezashita
<u>Porshen Plant</u>				
Hostel for 800 people Rayimbeka Liteynaya	9.3	7.8	20	AZhS
<u>SPMK-3</u>				
60 units, with built-in shop Vostok-3 Nusupbayeva	2.4	2.9	20	H/SP
<u>Kaztsvetmetremont</u>				
1/26 apartment building Ilycha Tyrgenskaya	8.6	9.5	25	H/SP
<u>Selhozvodoprovod trust</u>				
42 units, Dzangildina - Makatayeva	2.2	2.1	15	H/SP
<u>OMP KOS</u>				
45 units, Makatayeva Dzangildina	2.2	2.0	25	H/SP
<u>Tea factory</u>				
42 units, L.Smena - Seifullina	2.2	1.86	85	H/SP
<u>SEZ, Moscow district</u>				

	Area 1,000 square meters	Estimates in 1991 prices, million tenge	% complete	Developer
48 units, Dzetysuiskaya Kavaleryiskaya	2.8	2.6	20	
<u>SMU-15 GA</u>				
family hostel, Malina - 23 Partsyezda	1.9	1.24	80	H/SP
<u>AGPO</u>				
61 units, with shop, Krasina	3.2	2.21	25	SPO SIT
<u>ARO-2</u>				
hostel for 126 people, Zhuldyz	3.2	4.87	65	MP SIT
<u>AO Alatau</u>				
86 units, Chehova - Lokomotivnaya 405 GA plant	4.3	1.93	20	SMU AGS
96 units, Zhuldyz	5.1	4.9	20	MP Angar
<u>Road Sign Plant</u>				
29 units, Beringa Sev Constitution	1.47	1.5	60	Korund
<u>Military plant No 191</u>				
56 units, Zhuldyz	2.7	2.6	75	v/ch 89451
<u>Oblast Center MTS</u>				
30 units, Zhulduz	2.2	2.1	50	H/SP
<u>AO Temirzat</u>				
36 units, p.Montazhnik, B.Mailina <u>Airport</u>	1.85	1.4	35	H/SP
20 units Mailina - Ogaryova	1.9	1.1	15	SMU-15
<u>Remdortehnika</u>				
80 unit building, B.Mailina	5.1	4.34	15	MSU-54
<u>AK 2551</u>				
54 units, Suyunbaya	2.6	1.98	20	Sary Arka
<u>Vodrem</u>				
52 units, p Maisky, ENK Sheakespeare	1.50	1.29	10	SMP-734
<u>KEU MORK</u>				
67 units, Zhulduz	3.7	1.29	25	V/Ch 489451
<u>AO Zhylstroyindustria</u>				
56 units, Zhulduz	4.2	1.4	45	AO Zhylstroy
<u>City Passenger Department</u>				
72 units, Aksai-1-a	3.6		55	AMNS
<u>Obltyazhstroj Trust</u>				
72 units, Aksai-1-a	3.6	1.77	45	AMNS
<u>Almatystroyinvest</u>				
3x35 apartment buildings, Aksai-5	6.4	4.4	10	AMNS
<u>AO Topar</u>				
Apartment buildings in Mamyr	4.8		20	H/SP
<u>AKBS</u>				

	Area 1,000 square meters	Estimates in 1991 prices, million tenge	% complete	Developer
Apartment buildings in Zhetysu VNI Armatura (reinforcement)	3.5	2.5	15	H/SP
27 units, Zhetysu-1 MP Ersultan	1.5	0.8	20	ADK
54 units, Zhetysu-1 27 units, Aksai-5	3.1 1.9		20 35	ADK ADK
Agroremmash				
30 unit building, Taugul-1 MP Shanyrak	1.5	1.26	40	ADK
5 story building, Aksai-5 Association of Young Constructors	1.5		15	MP Zheruik
5 story building, Aksai-5 Almatygenplan	1.2		15	
Apartment building, Aksai-5 NPO Complex	1.9		60	MP Incomstroj
42 unit building, Zhetysu-4 AHBK	2.2	1.50	80	ADK
75 unit building, Zhetysu-4 Autopark N 8	4.7	2.0	90	AZhS
30 units, Zhetysu-4 GOSKOMIZDAT	2.71	1.7	85	Kazavtotransstroj
65 units, Zhetysu-4 Regional Directorate of Internal Affairs	3.1	1.85	60	
60 units, Zhetysu-4 KP Nadezhda	3.1	1.35	70	SMU MVD
30 units, Zhetysu-4 Agropromtrans	1.5	1.05	5	MP Eldorado
45 units, Zhetysu-4 KazpromNII Project	2.2	1.19	60	RSU Prigorodny
9 story, Gagarina- Satpayeva Almatynefteproduct	3.1	1.5	55	ADK
Apartment building, S.Kovalevskaya Djandosova Brusilovskogo	3.0	1,92	85	ADK
Ecogidrohingeo				
45 units, Frunze- Navoi TOO Zuldys	2.4	1.5	80	SMU Yuzhgeologiya
Apartment building Solodovnikova Umetbayeva	1.0		15	AZhS

Listing of Acronyms

AKBS - Almatykultbyystroi

AGS - Agropromstroi, Agricultural Construction Enterprise

PMK - Motorized Mechanical Brigade

ADK - Almatydomostroyitelvay Kombinat

MGP - Small State Enterprise

MP - Small Enterprise

AO - Joint Stock Company

AZhS - Almaty Zhilstroi

SMU - Construction Department

SMU MVD - Construction Department, Ministry of Internal Affairs

HOZU - Cabinet of Ministers

POO - Industrial Union

SP - Joint Venture

MGAT - Small State Enterprise

KP - Cooperative Enterprise

YuEMS - South Energy Construction Company

Dorstroïtrest - Special Railway Enterprise

Oblyazhstroi - Regional Heavy Engineering Construction

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APPENDIX B

RESOLUTION #1281

of the RK Cabinet of Ministers
dated September 25, 1995

Concerning Further Development of the Housing Market

To implement the tasks, provided by the RK President's Decree #1344, *Concerning the New Housing Policy*, dated September 6, 1993, and to create additional conditions for establishing the housing market, completing housing construction, the Cabinet of Ministers **decrees**:

1. The Heads of oblast and Almaty city administrations, ministries, departments, enterprises, and organizations, that have the uncompleted state housing over 50 percent complete, and the construction was funded from state resources, are to transfer these unfinished buildings to the Charter Fund of the State Bank of Housing Construction in RK (Zhilstroibank).

2. Of the buildings transferred to Zhilstroibank, Zhilstroibank must complete from its own funds, construction for twenty percent of those buildings. The apartments will then be transferred to the initial owner (government entity) to be distributed to those on the housing list.

Zhilstroibank must complete construction for the remaining eighty percent of those buildings transferred to its Charter Fund, with the savings from the savings and loan accounts of the proposed residents. Zhilstroibank will provide residents with 5%, 10 year credits.

3. The RK Ministry of Construction, Housing, and Territorial Development, Heads of oblast and Almaty city administrations determine the state companies of commercial developers that will be Zhilstroibank's clients in completing construction of the transferred buildings.

4. Of the objects that are less than 50 percent complete, the RK Ministry of Construction, Housing, and Territorial Development, the RK State Property Committee, the Republican Executive Authorities and the construction clients (initial state owner), must decide which objects are to be transferred or sold. State resources paid for the initial construction of these buildings. The State Privatization Committee is responsible for the sale of these buildings.

ZhilstroiBank will receive funds from the sale of unfinished buildings, less selling expenses. These funds will increase credit resources for housing construction for those residents on a housing list. These funds will be from the "20 percent account of the proceeds from privatized state property", guaranteed by the government to implement new housing policy.

5. Within a month from the date of this resolution, the Heads of Oblast and Almaty City Administrations must prepare and present to the Ministry of Construction, Housing, and Territorial Development and the State Property Committee the full list of unfinished buildings financed from state accounts, with percentage complete, amounts expended and amounts necessary to complete.

6. Within a month from the date of this resolution, the Ministry of Construction, Housing, and Territorial Development, the State Property Committee, the State Privatization Committee, and Zhilstroibank must create and approve the "Regulations to Complete and Sell Unfinished Housing and the to Attract Individual's Savings to Zhilstroi to Complete Construction".

7. The Cabinet of Ministers recommends that the RK National Bank lend Zhilstroibank intermediate credit resources. The purpose of the credit is to develop the housing market by using real estate property.

8. Within two months of the date of this resolution, the RK State Property Committee, the RK State Privatization Committee, Zhilstroibank, the Ministry of Social Protection of Citizens, the Ministry of Construction, Housing, and Territorial Development, and other Ministries and departments must prepare and present to the RK Cabinet of Ministers proposals concerning further use of residents unused housing coupons.

9. The Ministry of Construction, Housing, and Territorial Development is to control and execute this Resolution.

The RK Prime Minister

Kazhegeldin A.

APPENDIX C

Minister
of the Ministry
of Construction, Housing and
Territory Development

Chairman
of the State Committee
on Managing
Goskomimushestvo

Chairman
of the State Committee
on privatization

_____ A. Tshanov

_____ S. Kalmurzaev

_____ E. Uteпов

"___" August, 1995

"___" August, 1995

"___" August, 1995

"Confirmed"
Chairman of the Board
President of "Zhilstroibank"
_____ M. Sagindykova
"___" August, 1995

REGULATION

on order of attracting funds of population for housing
savings-and-loan accounts of Zhilstroibank for the construction
completion of the unfinished apartment buildings.

1. The present Regulation defines the conditions and procedures of implementing the housing savings-and-loan accounts (Zhilberschet) of Zhilstroibank or accumulating on them the funds of the population and legal entities for construction completion of the state unfinished apartment buildings, with readiness of 50% and more, transferred to the authorized fund of Zhilstroibank.

2. The institutions of Zhilstroibank accept the state objects of the unfinished housing construction with the degree of readiness of 50% and more on the base of acts of acceptance-transmission and organize the work on attracting the funds for the completion of the construction and sale to population of the ready housing.

3. The sources for financing of the finishing of the unfinished construction of the apartment buildings are:

- funds of population, attracted by the bank in the volume of the unfinished construction on the savings-and-loan accounts;
- the budget subsidies and privilege credits to population, envisaged by the State program of the new housing policy in the case of borrowers' consent to conditions of their paying back during 10 years;
- funds of the enterprises and organizations, allotted to it's employees (owners of the savings-and-loan accounts);
- funds of the housing lottery of Zhilstroibank, sending to the development of the housing construction;
- housing state loan;
- housing bonds for buying the house by parts;

- housing privatization coupons in the limits of the allotted funds for their ransom;
- shares, bills and other valuable papers of the citizens after their preliminary check-up.

4. The housing savings-and-loan accounts are subdivided into 2 kinds:
- concrete - accounts connected with the amortization of the funds of investors to the concrete object of the unfinished apartment building, for its completion with the following granting the right to pay by instalments to cover the earlier expenses through Zhilstroibank;

- simple - accounts on which during the defined time the accumulation of funds is produced, necessary for their further direction for completion of the unfinished objects, building or purchasing the house.

5. For each building house or the group of building houses (depending on conditions and terms of the construction) Zhilstroibank opens the separate united Zhilsberschet, forms the participants' cast of the process of financing of the unfinished construction and develops the schedules of attracting the funds on the savings-and-loan accounts.

6. Deposits on the concrete Zhilsberscheta are accepted from physical persons and legal entities, having the possibilities to invest their own funds in full amount for completion of the purchasing housing in the unfinished apartment building and to carry out the payment on the earlier expenses by instalments on the term till 10 years for established interest.

As an instrument for crediting the use of the variable rate of interest, index of the main sum of debt, rate of inflation and other methods are possible.

7. With each investor to the Zhilsberscheta the bank concludes a contract (an agreement) about the order and conditions of his participation in the process of completion of the housing building, opens the concrete Zhilsberschet for him and develops the schedule of depositing funds on it, necessary for completion of the purchasing housing building.

On Zhilsberschet the funds of the members of the it's owner's family, funds of enterprises and organizations, where the owners of the accounts work, voluntary (charitable) payments of the physical persons and legal entities may be deposited.

The deposition of the payments on Zhilsberschet may be carried out either once or every month by equal shares, or as applied to the procedure of fulfilling of the works by the contractor.

The conditions of depositing payments are stipulated in concluded contracts (agreements).

On the base of the established schedules the bank controls the timeliness and completeness of the payments depositing on Zhilsberschets

The calculation of interest on the deposited funds on the concrete Zhilsberschet isn't carried out.

8. Persons, who deposited on the housing savings-and-loan account once their own funds in the entire amount of the cost of the unfinished housing building, are presented benefits in the form of prolongation of the payment in instalments of the repayment of the rest part of the housing cost for 2 years.

9. In the case of detention of the payments or their incomplete deposition by the time fixed by the agreement the fines are applied in the order established by the National Bank.

10. If in the course of building or up to it's ending, will be determined, that the cost of the building had been increased, then between the bank and the owners of the Zhilsberschet the question about the increasing of the amounts of payments for completeion of the construction is decided and the additional agreements to the contract (agreement) are composed.

11. In the case of Zhilsberschet's owner's refusal from the further depositing of the payments, he must no less then for 2 months in written form to notify the bank. On the expiry of the notified term the bank gives back the accumulated funds to the Zhilsberschet's owner and register the account for the new owner.

12. For opening the simple housing savings-and-loan account between the bank and the physical person the agreement is concluded, in which the conditions and terms of accumulation, the amount of the rate of interest on accumulating funds are stipulated. For the owner of the simple Zhilsberschet the schedule of the accumulating funds is developing.

The funds from this account after the application of it's owner are trasferred on the concrete Zhilsberschet for participation in financing of the unfinished construction of the apartment buildings.

13. After finishing of the construction of the apartment building (group of apartment building) the united Zhilsberschet is closed.

The ready apartment building (group of apartment buildings) is operated by the residents without the right of directing till their complete repayment of the cost of the purchased housing.

Between the bank and the residents of the apartment building (group of apartment buildings) the agreement is concluded , in which the conditions of exploitation and maintenance of the common parts of the building, common land parcel also are stipulated.

14. After the construction of the apartment building is finished, the bank on the base of it's real cost calculates the cost of each apartment.

The repaiment of the cost of the complete housing, with deduction of the funds deposited for it's completion, bank registers in instalments for the term till 10 years at five per cent per annum.

The term of the payment in instalments is established for each resident individually with taking into account the level of his solvency.

The resident presents to the bank his personal current liability on paying back the debt and the schedule of it's repayment annually.

The repayment of the cost of the unfinished construction of the apartment building in instalments and calculation of interest is indexed in the order established by the bank and stipulated in the agreement.

15. The bank carries out annually the insurance of the complete and put into operation apartment buildings with imposing the expenses on the insurance upon residents.

16. In accordance with finishing the settling with bank on repayment of the cost of the housing purchased in instalments, the residents gain the rights for ownership and become the owners.

The ownership right for housing is established by the agreement of sale-purchase, registered between the bank and the residents, certified in the notary's office.

17. The owners of the apartments on a voluntary basis, define the form of managing the apartment building and create the organs on maintaining and operating the building in accordance with the Housing Code of the Republic of Kazakhstan and other normative acts of the current legislation.

18. The funds received by the bank on account of the cost of the sold housing are the credit resources of Zhilstroibank and in future are directed to the development of the housing area.

Regulations
for Completion of Construction of Residential Buildings, Conveyed to
Zhilstroibank from the State Housing Fund, with Attraction of Individuals
Money to Savings-and-Loan Accounts and Providing a Grace Period for
Repayment of Their [buildings] Value

1. Residential buildings with 50% completion are conveyed from the state housing stock to offices of Zhilstroibank based on the deed of transfer provided that ZB completes their construction and sells ready houses to people.
2. To attract people's money for completion of construction, housing associations of home owners shall be created. The association may be created in each building under construction or in a group of buildings depending on the conditions of a certain development.
3. Members of the association can be people who are creditworthy and have money to complete construction of the acquired housing and make installments for the remaining part of the value within 5-10 years.
4. ZB shall develop a schedule of funding to complete construction taking into consideration the schedule of completed jobs and payments made to a contractor, as well as a schedule of installments for the remaining part of the value for the association as a whole and for each association member.
5. Based on the schedules, the bank concludes an agreement on cooperation with the association of home owners for attraction of their resources for completion of construction and repaying the remaining value of houses in installments.
The housing association concludes such agreements with each member.
6. To accumulate resources and fund incomplete construction, the association opens a savings and loan account in the bank.

Members of the association deposit their money according to the schedule for completion of construction. Also they may deposit their money of their families, enterprises and organizations where they work, as well as charity contributions of individuals and legal entities, budget resources and bank loans.

The bank uses this account to pay contractors for the jobs performed based on the results of inspections.

7. Interest is not accrued on a savings and loan account of the association.
8. The association pays commission at the amount of 1% of the value to the bank for developing schedules of funding of incomplete construction, servicing and monitoring the savings and loan accounts, for credit underwriting and collection of loan repayments and other transactions.
9. Members of the association make deposits on the savings and loan account following the procedures below as it is agreed with the bank:
 - in a lump sum
 - equal monthly payments during construction period
 - as percentage [which is calculated] based on the amount of works performed by the contractor.

The procedure of making deposits is stipulated in the agreements between the bank, the association and its members.

Those association members who contributed full payment required to complete construction to the savings and loan account of the association in a lump sum are given a grace period up to 2 years to repay the remaining value of housing.

In the event of default, the association members pay market interest rate for each day of default.

10. If it is determined that the cost of construction increases, the bank, the association and its members decide among themselves whether to increase amount of payments or not and make an additional agreement.
11. After completion of construction, the contractor conveys residential buildings to the bank according to the deed of completion.
12. The bank makes a lease agreement with the association of home owners, which in its turn makes lease agreements with its members.

Apartments are leased till the association members repay full value (cost?) of the acquired housing.

13. The association members pay the remaining value (cost?) of the buildings installments to the bank within 5-10 years.

The period of repayment is established for each individual member of the association taking into account his creditworthiness.

Association members submit their personal obligations and schedule of annual payments to the association which in turn submits a summary obligation of the association schedule of repayment to the bank.

In this event, the bank and the association make a deed of trust (with a residential building as a collateral).

The association insures the housing that has been conveyed to it and submits an insurance policy annually to the bank.

14. The bank sets different interest rates for installments:

-- 9% annual for a lump sum payment to complete construction and payment of the remaining value (cost?) within 5 years;

-- 11% annual for payment to complete construction made in installments and payment of the remaining value (cost?) within 5 to 10 years.

Payment of the principal and interest on the loan shall be made by the association members in tenge in dollar equivalent on the day of payment.

15. In case the association members repay the loan ahead of schedule, the bank sets a preferential interest rate of 3% per year.

16. The association members become owners of the residential building concurrently with the repayment of the loan value in installments.

The right of ownership is established in a sales contract between the bank and the association, which is registered by a notary public.

17. The bank considers loan payments as its credit resources and further on directs them to the housing sector.

Approved by:
A. K. Tshanov
 Minister of Construction and Housing of the RK
 as of _____ 1995

SCHEDULE
 of submitting suggestions to the Government concerning the rational use of unfinished residential construction

Tasks (1)	Implementators (2)	Deadlines (3)	Form (4)	Departments in charge (5)
1. To create a working group	Duisembekov Mukhametzhanov	April 14, 1995	Order of the Ministry	Main Administration for Construction Economic working group
2. To set objectives and determine scope of work	working group	April 14, 1995		
3. To analyse unfinished construction in oblasts, cities, etc.	Lemkul	April 30, 1995	Tables	Department of Construction
3.1 To determine degree of unfinished construction in percentage (10%, 20%, 30%, etc.)				
3.2 To classify incomplete construction according to its ownership				
3.3 To analyze design and project documentation of incomplete construction				
3.4 To determine the customers' debt to contractors				
4. To determine sources of funds to complete construction	Kondratenko Asaubayev	April 20, 1995	Reference	Zhilstroibank Administration for Financial Reports
5. To estimate funds for incomplete construction	Kusmuldina	May 5, 1995	Tables	Administration for Estimation Standards and Pricing in Construction
6. To develop proposals concerning the use of the housing coupons (vouchers) that people have not	Kondratenko Bekmukhambetov Eliseyeva	April 20, 1995		Housing Policy Department

invested yet

7. To determine privileges, subsidies and compensations for investments in uncompleted construction	Kondratenko Mukhametzhano	April 20, 1995	Table	Zhilstroibank Main Administration for Housing Policies
8. To develop "Procedures for conveyance of unfinished residential buildings for completion and sale in the RK"	Lemkul Sapargaliyev Bekmukhambetov Eliseyeva Duisembekov	May 1, 1995	Draft Procedures and Draft Resolution	Department of Construc
9. To develop "Procedures for completion of residential buildings by attracting the peoples; money (50%)	Sagindykova Asaubayev Mukhametzhano Bekmukhambetov	April 30, 1995	Regulations	
10. To develop proposals for the rational use of incomplete construction	Lemkul Kondratenko Mukhametzhano Bekmukhambetov	May 12, 1995	Letter to the Cab. of Min.	Minstroj Zhilstroj
11. To develop draft decree of the president of the RK	Bekmukhambetov		Draft Decree	Minstroj Zhilstroj
12. To develop resopution of the Cab. of Min. of the RK	Sagindykova Mukhametzhano Bekmukhambetov		Draft Resolution	Zhilstroj Minstroj

Deputy Minister of Construction and Housing of the RK

Zh. O. Duisembekov

APPENDIX D

AGREEMENT

on foundation of a holding company
"The Kazakh Property Fund"

Almaty

Undermentioned contracting parties under the RK Law "Concerning Economic Partnership and Joint - Stock Companies" have concluded the Agreement on foundation on share basis of Holding Company "The Kazakh Property Fund" in the form of a joint - stock open end association.

The contracting parties are:

the State Housing Construction Bank, hereinafter referred to as "Bank" in the person of the President M.O.Sagindykova;

the Investment Financial Company "GRIMITZ", hereinafter referred as "Company" in the person of Director G.T.Tzai.

I. Subject of Agreement.

1.1. Managers have agreed to found on share basis a holding company "The Kazakh Property Fund" in the Form of a joint - stock open end company by pooling their investments.

"The Kazakh Property Fund" carries out the following functions:

- develops the housing and the common system of its financing and crediting, implements a new housing policy through centralization of finances and raising their profitability;

- operates its movable property and real estate, fulfils business and other activities, guarantees payments, bails, payment of bills, and provides other guarantees including property ones under the present regulations);

- creates its own reserves of free residential and non-residential facilities for the bank clients and for its own purposes;

- makes appraisals of the property loans;

- exchanges, buys, and sells shares, bonds, and other securities

- gives mortgage and pawn credits, unites mortgages and serves signed contracts on mortgages

- gives loans for territorial development and construction of industrial, business, agricultural, and housing facilities;

- gives credits secured by movable property, real estate, and land parcels;

- makes investments to production, commercial and technological activity;

- opens check and savings accounts;

- fulfills insurance activities, makes non-governmental pension funds and social insurance funds;

- promotes the privatization and sharing of the state-owned enterprises, acts as a mediator or a state agent of State bodies in operating the State owned block of shares in joint-stock companies;

- studies and analyses the balance of production projects of the enterprises - participants, state of the market, does the marketing;

- promotes the profitability of the production, competitiveness of its products and services at home and foreign markets;
- founds joint-stock companies, small enterprises, investment - privatization funds of various types of ownership in the interest of the holding company "The Kazakh Property Fund" participants, issues shares and other securities and sells them at home and foreign markets;
- carries out foreign economic activities.

1.2. "The Kazakh Property Fund" obtains the rights of a legal person from the date of its registration in the compliance with the established procedures.

II. Responsibilities of Founders.

2.1. Founders form "The Kazakh Property Fund" in Almaty on share basis and register it at the local district administration;

2.2. Founders make a Registered fund of 1,000,000 tenge.

2.3. The Registered fund is formed by

- BANK - 510,000 tenge;
- COMPANY - 490,000 tenge.

The contribution of the Bank consists of

- a) a car VAZ-2105 at the price of 120,000 tenge with the right of rent;
- b) a personal computer IBM PC/AT 486 at the price of 125,000 tenge;
- c) office premises (54 sq.m) with free rent for two years

2.4. Founders assume obligations to get deposit in full not later than three months from the date of registration of "The Kazakh Property Fund" to its bank account.

2.5. To the date of "The Kazakh Property Fund" registration each founder shall contribute not less than 50 per cent of the above mentioned deposit.

2.6. Founders promote "The Kazakh Property Fund" activity, assist in partners and orders.

III. Distribution of Profits of "The Kazakh Property Fund" activities.

3.1. Distribution of the profits left after tax and other payments is done under the General annual meetings of the Founders decision.

3.2. Net profit of "The Kazakh Property Fund" after all taxes paid shall be distributed for annual dividends.

"The Kazakh Property Fund" forms:

- insurance fund (25 per cent of the Charter fund) at the expense of net profit;

- the sum of annual payments to the insurance fund is determined by the regulations but not less than 5 per cent of net profit

- production development fund;
- material development fund;
- bonuses fund.

The sum of payments to these funds is determined by the regulations.

3.3. Rates of profit distribution can be adjusted depending on financial state of "The Kazakh Property Fund".

3.4. Distribution of products produced by "The Kazakh Property Fund" and valued in money equivalent by the Council of "The Kazakh Property Fund" is done by the Founders in proportion to their share in Charter fund.

3.5. Any changes of the Charter fund shall be done under the RK Law "Concerning Economic Partnership and Joint-Stock Companies".

IV. Rights of Founders.

4.1. Founders have a right to participate in operating "The Kazakh Property Fund" to share the Company's profit and have all other rights under the Charter and the RK Regulations.

V. Responsibilities of Founders.

5.1. "The Kazakh Property Fund" isn't responsible for the Founders' responsibilities, and the Founders are responsible for "The Kazakh Property Fund" activity only within their contribution into the Charter fund.

5.2. All disputes and arguments are to be referred to the arbitration under the present Regulations.

VI. Managing Bodies of the Kazakh Holding Company.

6.1. The highest managing body of "The Kazakh Property Fund" is shareholders meeting arranged once a year.

6.2. The shareholders meeting appoints the Company Council for routine managing "The Kazakh Property Fund", on behalf of:
three Bank persons - A.I.Mustafin, A.E.Kondratenko, T.A.Masalimov;
two company persons - G.L.Tzai, Ju.B.Mikelband.

6.3. The highest executive body of "The Kazakh Property Fund" is the President. The President appoints the Board and managers its work.

6.4. Auditing committee consists of three persons: two representatives form the Bank (Zh.T.Amantaev, Z.S.Usenova), and one representative from the Company (L.P.Alyoshkina).

VII. Duration of Agreement.

7.1. Duration of the present agreement is valid from the date of signing for the whole period of activity of "The Kazakh Property Fund".

7.2. Any alterations and agenda of the present agreement shall be valid only on Founders mutual agreement.

VIII. Other provisions.

8.1. The Charter of "The Kazakh Property Fund" shall be an inseparable part of this agreement.

President,
the State Housing Construction Bank

M.Sagindykova

Director,
the Investment Financial Company
"GRIMITZ"

G.Tzai

"Approved"

M.Sagindykova
President,
the State Housing Construction Bank

G.Tzai
Director,
the Investment Financial Company
"GRIMITZ"

CHARTER

of Holding Company "The Kazakh Property Fund"

I. General Provisions.

I.1. Holding Company "The Kazakh Property Fund", hereinafter referred to as the Fund, is organized in the form of a joint-stock open-end company under the agreement between the Founders by using their investments (shares) with the aim of development of housing and unified system of its financing and crediting, implementing of a new housing policy programs through centralization of financial resources and maximal profitability of their utilization, increasing the efficiency of managing, technological and commercial service of the Fund participants, as well as enlarging and strengthening mutually advantageous ties with foreign partners.

I.2. The fund arrangers its activity under the RK Regulations, the President's drafts, and is formed under the Law "Concerning Economic Partnership and Joint-Stock Companies".

I.3. Being a legal entity and a self-supporting enterprise, the Fund has a round seal in Kazakh and Russian, a bank account, letter heads, etc.

I.4. Location: the Republic of Kazakhstan, Almaty, Shevchenko 100.

II. Objectives, Tasks, and Main Activities.

II.1. The main types of the Fund's activities are: financial, productive, constructive, investment, commercial, trading, and others not banned by the RK Regulations.

II.2. The Fund performs the following functions:

- developing the housing and the unified system of its financing and crediting, fulfillment of the new housing policy program through centralization of finances and increasing their profitability;
- operating its movable property and the real estate; providing commercial and other kind of activity, guaranteeing payments, bails, payment of bills and providing other guarantees, including property ones (in conformity with the existing Legislation);
- establishing own reserves of free residential and non residential facilities for the Bank clients and for its own purposes;
- making appraisal of the property as a loan;
- exchanging, buying, and selling shares, bonds, and other securities;
- providing mortgage and pawn credits, uniting mortgages serving the signed contracts on mortgages;
- giving loans for territorial development and construction of industrial business, agricultural and housing facilities;
- providing credits secured by movable property, real estate, and land parcels;
- making investments to productive, commercial and technological activity;
- opening check and saving accounts;
- performing insurance activities, making non-governmental pension funds and social insurance funds;
- facilitating privatizing and corporatizing state owned enterprises, acting as a mediator or an agent of state bodies in operating the state owned block of shares in joint stock companies;
- studying and analyzing the balance of production projects of the enterprises-participants, state of the market, doing the marketing;
- promoting the participation of the production, competitiveness of the products and services at home and international markets;
- establishing joint-stock companies, small enterprises, investment- privatization funds of various types of ownership in the interests of the Fund, issuing shares and other securities and selling them at home or international markets;
- performing consultations and appraisals of property as loans on permission of authorized state bodies;
- supporting foreign economic activities.

II.3. The Fund performs foreign economic activities under the existing Regulations of the Republic in the form of:

- exporting and importing of raw materials, completing articles , consumer goods, machinery, equipment, works and services;
- investment and representation activities abroad;
- attraction of foreign investments, credit resources, and other financial and material means;
- representation functions, establishing joint ventures in Kazakhstan and abroad.

III. Assets, Funds, and Profits.

III.1. Property of the Fund consists of fixed assets, forming its Charter Fund, of production and social development funds, insurance (reserved) fund, etc; that are formed in conformity with the RK Legislation.

III.2. The Carter Fund of "The Kazakh Property Fund" is 1,000,000 (one million tenge).

III.3. The Charter Fund can be changed in conformity with the RK Law "Concerning Economic Partnership and Joint-Stock Companies".

III.4. The Fund is the owner of:

- the property of its participants;
- the products produced during business activities;
- securities and monetary funds given to it by the founders;
- the profits and other assets, purchased in conformity with the Legislation.

III.5 Buildings, facilities, equipment and other material assets, securities and other property rights (including intellectual property), funds in tenge and foreign currency may serve as the Founder's contribution.

The appraisal of the contributed properties determined by a joint decision of the Fund Founders and is registered by by an acceptance certificate, signed by the Founders.

The contribution evaluated in tenge makes a share in the Charter Fund.

III.6. The insurance fund makes up 25 per cent of the Charter Fund . The insurance fund is formed through annual deductions at the rate of 5 per cent from the net profit.

III.7. The distribution of net profit, formed under the regulations, between the Founders is done according to annual results in proportion to their shares in the Charter Fund.

The draft distribution of net profit is introduced to the general meeting by the President after its discussion and approval by the Fund Board.

The rates of net distribution can be adjusted depending on the financial state of the Fund.

III.8. In conformity with articles 71, 72. 73 of the RK Law "Concerning Economic Partnership and Joint-Stock Companies" the Fund Founders can change the amount of the Charter Fund.

III.9. The amount of shares bought by the Founders is proportional to their share in the Charter Fund.

IV. Securities.

IV.1. The Fund issues 1,000 shares payable to bearer (total sum - 1,000,000 tenge). Nominal value of one share is 1,000 tenge.

IV.2. Shares are paid to shareholders in tenge, foreign currency, or by granting the Fund some property for ownership or use.

IV.3. Dividends are paid to shareholders proportionally to their quantity on summing up the annual results.

IV.4. To attract some additional money the Fund has the right to issue bonds for no more than 25 per cent of the Charter Fund after full payment of all issued shares.

IV.5. Terms and conditions and procedure of issuing, movement, and discount of shares and bonds are determined by the Kazakhstan Law "On Circulation of Securities and Stock Exchange in RK" and by the Regulations on securities of the Fund.

V. Rights and Responsibilities.

V.1. The Fund has the right to participate in any other association, to sign agreements, to acquire property and personal rights, and bear the responsibility, to be the claimant and the respondent in arbitration, court, and tribunal.

V.2. The Fund has the right to form subsidiaries and field offices on the territory of Kazakhstan and abroad under the Regulations of the location country.

V.3. The Fund doesn't assume responsibility for shareholders' obligations and vice versa except the cases stipulated by the present Regulations.

V.4. To reach the objectives determined by the Charter the Fund can perform any business activities that conform the RK regulations.

VI. Staff and Employees Payment.

V.1. The staff of the Fund consists of shareholders and employees, hired on a contract basis.

VI.2. A staff member of the Fund may become a shareholder only after full payment of the shares.

VI.3. Staff members - shareholders have a right to:

- participate in managing the Fund under the present Charter;
- get dividends from the Fund's activities;

- get any information concerning the Fund activities both orally and in writing, i.e. on bookkeeping, accounts, reporting, etc. A request for any information shall be done in writing;

- purchase products (services) being consumer goods produced by the Fund;
- defend their proposals and opinions, obtain in a legal and other way a cancellation or changing of decisions approved by the Council or the Fund President (for the exception of cases stipulated by the Charter);
- leave the Fund according to the established rules.

VI.4. Staff members - shareholders shall:

- follow the Charter and fulfill the requirements approved by the majority of the shareholders;
- pay their share in a way set up by the shareholders assembly or the council;
- not open confidential information concerning the Fund activities;
- promote high efficiency of the Fund activities and its high projects.

VI.5. Staff member - shareholder can be expelled from the Fund on General Assembly decision for not following the Charter and for not fulfilling its requirements.

Shares owned by him are sold according to the Charter.

VI.6. The Fund pays its specialists, workers, officers, and managers (including the Fund management) only by final results of the Fund activities. The amount of payments shall not be limited.

VI.7. Dividends for shares are determined only by the results of the production - commercial activities and shall not be limited.

VI.8. When leaving the Fund, a shareholder gets dividends for shares in proportion to the period of work.

VI.9. Worker's labor relations with the Fund are regulated under Labor Code of the RK.

VI.10. The fund independently forms its structure, staff, and determines the forms and the procedure of labor payment.

VI.11. The Fund staff are liable to social insurance, social and pension security. The Fund transfers resources out of its profits to the Governmental Fund of social insurance under existing Regulations.

VI. Management.

VII.1. The highest authority of the Fund is the General Assembly of shareholders. The General Assembly of shareholders is authorized to:

- determine main directions of the Fund activities, approve the plans and reports on their fulfillment;

- alter the Charter;
- form Auditing Commission;
- elect and recall auditing commission members;
- confirm the President's election;
- pass annual results of activities including the Fund branches, pass records and conclusions of auditing commission, approve the procedure of profit distribution and covering the losses;
- approve rules, procedures and other documents, organizing structure presented by the President by the Fund Council consent;
- make decision on buying and selling securities;
- change the proportion between types of shares to be issued;
- make a decision to issue bonds and additional shares;
- make a decision concerning ceasing the Fund activities, appoint the liquidation commission and to pass the liquidation balance sheet.

VII.2. The Fund holds an annual General Assembly of Shareholders, besides other assemblies. The time period between annual General Assemblies can't be more than 15 months. Extraordinary assembly at any time and on any reason can be called by the Fund President, Auditing commission, shareholders of 25 per cent of shares.

VII.3. General Assembly is authorized when shareholders or their representatives with over 60 per cent of votes participate in it. A shareholder or his representative can participate in all calculations on shares. A shareholder representative can participate in assembly and voting only having a letter of credit certified in notary.

VII.4. The Fund President conducts General Assembly of shareholders. the first General Assembly in conducted by the person appointed by the organisational committee on the Fund creation.

VII.5. A shareholder can participate in a General Assembly of Shareholders only after being registered by Registration commission, appointed by the Fund Council. At Registration he must present to the Registration commission total amount of his shares or a document, confirming its quantity, recognised by the Fund or existing regulations.

VII.6. The following questions are decided by the majority of 3/4 of votes participating in an assembly of shareholders:

- changing of the charter;
- making a decision to cease the Fund activities.

The decisions on all other matters are done by simple majority of votes, participating in shareholders assembly.

VII.7. At the General Assembly one share (1000 tenge) has one vote.

VII.8. When having no quorum another assembly is conducted during one month and questions are solved by simple majority.

VII.9. The decisions are adopted by open voting, if a chairman or not less than five shareholders with 20 per cent of shares doesn't demand a ballot.

VII.10. Besides General Assembly a number of strategic points (credit of more than 10 million teenage etc.) of management are within the Fund Council competence where decisions made by majority voting.

The Fund Council consists of five persons - three are representatives from BANK and two are representatives from COMPANY.

VII.11. President of the Fund is an Executive Body of the Fund to manage the day to day business. President reports to the General Assembly of shareholders and manages all business except those within General Assembly's exclusive competence.

General Assembly can make a decision to transfer some of its rights into the Fund President's competence. President answers before General Assembly of shareholders and manages the fulfilment of this body decisions.

To manage the Fund the President appoints Executive body (Board), determines its staff, structure and the competence of definite members. The following powers are within the Fund President's competence:

- management of the day to day business of the Fund;
- to be in command of the Fund property within his competence under the present Charter;
- to effect transactions and other legal acts, letters of credit, to open bank accounts and other accounts;
- to employ and fire the Fund employees under the existing Regulations;
- to carry out any other actions necessary to achieve the Fund objectives except those within General Assembly competence.

President has a power to dismiss any Fund Board member.

VII.12. The Fund management is appointed (elected) for five year term. On the expire of this term new appointment (election) is made. The number of terms of the Fund official's appointment isn't limited.

Officials sign contracts with the Fund in the person of President for a certain term. President on behalf of the Board controls work under contracts.

VII.13. Officials shall repay harm caused by them to the Fund Under Civil Regulations of Kazakhstan;

VII.14. Officials are responsible for disclosure of commercial secrets.

VII.15. The President is empowered to act on behalf of the Fund without a warrant. Other Board members can also be empowered to do it.

VII.16. Auditing commission elected of shareholders or any other independent auditing firm controls business and financial activities of the Board, the Fund Board members can't be auditing commission members. Auditing commission acts in conformity with Article 57 of the RK Law "Concerning Economic Partnership and Joint - Stock Companies", unless otherwise provided by the Charter.

The procedure of auditing commission is approved by the General Assembly of shareholders.

The auditing of business and financial activities of Board is done by the Auditing commission under the order of the General Assembly of shareholders, of the Fund Council, by its initiative with 30 per cent of votes.

Auditing commission makes conclusions on final report and balance sheets. The General Assembly can't approve the balance sheet without Auditing commission conclusion.

Auditing commission shall demand extraordinary meeting of General Assembly of shareholders in case of property threat to the Fund interests.

VIII. Account and Reporting.

VIII.1. To analyze financial - commercial activities and to have state control of the Fund profits, the Fund accounts the results of its activities and conducts bookkeeping under state procedure.

VIII.2. The Fund is to publish reports on its activities during the previous year (not later than the first quarter of the year) including the information on profit and losses, and the amount of paid dividends.

IX. Activity Control, Liquidation and Reorganization.

IX.1. Auditing of financial and business activities is done by the financial bodies within their competence.

IX.2. The Fund must conduct auditing of its financial and business activities by itself or by independent auditing firms once a year, and extraordinary auditing at the demand of one or several shareholders with 20 per cent of shares.

IX.3. The Fund activities are ceased:

- by the State arbitration or Court decision because of bankruptcy or permanent, or gross violations of the Regulations;
- on general assembly decision.

IX.4. The Fund ceases its activities by reorganization (merger, division) or liquidation. At reorganization of the Fund necessary alterations are put into the Charter and Register, and in case of liquidation it is registered.

IX.5. Liquidation of the Fund is done by the Liquidation commission appointed by the General Assembly. From the moment of appointment the Liquidation commission takes all powers in the Fund management.
The Liquidation commission conducts its activities under Articles 23 and 24 of the RK Law "Concerning Economic Partnership and Joint - Stock Companies."

IX.6. Floating assets including receipts from property sales and liquidation left after payments to the budget and to the creditors are ordered by the liquidation commission to be distributed among shareholders under procedure and terms set by the shareholders General Assembly.

APPENDIX E

"Approved", the Minister of Construction, Housing and Territorial Development
A.A. Kulibaev
March 30, 1994

Regulation on a state company with functions of commercial developer

1. The present Regulation sets the organization and legal basis for creating (founding) and operating a state company with functions of a commercial developer (below - "a Company").

2. Ministry of Construction, Housing, and Territorial Development (MinStroi) shall establish the Company in agreement with the head of the regional administration on the basis of the existing capital construction departments in every region.

3. The Company activities shall follow the laws of the Republic of Kazakhstan, Presidents Decrees and Resolutions, directions and resolutions of the Cabinet of Ministers of the Republic of Kazakhstan, decisions and directions of the MinStroi, local laws and also by the present Regulation and its Charter.

4. In accordance with its Charter, the Company is a for profit, legal entity. In accordance with the Order approved by MinStroi and ZhilstroiBank, the Company shall determine the cost of labor and services to construct residential apartment buildings.

5. The basic tasks of the Company are the following:

- arranging the investment and financing activity to construct residential apartment buildings;
- reducing prices of construction production by organizing auctions to construct residential apartment buildings;
- profitably use funds obtained through ZhilstroiBank's branches;
- increasing housing construction projects and gradually increasing the number of detached houses;
- creating competition within the residential construction sector, with the goal of reducing costs and increasing quality.

6. The Company executes the following basic functions:

- organizes public auctions among designers, builders and manufacturers of construction materials for their participation in building residential houses in accordance with the rules established by MiniStroi;
- concludes agreements with auction winners and provides financing;
- organizes the housing construction, according to:
 - the State orders,
 - long-term credits
 - short-term credits and organizes the sale of the projects by auction;

- organizes the construction of infrastructure in the residential areas, financed by other sources:

- supervises the quality and volume of construction, following the standards, plans and terms of construction;

- organizes the work of the commission that approves construction completion, the object's registration and transfer to the client;

- organizes auctions for all residential services including sale, exchange, maintenance of the housing stock and of the infrastructure;

7. The company has the right:

- to receive land lots for temporary use for construction, in conformity with the existing legislation;

- to participate in competitions with other commercial developers for obtaining financial and credit resources from ZhilstrojBank. These competitions are organized by the heads of the regions and ZhilstrojBank;

- to purchase uncompleted apartment buildings with the goal of completing and selling.

8. The Company must use special purpose funds received from ZhilstrojBank's branches and the Company is responsible for observing the rules set by Minstroj, defining the developer's activity.

9. The director manages the company and the Minister of Minstroj, together with the head of the regional administration, can appoint and dismiss the director.

10. The company has a stamp with the State Emblem of the Republic of Kazakhstan and its name both in Kazakh and Russian languages.

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