

## Kyrgyz Republic: Benefits of Securing and Registering Land for Development

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Since independence in 1991, the Government of the Kyrgyz Republic has sought to promote market reform. An important part of this reform is a program to privatize land and secure property rights in land and other immovable property. Prior to independence, all land was state property, with use rights granted to occupants. Most commercial buildings and structures were, likewise, state property. Rights to residential properties were presumed to be held by occupants, but there was no clear legal support or guarantee to these rights. The large majority of agricultural land was farmed collectively. Workers on these state and collective farms were allocated small household plots for their own production.

Following independence, a program was undertaken to privatize state property. The program appeared relatively straightforward in that most current occupants would be recognized as owners. Yet a number of complications arose. Some related to the privatization of state-owned enterprises, and to developing the concept of condominium for multi-unit residential

structures. Determining the extent of land holdings to be assigned to enterprises and multiple unit structures was likewise seriously problematic. For most of these, no land parcel boundaries had ever been determined. Even for parcels that had been defined on the ground, the question of legal boundaries was considered open to review. In rural areas, the process of privatizing the state and collective farms needed to be worked out, and the allocation of land rights to the members of those farms needed to be carried out.

By the latter part of the 1990s, the privatization program was well advanced. In rural areas, most agricultural land had been divided into private household farms. In urban areas questions remained concerning the legal formation and land rights of condominium associations, and land rights of these enterprises. Securing formal rights to immovable property was recognized as an essential step towards providing a stable, long-term framework for investment in the land and for enabling land markets to begin functioning efficiently and transparently.

In 1996 the US Agency for International Development (USAID), World Bank, and other development agencies began working with Kyrgyz experts to draft the Registration Law that would be adopted in 1998. In 1999 the State Agency for Registration of Rights (Gosregister) was established, based on the examples of a number of existing institutions, including the Soviet era Bureaus of Technical Inventory and the Land Agency, which maintained information on land in urban and rural areas respectively. This solution offered two significant advantages to the property registration effort. First, the new Agency would start with staff, physical infrastructure, and direct access to existing databases on immovable property. Second, it meant that one agency was responsible for registering rights to land and maintaining the land cadastre.



Reviewing field survey procedures in Gosregister





## THE KYRGYZ LAND AND REAL ESTATE REGISTRATION PROJECT

The Project became effective in the spring of 2000 following important preparatory work supported by the Policy and Human Resources Development Fund (PHRD). It supports the development of markets for land by securing and protecting property rights through a parcel-based title registration system. Specifically, it aims to:

- Increase the productivity and value of land and other real estate.
- Facilitate the use of property as collateral and reduce transaction costs in title transfer and mortgaging.

The project has two main components:

- It establishes a system for registering rights, including the development of business regulations and processes and the establishment of a nationwide network of Local Registration Offices (LROs) for secure registration of real estate parcels and associated rights.
- It supports an extensive program of systematic registration of rights, covering roughly three-quarters of the properties in the country in both urban and rural areas.

The project initially focused on building upon the 1998 Registration Law to develop registration procedures, and on getting the LROs up and running. Cost, affordability, and quality of services were important considerations. The Project benefited from the country's high education levels and relatively low labor costs. When the Project got underway, however, the level of information technology and related capabilities in Kyrgyzstan was relatively low. The early priority was therefore the elaboration of an efficient, paper-based registration system that was introduced in all LROs, and that could be automated over time where market demand for such automation emerged. This demand first became manifest in the Kyrgyzstan's two largest cities, Bishkek and Osh. There, automated operations led to significant increases in efficiency, and this demand soon spread. Today, roughly half of all LROs are automated and the



process continues to unfold in a phased manner consistent with sound business justification.

Gosregister leadership and Government commitment to the Project's objectives ensured relatively strong performance in terms of service delivery. Prior to begin-

ning operation, LRO staff underwent a training program followed by a certification exam. Former BTI directors, who were now slotted to become heads of the LROs were also evaluated - many were released. The LRO facilities were designed to be user-friendly, with appropriate client reception areas, posting of important information in both Russian and Kyrgyz, and separation of client reception from back-office operations.

The Government decided to establish the system of registering rights on a self-financing basis. A national fee schedule was established and LROs were allowed to retain the major share of revenues. 10 percent of revenues were channeled to the center and were available for transfer to lower revenue generating offices. LROs were established in all *rayons* to ensure access to services in sparsely populated areas. Some, therefore, needed to be cross-subsidized to sustain operations.

The second major direction of the Project has been the program of systematic registration. The Project has utilized pragmatic, low-cost procedures in land parcel surveys and adjudication, drawing upon information on immovable property in existing databases and relying on village and neighborhood community structures. In using existing mapping and survey information and using low-cost, pragmatic field survey work, the program sought to balance the accuracy of land parcel depictions with market demand for accurate information and the beneficiaries' willingness to pay over the longer term. Village and neighborhood block organizations have played a central role in communicating with the population during the registration program, from the initial publicity and orientation through the end of the public viewing period. Existing data on land occupancy were also helpful in reducing costs and facilitating roll-out. The program focused first on urban areas, where existing information was more plentiful and the level of activity in

immovable property markets was higher. As the program shifted to rural areas, the program was coordinated with earlier government-financed programs to divide the state and collective farms inherited from the Soviet period into individual shares.



*Customer service windows at the Bishkek City Gosregister Office*

From the early stages of implementation, the Project had in place a solid system of monitoring and evaluation, based on regional monitors located in each of the seven *oblasts* of Kyrgyzstan and with regular reporting to the center.

## **BENEFITS AND IMPACTS**

The primary beneficiaries of this project have ranged from private farmers to small- and medium-sized enterprises and urban property owners. Under the program of sporadic (on demand) registration, over 600,000 properties have been registered, of which more than half are secondary transactions. These levels of registration and secondary transactions reflect an annual growth of more than 10 percent in land and real estate transactions.

In urban areas, 1.25 million of the total 1.4 million properties have been registered under the systematic registration program, with the remaining already surveyed and awaiting further action. In 2004, the program was extended into rural areas. By the end of 2008, all the estimated 1.3 million rural property units are expected to be surveyed and the large majority registered. Comparing the number of total properties covered by systematic registration with the share of project costs devoted to this program results in a per property cost of about US\$2, substantially below international benchmarks. To reiterate, costs were kept low in urban areas by the availability of existing data on immovable property and pragmatic field methods. In rural areas, costs were held down thanks to the availability of land parcel information for villages and settlements, and utilization of pragmatic field methods.

The Project has helped to develop widely used procedures for regularizing titles when documentation is incomplete or when discrepancies exist between docu-


ments and the situation on the ground. Title to roughly 650,000 property units was regularized in this manner. The Project has made it possible to initiate mortgage lending; and although lending remains largely short-term for the time being, it represents a significant departure from conditions prior to the Project. The total cumulative annual value of

registered mortgages reached US\$1.6 billion during Project implementation, of which some US\$70 million (4.3 percent) is estimated to be outstanding residential mortgages. Using provisional figures, outstanding residential mortgages correspond to 2.3 percent of the GDP that was estimated at about US\$3 billion in 2006 using the current exchange rate. Hence, development of the mortgage market has been considerable in comparison with the baseline that showed almost no mortgage activity. World Bank rural finance interventions, particularly the Rural Finance II Project, were instrumental in kick-starting the Kyrgyz mortgage market.

There has been less impact on lease markets. The number of leases being registered has been modest, with little growth demonstrated after 2004, indicating that the perceived need for State guarantee of such rights is not strong. Tax disincentives may also be playing a role.

Transactions costs have declined significantly during the life of the Project. When project implementation began, the transactions tax on a sale of immovable property was 7 percent. The distorting effects of this in terms of unrecorded sales and gross understatement of sales price led Government to first reduce the tax to 5 percent and then to replace the transactions tax with a state duty that is effectively a much smaller share of the value of the property. Currently, land related transaction costs are estimated at less than 2 percent of property value for large and expensive estates and less than 1 percent for houses and apartments.

Despite the decline in the tax rate on transactions, Ministry of Finance data show that actual tax revenues from this source have increased because of the strong increase in property values in the last five years, as well as the strong increase in the number of sales.



In terms of client perceptions, a mid-term social assessment showed broad beneficiary support for the increased security of tenure provided by the Project. A more recent customer survey found that clients generally rate the quality of registration services as 'average', but that the overall role of the registration system is considered valuable in terms of securing property rights and improving access to credit markets. There is general satisfaction with the level of fees and accessibility of services, but a clear need to do more in the area of public information, maintenance and upgrading of staff skills, and greater accountability for mistakes entered in the system. Assessments of corruption are largely inconclusive. About one-third of clients and organizations thought that there was corruption, and only about half of these directly encountered it. When corruption occurs, it is to 'facilitate' procedures rather than to change decisions.

## LESSONS LEARNED AND ISSUES FOR WIDER APPLICABILITY

The Project confirms a number of principles with respect to land administration projects. First, the Project benefited very directly from having a single agency responsible for registering rights as well as for maintaining the cadastre. In similar cases elsewhere in the region where separate agencies are responsible for registration and cadastre, the results have not been as beneficial for the client in terms of speed and cost of transactions. Nor have systematic registration programs with a dual-agency approach been effective.

The systematic registration program benefited from the use of pragmatic land surveys, using administrative rather than judicial procedures for adjudication. Significantly, the pragmatic survey methods did increase the number of land disputes, and the straightforward procedures for regularizing titles have greatly expanded the coverage of the systematic registration programs.

Experience from the Project demonstrates the importance of focusing on the substance of the registration

work rather than the technology used in carrying it out. A necessary foundation for the success of the Project was the establishment of the legal and institutional framework during project preparation. This made for rapid progress when registration began. The practical lessons which later emerged were fed back into the system through adjustments in rules and procedures, as well as through some amendment to the underlying legislation. Throughout the process, technology was seen to be a facilitator when solid business justification existed, but not a solution to substantive problems in and of itself.

There has been good experience with the use of self-financing for the registration system in combination with a reasonable fee schedule. The use of budget financing in other countries of the ECA region has not been associated with the same level of service quality. The Project also demonstrates that attention to the issues of staff training, public information, and corruption needs to be ongoing and continuous.

The most essential success factor for the Project has been the continuity and strength of government commitment. Without the strength of leadership in the implementing agency, as well as the quality and extent of skills brought to oversee project implementation, none of the successes that have been achieved would have been possible.

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