

PN-ACA-438

**STATUS MEMORANDUM**

**On the Real Estate Training Program,  
Business Planning Clinics, and Land Auctions**

**December 1996**

Prepared for

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ENI/EEUD/UDH

By

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Shelter Sector Reform Program for  
The Newly Independent States of the Former Soviet Union  
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**ATTACHMENTS**

- Attachment A: Status Report; July 20, 1996
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## **ABSTRACT**

This is a status memorandum prepared by Mr. Ronald MacLachlan, ICMA Consultant to Kyrgyzstan under Task Order No. 108. It contains a brief summary of the Real Estate Training Program, business planning clinics, and experimental land auctions sponsored by ICMA/USAID from October 1995-November 1996. It also contains his recommendations for continuing ICMA's efforts through other agencies established in Kyrgyzstan.

## **INTRODUCTION**

From October 1995 to November 30, 1996, Mr. MacLachlan was sent to Kyrgyzstan 1) to assist firms/enterprises/coops with the completion or renovation of apartment structures through clinics and consultation; and 2) to work with local governments to identify municipally-owned structures which could be disposed of to various private organization for completion or renovation.

These objectives were met through the development of a Real Estate Training Program, business planning clinics, and experimental land auctions. In addition, ICMA sponsored a roundtable at the National Auction Conference for Kyrgyz municipal officials.

These programs have now been internalized to varying degrees. Mr. MacLachlan has outlined below the potential of various agencies in Kyrgyzstan with the ability to continue ICMA's work.

## **THE FUTURE OF ICMA BUSINESS PLANNING CLINICS**

### **Profiles of Individual Agencies That Could Continue ICMA's Work**

#### ***Agencies of the Kyrgyz Republic:***

There is little meaningful understanding of market driven real estate development within the Kyrgyz Government. Complicating things further, the ministry structure is in the process of being consolidated. No candidates for continuing a real estate business training effort exist within the Government bureaucracy. Two independent state agencies, however, may be able to help maintain the Real Estate Training Program.

1. GOSCOMINVEST acts as the capital investment coordinator for foreign and domestic initiatives. It is supported by TACIS, (Technical Assistance to CIS), a European Community (EC) aid entity. TACIS and GOSCOMINVEST conduct business training programs of a more general nature on occasion.
2. The Ministry of Architecture and Construction (MINSTROI), is ICMA's partner in Kyrgyzstan. Together, MINSTROI and ICMA have held three Real Estate seminars for developers and hosted a contractor's roundtable. This Ministry will respond promptly to any foreign initiative, but will not lead any sustained business planning training effort.

#### ***International Private organizations:***

**Kumtor-Cameco** is a Canadian gold mining developer and operator. It has a very small employee development program related to its mining operations.

**Habitat for Humanity International (HHI)** of Americus, Georgia, is starting a nation-wide non-profit community based housing development program. HHI's focus is in grass roots real estate training and developing community interest in solving housing issues.

*Foreign lending agencies:*

**The European Bank for Reconstruction and Development (EBRD)** financed one real estate project for Chuybatschkurulush; an ICMA initiative, but has declined further assistance. The Bank is setting up a housing finance facility in Russia, however. In general, EBRD seeks to fund larger western joint venture projects. EBRD conducts no business training programs.

**The International Finance Corporation** of the World Bank (**IFC**) is unwilling to consider real estate or housing related construction financing. IFC conducts no business training programs.

**GTZ**, a German lending agency, is focused on projects less than \$150,000 and is likewise not interested in financing housing. GTZ conducts no business training programs.

**The Central Asian American Enterprise Fund (CAAEF)**, a USAID entity, is financing an on-going real estate project with the support of ICMA and the International Executive Service Corps (IESC). As part of its on going lending program, CAAEF is doing some business training, though it is not real estate or housing oriented.

## **RECOMMENDATION**

### *Habitat for Humanity*

HHI is the only organization with the long term objective and capacity to continue housing related real estate business planning. HHI, more than any organization or government entity, has the potential for addressing practical community based housing solutions. They would have the expertise required to translate ICMA's housing association initiative from a legal structure into improved housing. Due to its the grass roots, community level focus, however, the academic level of ICMA's instructional material may have to give way to the more practical results orientated training approach of HHI.

The establishment of HHI in Kyrgyzstan resulted from the efforts of ICMA. Following Ambassador Malloy's involvement and the persistence of the ICMA -Kyrgyzstan staff, USAID joined in supporting the HHI initiative.

ICMA should continue to provide office space, support production of written materials, and involve HHI in its housing association initiatives.

*Peace Corps:*

ICMA should broker a relationship between HHI and the Peace Corps. The Peace Corps is a natural ally of HHI because of its grass roots focus. Through its business advisory program, the Peace Corps could address some of the practical problems of housing renovation. Duane Beard, the former Resident Director of ICMA-Kyrgyzstan, is moving to the Peace Corps and could provide the synergy for a cooperative effort between HHI, ICMA, and the Peace Corps.

## **EVALUATING EXPERIENCE WITH LAND AUCTIONS**

### ***Scope of ICMA's experimental auction program***

Twenty auctions (with 5-99 year leases) have taken place in Bishkek, Osh, and Karabalta with over 100 properties conveyed. They are now being organized in Kara Su and Naryn. In total, over \$150,000 has been paid for these land rights. Most parcels sold for around \$2500, but some high priced properties pushed the average over \$5000. Many small buyers are participating. Local leadership of the auction process has come from municipal architects. The auction is a source of revenue and status for the City Architect whose position has eroded since 1991.

ICMA, through a cooperative trial and error effort with the City of Bishkek, codified a set of auction operating procedures and produced an operating manual in Russian and English. ICMA has paid the advertising on first auctions and is a member of each new auction review board. In addition, ICMA sponsored a national roundtable at the National Auction Conference in September 1996 in which 38 municipal architects from 12 cities, rayons, and oblasts participated.

### ***Sustainable product***

The auction process has been internalized and will continue without ICMA support. Sponsorship of a second national conference in September 1997 however, is recommended. Potential long term benefits lie in keeping the land planning process alive through the municipal architects offices and in stimulating real estate development.

The properties that are being leased have been exclusively for private commercial development. This is a spin off not generally appreciated.

## **TRANSACTIONS PENDING BEFORE LENDING INSTITUTIONS**

There are no pending transactions.

## **ANALYSIS OF PROBLEMS AND ISSUES UNCOVERED IN THE HOUSING SYSTEMS DEMONSTRATION PROJECT**

### **Definition of Problems and Issues**

#### ***Parcel Selection Process***

The parcel selection process requires addressing land use issues. For the first time since reconstruction (1991), the questions of land use and master planning are being revisited. The look of Kyrgystan's cities will depend on an active land planning effort that does not get submerged in the "free for all" open market now taking shape.

The auction process is helping to shape this effort by forcing the definition of Land Use Rights and Land Registration. For the purposes of registration, the City of Bishkek, for instance, is claiming to be its own Notary, and ignores the hold-over apparatus of Republic notaries which charges 20% of the transfer value to record land transfers.

The auction process requires a great deal of management effort. Staff must be employed to research the "ownership" status of a parcel, and the process of "clearing title" can be very time consuming.

#### ***Absence of Mortgage Law***

There is no law or administrative regulation defining a mortgage, or remedies in event of breach.

#### ***Absence of Land Registration Matrix***

There is no single immovable property registration system. Instead there are a multitude of property registration systems and organizations; such as the Bureau of Technical research, Notary System, GOSCOMINVEST, municipal architects, and banks.

### ***Ownership: Freehold vs. Leased Land Rights.***

Leasehold is a philosophical stumbling block with the United States. It was not an impediment to the Housing Systems Demonstration Project. Leasehold, or the transfer of property rights for a defined period, works. Virtually all of Europe is leasehold based. The Kyrgyz Government, however, has yet to enact controlling legislation.

Care was taken to define land use and tenure in writing lending and conveyance documents. Long term policy changes are needed.

### ***Finance***

Financial institutions are in their infancy. International lending institutions are reluctant to fund property purchases or real estate development in the absence of a legal framework. Securing financing is difficult, yet not impossible. Two loans are being effected; EBRD-Chuybatschkurulush and CAAEF-Bereke Holdings. The EBRD and IFC have recently funded the establishment of a international commercial bank in Bishkek. New banking programs are being developed by the World Bank.

Short Term solutions have been used in the Housing Demonstration Project to secure financing replacement for a mortgage. Detailed, all inclusive, personal guarantees were written between the prospective property owners and lending institutions.

Documents transferring property rights to the lender were prepared but held in escrow. Default triggered release of the documents to the lender.

Joint Venture Participation by lender provided a way for the lender to take control if the project started to fail.

Institutions prepared to finance property ownership and private construction will emerge following enactment of mortgage and land registration law.

### ***Land Registration***

ICMA's projects were researched and subsequently registered at every conceivable point; Bureau of Technical Inventory, rayon, city, oblast, notaries, and GOSCOMINVEST. Interviews were conducted with neighbors and banks who may have lent money to the borrower in the past.

### ***Mortgage Law and Enforcement Structure***

The sooner the law is in place, the sooner judicial precedents, administrative procedures, and remedial processes will emerge. It will take several decades for some semblance of order to

take shape in Kyrgyzstan, however. Even the American experience is still evolving (Hawaii, Indian rights, wetlands, public taking, master planning, zoning ordinances).

### *Centralized Land Registration Program*

It is essential to the country's macroeconomic development the Kyrgyzstan develop a single system of property registration. Due to its small size, a National registry system would be the most likely solution, rather than putting registration offices in every rayon.

### **CONCLUSION / RECOMMENDATIONS**

1. ICMA should support the development of Habitat for Humanity International to ensure the continuation of business planning for real estate development.
2. The auction process had been very successful. It supports many of the objectives of ICMA/USAID. A second national conference should be held in September 1997.
3. The awkwardness of the newly democratic political process has hindered construction, housing, and real estate development in Kyrgyzstan. Although the Housing Systems Demonstration Project seemed to be an annoyance to the Government, it was also a stimulus to discussion at every level. The fact that ICMA was prepared to attack "in living color" the problem of mortgage law, registration, and finance, gave ICMA access to the Prime Minister and President.

**ATTACHMENT A:**

**STATUS REPORT; JULY 20, 1996**

Status Report  
Task Order #108 Mod 2  
Strategy Component #2  
Land Privatization and Urban Real Estate Development Projects

B. Institutional Candidates for future technical Assistance

To: Duane Beard/Dale Rosenthal  
From: Ron MacLachlan, 76420,605  
Date: 20-Jul-96 at 17:45

A. Strategy Component #2 Land Privatization and Urban Real Estate Development

Task 2.1.1 - Bishkek Auction Process - Institutionalization

(i) Progress relative to scope of work.

The process of internalization lost momentum in June and July as evidenced by the poor showing at the two last auctions. In my opinion, requiring confirmation on my return, this was the result of a change of personnel in the City Architect's Office.

(ii) Major issues and problems.

1. Establish Title - The time and effort to establish a clear title for a land parcel. Lands rights, rights of possession, are a good deal more important to the average Kyrgyz than a Westerner might assume about the ex-communist society. Citizens are very vocal when they think that the State is interfering with their ownership rights. The Architects office must research every site even though it is listed as a City property, a process taking several days.

2. Advertising - Need some creativity and long term consistency.

(iii) Recommended modifications in activities

1. Assignment of a permanent auction staff in the Architects office.

2. Development of departmental goals/objectives

3. Support by ICMA of a modified advertising program along the lines of daily legal announcement for several weeks, estimate \$1,500

Task 2.1.2 - Osh Auction Process - Institutionalization

(I) Progress relative to scope of work.

Auctions and participation continue to grow.

(ii) Major issues and problems.

Same as 2.2.1, above

(iii) Recommended modifications in activities

Same as 2.2.1, above

Task 2.1.3 - Manual Preparation

Pulling various pieces prepared by others together for National Workshop. On schedule.

Task 2.1.4 - National Workshop

Scheduled for September

Task 2.1.5 - Other Cities

Targets are Jalal Abad and Balchy

Task 2.1.6 - National Capability to support Land Disposition Process

Our position has been that the various City Architect's offices would be the only meaningful focus and that an additional layer of administration at the National level would not affect the continuation of the process.

2.2 Sub-Project: Housing Systems Demonstration Project

Task 2.2.1 Real Estate Business Planning Extension Services.

In response to a need to provide substance to a requested financing facility for apartment completions from EBRD, we will be working up outlines for 10 business plans previously submitted by developers with whom we have been working for several months. In addition we will prepare an outline for extension of Bishkek Municipal water and sewer to "Zones of Independent Construction". The latter in conjunction with HFHI.

Providing competitive purchasing advice and training to a Bereke International who received financing on Apartment Completion Project by assisting them during material buyout in Istanbul 29 July to 2 August, \$US 410,000.

Providing encouragement to the development of a Impact Fee program in the City of Bishkek

(i) Progress relative to scope of work.

I would have liked to have seen this Task further ahead on all three sub-objectives. But we have set up some very important sub-tasks with real substance to each and will pursue their completion through November.

(ii) Major issues and problems.

1. EBRD is waffling on getting into meaningful discussions on a financial facility for apartment completions.
2. The start up, mostly design work, on Bereke is going slow.
3. Municipal impact fee regulations are complex issues.

(iii) Recommended modifications in activities.

1. Exacting preparation for 13 August meeting with EBRD in Bishkek.

2. Work with the new Peace Corps volunteers oriented to small business development.
3. Continue support for Bereke.
4. Involve USAID/Almaty in developing a program of municipal assistance which addresses zoning and impact fee issues.

Task 2.2.3 Cultivate Prospective Financing Sources

Catalyzing dialogue between ICMA, GOK, US Embassy and EBRD, to open SME Credit line to Apartment Completions. A meeting is being set up in the Prime Minister's office Tuesday 13, July, Bishkek with the above.

- (i) Progress relative to scope of work.

Always would like more.

- (ii) Major issues and problems.

EBRD has its own agenda for the development of Kyrgyzstan. Opening that up is proving to be challenge.

- (iii) Recommended modifications in activities.

No change. Don't give up!

Task 2.2.4 Habitat for Humanity

Effectuated agreement between GOK and HFHI to begin first Habitat program in the NIS. Permanent representative from Americus, Georgia is in Kyrgyz language training at the University of Seattle and is making a three week visit to the Republic in August.

ICMA involvement is essentially over with this Task. I will try and involve HFHI in the EBRD discussions as one concern of the EBRD is management of any potential loans.

Task 2.2.8 "This Old Apartment"

The Business Plan completed and circulated to Proctor and Gamble in effort to get funding. MacLachlan to visit PG Management in Frankfurt next week. Hope to see funding by October. Funding will mark the successful completion of this Task.

B. Institutional Candidates for future Technical Assistance

Task 2.1 Auctions: None

Task 2.2.1 Real Estate Business Planning Extension Services: Peace Corps Business Volunteers

Task 2.2.3 Cultivate Prospective Financing Sources: Peace Corps and Prime Minister's apparat.

Task 2.2.4 Habitat for Humanity: City Architect's offices of Bishkek and Jalal Abad.

Task 2.2.8 "This Old Apartment": The Kyrgyz producer's of the show and Proctor and Gamble.

**ATTACHMENT B:**

**PROGRESS REPORT; FEBRUARY 20, 1995**

# ICMA

BISHKEK, KYRGHYZSTAN  
Facsimile Transmission

Date: 20 February 1995

From: Ron MacLachlan  
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To: Duane Beard, Resident Advisor  
Dale Rosenthal, Project Administrator

Subject: Task Order Progress Report-Interim  
Task Order No. 108 - MODIFICATION NO. 1  
Short Term Advisor on Real Estate and Construction Industry Development

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1. Progress Reporting.

(i) Progress made relative to the scope of work.

Housing Systems Demonstration Project

1.1 Real Estate Business Planning Clinics: A clinic is planned for Balychy in April. An eight-part television correspondence series on Kyrgyz National Television is planned for June.

1.2 Financing Proposals for condominium renovations: EBRD/Kurulush banks have agreed to finance a completion project for \$US 365,000. Phase I of the project is 35 units the sale of which will trigger financing of 65 more units. The Dresdner Bank has expressed a willingness to finance a 116 unit condominium completion; Chaika. The tittle must be cleared in a Court hearing scheduled for May. The press coverage of Chaika's struggle to get clear tittle has put further grist in the mill towards consideration of a comprehensive housing policy. A fourth project, a condominium renovation as opposed to apartment completion, is identified in Osh. The consultant is in Osh for an extended period working with the membership in preparing a plan.

1.3 Real Estate Business Planning Extension Services: In support of a Habitat for Humanity's initiative in Jalabad, a fifth project is being discussed. ICMA's involvement contemplates coordinating the initial planning efforts of the municipal authorities and the self help activities of Habitat (known locally as "Ashar") in construction of 400 single family houses. 8,000 detached housing units have been lost to earthquakes and mud slides over the last three years. Several international agencies and the national government have provided funds for reconstruction. The funds remain, in large part, unspent. Credible management provided by Habitat could accelerate the release of funds and the progress of the reconstruction.

1.4 The Consultant is working closely, daily, with Bereke International providing training and understanding of construction and business management for a 12-story project of who final budget is \$US707,000. The loan has closed and initial proceeds, \$37,000, will be paid in the first week of March. A high level delegation from the Department of State including an Under Secretary, is due to visit the Republic at the end of March. A presentation of the project will be made.

#### Land Disposition

2.1 Stimulating further municipal land disposition programs: Bishkek has been an unqualified success, collecting \$US20,000 at its last auction. The proceeds were several times larger than anticipated by the City. There was considerable press and television coverage. The auction process in Bishkek has gained credibility. Significant capital is coming into the economy through this vehicle. It has caught the public's imagination. It will be self sustaining long after USAID has departed. Apart from consultants' time, ICMA invested \$US2,000 into the Bishkek auction; advertising for its first auction in September, 1995.

Following several false starts, Osh is holding its first auction on 29 February. The Bishkek municipal organizers are assisting the Osh group. The consultant has discussed the auction process with the deputy Akim of Jalabad. At this point, there does not seem to be an interest in starting the auction process. Let us wait and see what effect the auction process in Osh produces in Jalabad before bypassing to Karakul. ICMA is considering a national conference on municipal land disposition in September, 1996.

2.2 Habitat: Please refer to 1.3 above

#### Competitive Procurement

3.1 Introductory Seminar. The consultant is meeting with Kumtor Operating Company next week to accomplish three things: (a) Set up a time to present a management briefing on Competitive Procurement, (b) Clarify the possibilities for

introductory seminar in Karakul, same subject, to the municipality and private contractors, and, (c) to define the willingness of Kumtor and the Karakul city administration to competitively bidding Kumtor's input of \$US1.5 million into Karakul infrastructure. A interim report will be made on this subject by 10 March.

3.2 Please refer to 3.1 above.

ii Identification of major issues and problems.

The absence of definitive legislation and established practice with regard to land tenure, types of ownership, mortgage instruments, impacts the inflow of capital for construction.

The inability of ministries, oblast and municipal administrators to control cash, to employ it to its intended purposes, is creating an accepted culture of waste and misappropriation. The absence of internalized public administrative practice is allowing the diversion of public funds to become the norm. Western based internationals are willing to play into this scenario to gain advantage.

iii Recommended modifications in activities for the subsequent period.

In the time left to the ICMA/USAID contract, focus on the end objective of national legislation and on those projects showing signs of either sustainability or success:

Enactment of National Housing Policy Legislation. Top priority now.

Financing, construction and/or renovation of apartment buildings. Encourage EBRD to open up its established and operative credit lines to include apartment completions or renovations.

Auction process expanded rapidly now to other cities. Consider a national conference.

Resident associations by bringing three or four active functioning associations on line. Pass the condominium legislation drafting over to the National Housing Policy group.

Support Habitat in Jalabad. This has sustainability.

Bring the issue of a competitive bidding demonstration project in Karakul to a head; yes or no depending on the wishes and interests of the city administration and Kumtor.

2. Provide Memorandum evaluating experience with each business planning seminar: None took place during this report period.