

Country profiles on the housing sector



Azerbaijan

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COUNTRY PROFILES
ON
THE HOUSING SECTOR

AZERBAIJAN



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UNECE Information Service
Palais des Nations
CH-1211 Geneva 10
Switzerland

Phone: +41 (0) 22 917 44 44
Fax: +41 (0) 22 917 05 05
E-mail: info.ece@unece.org
Website: <http://www.unece.org>

FOREWORD


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

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

This country profile on the housing sector of Azerbaijan, prepared on request of the Ministry of Emergency Situations, is the fourteenth in the series published by the Committee on Housing and Land Management. The country profile programme continues to emphasize in-depth analysis and policy recommendations, but also focuses on specific challenges or achievements in the housing sector that are particularly relevant to the country under review. In the case of Azerbaijan, these issues are spatial planning and land administration, new and existing housing stock, and the financial framework. This country profile report lays out a set of policy recommendations. Their timely and effective implementation is regarded as crucial to meeting the challenges Azerbaijan currently faces.

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

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



Ján Kubiš
Executive Secretary
United Nations Economic Commission for Europe

PREFACE

This country profile on the housing sector of Azerbaijan was requested by the Ministry of Emergency Situations and began with a preparatory mission by the UNECE secretariat. A fact finding mission by the international expert team was carried out in May 2009. The project's expenses were covered by extra budgetary funds provided by the Government of Norway. The successful conclusion of the project would not have been possible without this generous support.

Previous studies in the series include Bulgaria (ECE/HBP/101, published in 1996), Poland (ECE/HBP/107, 1998), Slovakia (ECE/HBP 111, 1999), Lithuania (ECE/HBP/117, 2000), Romania (ECE/HBP/124, 2001), Republic of Moldova (ECE/HBP/125, 2002), Albania (ECE/HBP/130, 2003), Armenia (ECE/HBP/132, 2004), Russian Federation (ECE/HBP/131, 2004), Serbia and Montenegro (ECE/HBP/139, 2006), Georgia (ECE/HBP/143, 2007), Belarus (ECE/HBP/150, 2009) and Kyrgyzstan (ECE/HPB/157, 2010).

Previous work carried out by UNECE in Azerbaijan includes the Environmental Performance Review of Azerbaijan (2004, ECE/CEP/122).

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

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

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INTERNATIONAL EXPERTS

Ms. Christina von Schweinichen (UNECE)	Team Leader
Ms. Paola Deda (UNECE)	Project Leader
Mr. Jakob Krupka (UNECE)	Coordinator of the UNECE mission
Ms. Cecilia Batac (UNECE)	Socio-economic conditions and housing policy framework
Ms. Dinara Abjamilova (MercyCorps, Kyrgyzstan)	Coordinator of field assessments
Ms. Anna Badyina (University of Oxford, UK)	Spatial planning and land administration
Ms. Natia Jokhadze (National Curriculum and Assessment Centre, Georgia)	Existing housing stock, new construction and utilities
Mr. Andrey Tumanov (Institute for Urban Economic, The Russian Federation)	Financial framework for the housing and land sectors

The international experts provided inputs on their above-mentioned areas of expertise. Although this mainly involved drafting one specific chapter, parts of their work have been allocated to different chapters for the purposes of clarity. The legal framework has been fully incorporated as appropriate. The final publication should therefore be considered as the result of a joint effort.

NATIONAL EXPERTS

Mr. Aghamirza Ganmirzayev	Head, Technical Regulation and Licensing Branch, State Committee for Urban Planning and Architecture
Mr. Elbay Gasimzadeh	First Secretary of the Union of Architects, President, “EI&EN” design company and former Head Architect of Baku city
Ms. Zenfira Rzayeva	Head, Legal Department, State Agency for Control over Safety in Construction, Ministry of Emergency Situations
Mr. Hidayat Quliyev	Head of the expert group, “ASPI Engineering Consulting” Co., former Head, Municipal Economy Department, former State Committee of the Municipal Economy
Mr. Rashid Heydarov	Chief Adviser, Real Estate Cadastre Department, Real Estate State Registry Service
Mr. Azer Khanlarov	Ph.D, Deputy Director, S. Dadashev Research and Design Institute, State Agency for Control over Safety in Construction, Ministry of Emergency Situations

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ABBREVIATIONS AND ACRONYMS

ACDI/VOCA	The former Agricultural Cooperative Development International/ Volunteers in Overseas Cooperative Assistance
ADB	Asian Development Bank
AMF	Azerbaijan Mortgage Fund
Azersu JSC	Azersu Open-Type Joint Stock Company
AZN	Azerbaijani Manat (the national currency)
DTI	Debt to income ratio
ECSSD	Environmentally and socially sustainable development network
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross domestic product
GIS	Geographic information systems
HBS	Household budget survey
HCCs	Housing-construction cooperatives
IDPs	Internally displaced persons
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
KfW	Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute)
LAS	Land administration systems
LTV	Loan-to-value
MDGs	Millennium Development Goals
MES	Ministry of Emergency Situations
MFI	Microfinance institution
NAPS	National Automated Property System
NGO	Non-governmental organization
OHCHR	Office of the United Nations High Commissioner for Human Rights
PMU	Project Management Unit
PTI	Payment to income ratio
RER	Real Estate Registration project
SCUPA	State Committee on Urban Planning and Architecture

SCMSP	State Committee for Management of State Property
SCPI	State Committee on Property Issues
SCLC	State Committee on Land and Cartography
SMEs	Small and medium-sized enterprises
SNIP	Normative technical documentation
SOFAR	State Oil Fund of the Azerbaijan Republic
SOFAZ	State Oil Fund under the Cabinet of Ministers of the Republic of Azerbaijan
SPPRED	State Programme for Poverty Reduction and Economic Development
SPSEDR	State Programme on the Social-Economic Development of Regions of the Republic of Azerbaijan
SSC	State Statistical Committee of the Republic of Azerbaijan
SSRE	State Service on Real Estate
SSRRE	State Service for the Registration of Real Estate
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
URRECS	Unified Registration and Real Estate Cadastre System
USAID	United States Agency for International Development
VAT	Value added tax
WHO	World Health Organization

Exchange rate: 1 USD = 0,80 Azerbaijani Manat ((AZN)(February 2010))

This summary provides an overview of the housing and land management situation in Azerbaijan, covering general characteristics, challenges and policy recommendations.

The country enjoys a strategic geographical location between Europe and Asia and has significant natural resources, including reasonably fertile soil, adequate for growing crops, and particularly oil and gas. However, its transition to a free market has been slow. Economic growth relies heavily on oil and gas, and efforts to diversify into non-oil sectors have had limited impact thus far. Poverty and unemployment remain problematic, especially for internally displaced persons (IDPs) and refugees. Despite Government policies encouraging people's return to rural areas, urbanization continues because cities such as Baku still offer more economic opportunities. In the meantime, the existing stock of multifamily housing is deteriorating as a result of hasty privatization processes and the lack of sufficient housing management and maintenance.

Bureaucratic burdens and legal constraints undermine the coherent development of housing, encouraging urban sprawl and the construction of informal settlements. The general state of the Azerbaijani housing sector is defined by both context-specific issues and broader problems typical of transition economies. Specifically, there is a lack of systematic legislation in planning and construction, while building permit applications may often entail up to 30 steps. Equally important, there is a general absence of statistical data and proper real estate valuation mechanisms, which severely limits financing opportunities and people's access to affordable housing, further aggravating the problem of illegal settlements. All these challenges are interrelated and warrant further exploration.

First, the institutional framework governing housing policies is unclear and overcrowded. There are too many actors dealing with scattered parts of Azerbaijan's housing sector, which undermines their accountability and efficiency.

There is a significant lack of adequate human resources both in terms of numbers and individual skills. Institutions such as the State Committee for Urban Planning and Architecture are understaffed, despite the large number of students graduating each year from the Azerbaijan University of Construction and Architecture. From this angle, the communal services sector fares even worse, as there are no related courses for students and a shortage of utilities, maintenance and management specialists. The situation is not much better in the private sector, where there are few qualified valuers of real estate properties and limited personnel experienced in mortgage lending.

There is a broad lack of access to reliable information and statistics on the housing sector. The State Statistical Committee publishes an annual yearbook titled *Construction in Azerbaijan*, which is useful to stakeholders in the industry. However, there is no complete record of buildings, physical infrastructure and housing stock, which makes it difficult to establish a land administration system with proper registration, standardized valuation mechanisms and a wider taxation base.

In 2005 the GDP growth rate more than doubled compared to the previous years in the last decade. Moreover, the adoption of economic reform packages by the state enabled a stable improvement in the economic performance. In 2006, Azerbaijan had the highest gross domestic product (GDP) growth rate worldwide, at 34.5 per cent, mainly as a result of increased oil revenues from the record-setting oil prices in 2005. Despite the post-2007 slowdown, attributable to the global economic crisis and rising inflation rate, Azerbaijan's economy is still expanding at double-digit rates and is considered to be one of the fastest growing in the world. Economic situation in 2009 remained strong, with GDP at 9.3 per cent more than the GDP in 2008.

The oil and gas sector has been consistently leading all other economic sectors in terms of growth ratio to GDP (Table 2) From 2006 to 2008, oil and gas revenues accounted for more than 50 per cent of the GDP. While the non-oil sector - led by construction, services and agriculture - has also been growing, the oil sector's share of the economy is so large that it warrants concern and limits economic diversification.

The development of master plans for long-term spatial planning and urban development has been slow or non-existent, while the general framework remains the one inherited from the Soviet era. This has undermined the implementation of proper legislation and standards concerning new construction, exacerbating the lack of proper urban development control. Despite the recent prioritization of master planning, the focus is mostly on land use, without paying sufficient attention to environmental, communal and urban-economical aspects. Looking ahead, policymakers should not only update long-standing master plans, but do it through an open and transparent process that encourages feedback from local communities.

Azerbaijan faces serious problems in terms of informal settlements and urban sprawl. About 30 per cent of the population lives in illegal developments, many concentrated in the Baku and Absheron regions. There are several drivers of this phenomenon. The lack of proper legislation and lax enforcement allow the spread of illegal housing, but the deeper causes are related to migration, primarily due to military conflicts, political instability and poverty. More recently, people from poor rural regions have begun moving to Baku in search of better employment opportunities, while oil-driven growth has further intensified urban sprawl. The problem of illegal settlements is also connected with the bureaucratic red tape involved in obtaining building permits and registrations. Tired of waiting, developers sometimes start construction after getting only preliminary permission; such projects often remain with unclear legal status.

Relations between developers and owners are not properly regulated. Because housing units are cheaper to buy in the construction stage, some people prefer to acquire unfinished apartments and do the completion themselves. In the meantime, consumer rights remain unprotected and developers can get away with low-quality work and significant delays. Given the current financial crisis, many developers have frozen or abandoned construction projects, increasing the risk of failure to finish already sold units. The new Housing Code promises to clarify developer-owner relations.

Many housing units have very poor utilities. While supported by State expenses, many IDPs live in collective centres with minimal utilities such as communal bathrooms. But even multifamily houses have poor heating and hot water systems and low-quality water supplies. Local authorities in charge of providing such services have limited resources, as the problem of non-payment is widespread among the population and there are no sufficient enforcement mechanisms.

Finally, there are great challenges related to housing finance in Azerbaijan. A general lack of resources for maintaining apartments is apparent at both the individual and State levels. Privatization put many new owners in charge of maintaining deteriorating buildings from the 1950s, but many cannot afford such expenses. Moreover, the State maintains ownership of and responsibility for common areas, thereby discouraging competition between private maintenance companies. The State's resources are also severely limited by an underdeveloped taxation system in which property taxes are extremely low, while State properties, including common areas, are not taxed at all.

As for the financing available for buying new properties, it is extremely expensive and limited. While growing, the mortgage sector remains underdeveloped, with extremely high interest rates, while microfinance institutions (MFIs) only provide small loans. The underlying problems relate to underdeveloped capital markets and the lack of appraisal standards, which make proper valuations of properties extremely challenging. Further efforts should also seek to educate consumers with respect to available financing.

Keeping in mind all of these challenges, this report recommends the following to improve the situation of housing and land management in Azerbaijan: (a) ***adopting a coherent and transparent institutional framework***; (b) ***promoting the development of human capital in housing-related activities***; (c) ***updating spatial planning in line with current realities***; (d) ***improving the general regulatory framework and standards, and ensuring their enforcement fairly and consistently***; (e) ***developing data processing and***

statistics to create a complete mass inventory of units; (f) adopting and promoting social housing policies to cover all vulnerable groups; (g) completing privatization processes to grant unit dwellers ownership over buildings' common areas; (h) creating housing subsidy systems and facilitating private investment in housing; and (i) promoting the development of mortgage markets based on proper real estate appraisal systems.

Beyond such formal recommendations, it is important to recognize that any progress in the areas of housing and land management will depend on the political will of decision makers in Azerbaijan. Without proper prioritization of these issues on the Government's agenda, improving people's access to decent, affordable housing will remain problematic. Recent measures and programmes implemented by the Government provide grounds for optimism, but there is still room for improvement. To that end, the solutions and recommendations presented in this report are straightforward and viable, but their implementation will ultimately require a stronger commitment from all relevant stakeholders in Azerbaijan.



Picture 1. Downtown Baku - coast of the Caspian Sea
Source: UNECE

Chapter I

SOCIO-ECONOMIC CONDITIONS AND HOUSING POLICY FRAMEWORK

A. General information

Geographic situation

Azerbaijan is the largest country in the South Caucasus region. It is situated at the crossroads between Europe and Asia in a strategic position for economic and cultural relations. The country borders the Russian Federation to the north, the Caspian Sea to the east, Georgia to the north-west, Armenia to the west, the Islamic Republic of Iran to the south and Turkey to the south-west. The Nagorno-Karabakh region, which has an Armenian population as the majority, is situated within the borders of Azerbaijan. The Nakhchivan Autonomous Republic, located between the Islamic Republic of Iran and Armenia, is also part of Azerbaijan, but is separated from the rest of the country by a strip of Armenian territory.

Azerbaijan has a total land area of 86,600 km², of which 54.9 per cent is agricultural land.¹ The country has reasonably fertile soil, adequate for growing crops, and is well endowed with natural resources, particularly oil and gas.

Political system

On 23 September 1989, Azerbaijan was among the first Soviet republics to adopt its own Constitutional Law on Sovereignty. The retrieval of independence culminated in the adoption by the Supreme Council of the Republic of Azerbaijan of a declaration restoring State independence on 31 August 1991. This was followed on 18 October 1991 by the passage of an act establishing the State independence for the Republic of Azerbaijan.

The Constitution of the Republic of Azerbaijan was adopted through a referendum held on 12 November 1995, and amended on 24 August 2002, through a similar process. According to the Constitution, State power in Azerbaijan is divided into three branches: legislative, executive, and judicial.

Legislative power is vested in the one-chamber Parliament, the Milli Mejlis, which consists of 125 deputies elected by the Azerbaijani people, for five-year mandates.

Executive power in Azerbaijan is exercised by its President. The President appoints the Cabinet of Ministers, which carries out the President's policies and duties and is subordinate and accountable to the President. The Cabinet of Ministers consists of a Prime Minister, deputies, ministers and the heads of other central executive agencies. The results of the referendum held in March 2009 allow the President to extend his term if military operations in the eventuality of war make a Presidential election impossible. This replaces item 5 of Article 101 of the Constitution, which stated that no one can be elected as President of the Azerbaijan Republic more than twice.

Judicial power is implemented solely by the courts of the Republic of Azerbaijan. The Constitutional Court, consisting of nine judges, is the highest judicial power in Azerbaijan.

Administratively, Azerbaijan consists of one autonomous region – the Nakhchivan Autonomous Republic - and 66 districts or *rayons*. Azerbaijan has 69 cities, the largest of which is Baku, the capital, 13 districts of cities, 240 settlements and 4,279 rural settlements. Baku is a major harbour on the Caspian Sea.

The Nakhchivan Autonomous Republic consists of six districts. Nakhchivan has its own Parliament, the Ali Majlis, which holds legislative power. Its Chairman is the highest-ranking official of the Nakhichevan Autonomous Republic. Judicial power is vested in the courts of the Nakhchivan Autonomous Republic, while executive power is held by its Cabinet of Ministers.²

¹ State Statistical Committee of the Republic of Azerbaijan, 2009. *Azerbaijan in Figures 2009*, p. 143.

² Chapter VIII of Article 134 of the Constitution of the Republic of Azerbaijan.



Map No. 3761 Rev. 7 UNITED NATIONS
February 2008

Department of Field Support
Cartographic Section

Picture 2. Map of Azerbaijan
Source: UN Department of field support

The Constitution of the Republic of Azerbaijan and its laws and decrees govern the whole country, including the Nakhchivan Autonomous Republic. Laws and resolutions enacted by the Government of the Nakhchivan Autonomous Republic must not contradict State laws and resolutions.

B. Socio-economic conditions

Overall economic development

The years following the retrieval of independence in 1991 were marked by radical change in the country's politics, economy and society. On top of the challenges of such transformation, Azerbaijan faced an armed conflict with Armenia over the territory of Nagorno-Karabach, resulting in the occupation of about 20

per cent of the country's territory and the displacement of more than 1 million people, or 13 per cent of the population.³ As a result of the war, 16 per cent of the existing housing stock of Azerbaijan was destroyed.

In 1995, following the establishment of a ceasefire agreement with Armenia in 1994, Azerbaijan's economy showed clear signs of improvement for the first time since gaining its independence. This was the result of having signed petroleum exploration contracts with major international oil companies—known as the “Contract of the Century”—and the adoption of economic reform packages by the State,

³ Azerbaijan Human Development Report 1996, p. 15.

implemented in partnership with national and international organizations. Subsequent years showed stable economic performance (Table 1), and in 2005 economic growth more than doubled compared to the previous year's performance.

In 2006, Azerbaijan had the highest gross domestic product (GDP) growth rate worldwide, at 34.5 per cent, mainly as a result of increased oil revenues from the record-setting oil prices in 2005. Despite the post-2007 slowdown, attributable to the global economic crisis and rising inflation rate, Azerbaijan's economy is still expanding at double-digit rates and is considered to be one of the fastest growing in the world. Economic situation in 2009 remained strong, with GDP at 9.3 per cent more than the GDP in 2008.

The oil and gas sector has been consistently leading all other economic sectors in terms of growth ratio to GDP (Table 2). From 2006 to 2008, revenues from oil and gas extraction accounted for more than 50 per cent of the GDP. While the non-oil sector—led by construction, services and agriculture—has also been growing, the oil sector's share of the economy is so large that it warrants concern and limits economic diversification.

Nonetheless, a reflection of the booming economy can be seen in the construction sector, where new projects with both residential and non-residential buildings are sprouting up, especially in Baku. Residential construction has exhibited a substantial increase since 2003: from 803,000 m² of new housing construction in 2002, the number increased to 1.339 million m² in 2003 and then averaged 1 million m² for the period 2003–2008.⁴ The construction industry is a major source of employment and its development would mean greater employment opportunities for the population, even if these were more short-term opportunities than sustainable ones.

While the economic performance of Azerbaijan has been remarkable, long-term prospects for economic progress and sustainable growth will depend on a number of factors. These include global oil prices, the exploitation of new oil and gas pipelines, development in the private sector and the Government's ability to manage oil

revenues, diversify the economy and promote balanced and coherent regional socio-economic development. The Government of Azerbaijan has taken steps towards sustainable economic growth and continues to do so through the implementation of various measures such as:

- the creation of the State Oil Fund of the Azerbaijan Republic (SOFAR) to manage its oil and gas revenues and serve as a tool for developing and strengthening the non-oil sector, the regions, small- and medium-sized enterprises (SMEs), the large-scale development of infrastructure, the implementation of poverty-reduction measures and the development of human capital.⁵

- the adoption of, inter alia, a wide range of reform programmes targeting poverty reduction, the privatization of State properties, the drafting and implementation of an employment strategy, and the overall socio-economic development of the regions.

Table 1. Gross domestic product

Indicator	in million manat	growth in %
1995	2133.8	-11.8
1996	2732.6	1.3
1997	3158.3	5.8
1998	3440.6	10
1999	3775.1	7.4
2000	4718.1	11.1
2001	5315.6	9.9
2002	6062.5	10.3
2003	7146.5	11.2
2004	8530.2	10.2
2005	12522.5	26.4
2006	18746.2	34.5
2007	26815.1	25
2008	38005.7	10.8

Source: Azerbaijan in Figures 2009, State Statistical Committee of the Republic of Azerbaijan.

⁴ *Azerbaijan in Figures 2009*; State Statistical Committee of the Republic of Azerbaijan.

⁵ Presidential Decree No. 128, dated 27 September 2007.

Table 2. Gross domestic product by sector (percentage)

	2000	2003	2004	2005	2006	2007	2008
GDP	100	100	100	100	100	100	100
Sector:							
Industry	36.0	37.2	38.3	47.5	57.3	59.5	57.4
oil and gas extraction	27.6	27.5	28.9	39.3	50.8	53.6	52.5
Agriculture	15.9	12.2	10.8	9.0	6.7	6.4	5.7
Construction	6.5	11.2	12.5	10.0	7.7	6.7	7.6
Other	41.6	39.4	38.4	33.5	28.3	27.4	29.2

Source: Azerbaijan in Figures 2009, State Statistical Committee of the Republic of Azerbaijan

Poverty and employment

Poverty in Azerbaijan has dropped significantly, but the Government continues to recognize it as an obstacle to sustainable development and it remains one of its key priorities. The completion of the first national poverty reduction programme, the State Programme for Poverty Reduction and Economic Development (SPPRED) 2003–2005, has contributed to reducing the country's poverty level to less than 20 per cent⁶ in 2008. A second poverty reduction programme is currently in the implementation phase, this time a 10-year programme (2006–2015) to allow better alignment of the country's national development strategy with the United Nations Millennium Development Goals (MDGs).⁷ Both of these programmes are in line with the global MDGs, as they share poverty reduction as an ultimate goal.

The National 2003 Household Budget Survey (HBS) shows that the poverty level in rural areas (45.3 per cent) is higher than in urban areas (44.1 per cent). In Baku, the level of poverty (35.4 per cent) is the lowest compared to all the other regions. For the same year, the poverty level of the entire country was 44.7 per cent.

The official level of registered unemployment in Azerbaijan continues to decrease. It was 6.1 per cent in 2008, but estimates based on the 1999 census data suggest that the non-registered unemployment rate is about 15.8 per cent. However, it is believed that there are high levels of informal economic activity in Azerbaijan; statistics

are difficult to gather. The informal economy may take many forms, including that of undeclared income from part-time, temporary or home-based jobs. The provision of employment to internally displaced persons (IDPs) also remains a problem. It is estimated that over 70 per cent of the working-age IDP population is without work and means of livelihood. It is likely that a number of these people also contribute to the informal economy. Rural employment is slightly better than urban employment thanks to opportunities for agricultural self-employment promoted by the land reform. Furthermore, the oil sector, which comprises the bulk of the enormous growth, is a capital-intensive industry that provides few jobs⁸. Creating employment opportunities in the non-oil sector is one of the challenges the Government faces. The Government recognizes that the private sector is a tool for generating employment and has promoted its development by creating an environment that encourages foreign investment and domestic business.

The State Programme of Privatization in the Republic of Azerbaijan for 1995–1998 was adopted as a basis to trigger the privatization process. A second stage of the privatization began with the adoption of the Law on Privatization of State Property and the Second State Programme on Privatization of State Property in the Republic of Azerbaijan, in August 2000.

Laws and measures have aimed at creating a favourable environment for private sector development. Measures have included removing the State control of prices and production, combating corruption (with the anti-corruption law, in force since 2005), reducing red tape and

⁶ State Statistical Committee of the Republic of Azerbaijan.

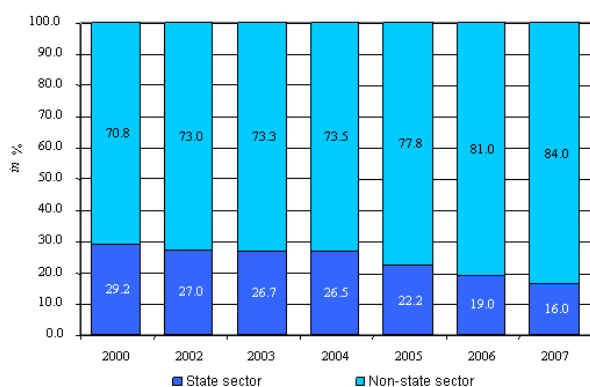
⁷ "Progress Report 2003/2004 on SPPRED 2003–2005 and achievement of MDGs", p. 11.

⁸ UNDP, Living Conditions in the Azerbaijan Republic 2005.

restructuring banks, among others. In 2009, the World Bank's Doing Business 2009 report ranked Azerbaijan as one of the world's top reformers in terms of streamlining business regulations. In 2008, the private sector's share of the GDP was 84.5 per cent, as compared to 30 per cent in 1995. Figure 1 shows the comparative share of GDP of the State and non-State sectors from 2000 to 2007.

The Government of Azerbaijan is also trying to sustain the country's economic progress by supporting the socio-economic development of the regions in order to improve people's living conditions and increase employment. The concentration of the country's industrial sector and construction of large infrastructures in Baku city has encouraged migration to the capital. This has had a negative effect on regional economic development and has led to the emergence of regional differences. The Government has shown its support for accelerating regional economic development through the SPSEDR in the period 2004–2008. The Programme's main objective is the consistent and coordinated implementation of measures to ensure efficient use of regional resources. It also seeks to develop sectors of particular importance to the economic regions, to further expand the production by enterprises, to stimulate the export-oriented production of goods, to increase employment by fostering local entrepreneurship, to further improve the population's standard of living and to develop the economy in a dynamic way.

Figure 1. GDP share of State and non-State sectors



Source: *Azerbaijan in Figures 2008*, State Statistical Committee of the Republic of Azerbaijan website.

To continue the implementation of these objectives, a decree was signed approving the State Programme of Socio-Economic Development of

Regions of Azerbaijan for 2009–2013, which aims to further diversify the economy and integrate it into the global economy, to improve the level of infrastructure and public services, and to raise living standards.

As its fertile farmland and wide range of climatic zones are conducive to growing crops, Azerbaijan's agriculture sector is a strong potential contributor to the country's sustainable economic growth. Agriculture comes after oil and construction in Azerbaijan's economic hierarchy, but offers the greatest opportunities in terms of employment. In 2006, the agriculture sector accounted for 39.1 per cent of total employment, as compared to only 1 per cent for the oil sector.

C. Population and migration

Population and demographic trends

The country's population was approximately 8.73 million at the end of 2008, with more than half living in urban areas. According to 2005 official data, the population of Baku city was 1,873,600 inhabitants, plus 258,300 IDPs. The density in Baku city is 25–30 persons per m².

Statistics show a big leap in the urban population from its 24 per cent share of the total in 1913 to 36.1 per cent after the 1917 revolution. Increasing urbanization continued until the late 1950s, with the urban population accounting for 47.8 per cent of the total population in 1959. The rapid rise in urbanization was put to a halt through administrative measures taken to stop the migration of the rural population to towns and to slow down the population growth within the town.

Migration

Poverty, employment and armed conflicts are factors that have a major influence on migration processes in Azerbaijan. A significant share of migrants consists of IDPs and refugees. Most are those displaced by the past conflict over Nagorno-Karabakh. Currently, Azerbaijan has approximately 1 million refugees and IDPs⁹. Given Azerbaijan's population, it has the largest per capita refugee and IDP burden in the world.

⁹ Azerbaijan Human Development Report 1996, p. 15.

The people moving from rural to urban areas, in particular to Baku and the Absheron Peninsula, are the primary drivers of the social economic migration occurring in Azerbaijan. People move to these areas in search of employment and improvement of life quality. The Government is working to encourage the return of migrants to rural areas, with corresponding measures in the SPSEDR and the State Programme on the Improvement of Living Conditions of Refugees and Internally Displaced Persons.

The development of the country's economy and its favourable geographical location are attracting foreigners to Azerbaijan and, equally important, are fostering appropriate conditions for the return of those who have left the country.

D. Institutional framework

With the dissolution of the former Soviet Union, a new economic and political system emerged in Azerbaijan.¹⁰ Independence served as the foundation for a new Constitution in 1995, replacing the 1978 Constitution adopted under the Soviet rule.

Under the new Constitution, the Milli Mejlis (the Parliament) holds legislative power in Azerbaijan. The laws passed by the Parliament are submitted to the President for signature or approval. The right to initiate laws and other issues for discussion in Parliament belongs to the Members of the Parliament, the President, the Constitutional Court of Azerbaijan and the Ali Majlis of the Nakhchivan Autonomous Republic. The President does not have the right to dissolve the Milli Mejlis, but can veto its decisions.

The President, aside from monitoring the implementation of all laws adopted by Parliament, issues decrees, orders, laws, acts and instructions. The responsibilities of the President include, among others: (a) submitting the State budget to the Parliament for ratification; (b) supervising the election of Parliament members; (c) approving national economic and social programmes; (d) setting up central and local executive bodies; (e) appointing and dismissing members of the Cabinet of Ministers; (f) proposing appointments and

dismissals of Constitutional Court judges and of members of the Board Committee of the Central Bank of Azerbaijan; and (g) annulling Resolutions and Orders of the Cabinet of Ministers of the Republic of Azerbaijan, the Cabinet of Ministers of the Nakhichevan Autonomous Republic, as well as acts of central and local executive bodies.

For the President, the Cabinet of Ministers is an executive tool to ensure the implementation of State programmes and policies and to facilitate the supervision of ministries and other central executive agencies of the Office of the President. The Cabinet of Ministers is also responsible for drafting the State budget for submission to the President. The Prime Minister, appointed by the President with the consent of the Parliament, is Chairman of the Cabinet of Ministers. The Cabinet of Ministers is subordinate to the President who defines the activities of the Cabinet.

Local self-government in Azerbaijan is carried out by the municipalities. Their authority includes the adoption of local taxes and duties, the approval of the local budget, decisions on the use and disposal of municipal property, implementation of local programmes on social protection, and promotion of social and economic development. Actions taken by the municipalities should be based on the current legal framework and must not contradict Azerbaijan's Constitution and laws, or any of the decrees of the President and the Cabinet of Ministers.

Prior to 1993, housing policies at the national and local levels were administered by the Ministry of Housing and Communal Services of the Republic of Azerbaijan. In May 1993, the Ministry was reorganized and became the Committee of Housing and Communal Services under the Cabinet of Ministers of the Republic of Azerbaijan. In April 2001, a Presidential decree abolished the Committee and transferred its national-level functions to the State Committee for Construction and Architecture. The State Committee for Construction and Architecture was abolished in 2006. It was responsible for the elaboration, approval, and regulation of standard legal principles of the country's urban development. After gaining independence, Azerbaijan had to modify its Construction Standards and Regulations, as these had been previously intended for the entire territory of the former Soviet Union and were not properly customized to local conditions in Azerbaijan. The State Committee was

¹⁰ UNDP Azerbaijan, E-Governance in Azerbaijan, <http://www.un-az.org/undp/doc/egov/part1.php>.

engaged in elaborating new standards and rules to develop towns and other settlements. These standards and rules, as far as State construction is concerned, are as follows:

(a) Regulation of development, agreement, examination and approval of urban planning documents;

(b) Urban development and regulations for the planning, building, and improvement of towns, settlements, and rural populated areas. Looking ahead, it was recognized that it is imperative to develop standards and rules for condominiums, as they constitute an important element of the management of the housing sector.

At present, national housing policies are administered by the Cabinet of Ministers, with the involvement of the following institutions:

State Agency of Control on Security in Construction and the Ministry of Emergency Situations

The State Agency of Control on Security in Construction (hereinafter, the Agency) of the Ministry of Emergency Situations (MES) was confirmed by Order No. 511 of the President of Republic of Azerbaijan on 29 December 2006. Its main task is to take part in preparing national-level policies relating to safety in all stages of construction projects on the country's territory. The Agency abides by and follows the Constitution, international agreements, and decrees and orders from the President, the Cabinet of Ministers and MES. The Agency's staff and its departments are assigned by MES. The Chief of the Agency, also assigned by MES, supervises the Agency's activities. The Agency's directions and tasks are established by the President. Its main activities involve:

- Preparing proposals:
 - For developing State policy and regulating mechanisms for protecting territory, sites and buildings against natural disasters, and ensuring safety in construction;
 - For improving the rules for determining the technical requisites of land allocated for construction, for architecture planning permissions, and also ensuring the engineering of the construction;

- Taking part in:
 - Preparing legal documents in matters concerning construction;
 - Developing the national concept of Azerbaijan regarding the prevention of emergency situations and reduction of their impacts;
 - Creating a geographic information system (GIS) for emergency situations management;
 - Identifying areas prone to natural disasters.
- Developing programmes containing measures for improving the seismic stability of buildings;
- Identifying the causes of damage to buildings and construction;
- Carrying out rehabilitation works;
- Preparing general plans, projects, and zoning regulations of cities and regional centres;
- Oversight of other State organs and self-governments, to ensure that they follow norms and requirements regarding safety in urban planning and land use;
- Organizing State inspections of construction sites and issuing decisions on the following:
 - Compliance of towns' and regional centres' general plans vis-à-vis safety norms;
 - Compliance of buildings under construction with norms for construction safety and seismic stability.
- Taking part in the certification of imported and domestic construction materials, equipment and mechanisms;
- Accrediting the laboratories that analyse construction materials;
- Establishing prices for structures constructed under the State budget;
- Taking part in accepting sites under construction or repaired buildings, regardless of ownership type;
- Creating a single information and archive system for documents related to topographic, geodesy and engineering/geological, construction and rehabilitation works.

A Presidential decree was issued on 31 August 2007 giving additional authority to MES to intervene in construction projects. The move was designed to ensure quality standards in construction, hence strengthening governmental control over this sector. MES ensures that construction regulations are enforced and stops

construction activities that do not comply with established standards and norms.

State Real Estate Registry Service

Presidential Decree No.188, issued on 7 February 2005, established the State Real Estate Registry Service (hereinafter, the Service) to act as the central executive body fulfilling State registration of property rights. The Service has 24 territorial departments, which cover all regions of the country. As the result of the conflict with Armenia, only 20 territorial departments operate at present. The central apparatus of the Service is funded by the State budget, while its regional bodies are self-financed. The apparatus and territorial departments of the Service, as well as the State Real Estate Register Service of the Nakhchivan Autonomous Republic, make up the united system of the Service. The Service's activities include:

Implementing State registration of property rights to real estate and other property rights in the State register (known as the State registration of rights);

- Designing and carrying out the unified real estate cadastre;
- Conducting inventory works required for the State registration of rights, as well as developing relevant technical documentation;
- Drafting new plans for land areas according to the regulations;
- Ensuring that real values of construction, including buildings, plants, dwelling and non-dwelling areas, individual dwelling units and property complexes are assessed based on their inventory and market position.

The Service is managed by a Chief appointed by the President and has two deputies appointed by the Prime Minister. The President also approves the number of employees of the Service.

In May 2009, a Presidential Decree established the State Committee of Property Affairs of Azerbaijan, which assures that the State Property Management Committee and State Real Estate Register Service operate under the newly established Committee. The decision was made to improve the efficiency of State management of

privatization and State registration of ownership rights for real estate.¹¹

State Committee on Urban Planning and Architecture

On 3 December 2007, Order No. 31 of the Republic of Azerbaijan established the State Committee on Urban Planning and Architecture (SCUPA). SCUPA is the central organ of power that implements State policy and regulations in urban planning and architecture. SCUPA operates according to the Constitution, laws, decrees and orders of the President and is financed by the State budget and other sources. SCUPA is led by a Chairman with two Deputies, appointed by the President. The Board of SCUPA consists of the Chairman, the Deputy Chairman, the Chief of the Nakhchivan Autonomous Republic responsible for urban planning and architecture, and scientists and specialists. The Board members and its size are confirmed by the Cabinet of Ministries.

The Committee is responsible for:

- Participating in the development of a single State policy on urban planning and architecture, and coordinating its implementation;
- In cooperation with other executive organs, preserving the historical city structure and the national architecture;
- Creating normative methodologies for the State urban planning cadastre;
- Improving the quality and sustainability of architectural design.

Housing policies at the local level are administered by local executive agencies, while the municipalities are not directly involved in these processes.

Local executive offices

As an example, the Baku City Executive Authority is profiled here.

The Baku City Housing Department was established on the basis of Order 444 dated 12 May 1999, issued by the Head of Baku City Executive

¹¹ Azerbaijan Business Centre website, accessed 20 May 2009 (http://abc.az/eng/news_20_05_2009_35015.html).

Authority and entitled “On actions of improvement of the management system of Baku city’s housing”. The Department was established as the sole management body dealing with the city’s housing under the Head of the Baku City Executive Authority. The Department seeks to improve housing so as to fully meet the population’s housing needs. It manages the housing under its jurisdiction and adopts measures to protect it. The Department is in charge of ensuring proper sanitation for the city and it also performs functions within the limits of the mandate given by Baku City Executive Authority in the field of basic repairs and construction. The area of Department’s activities cover: (a) basic repairs, modernization and construction of houses and communal establishments; (b) technical service for elevator breakdowns and the replacement of elevators, when necessary; (c) operations and repair of city roads; (d) protection and reconstruction of cemeteries and alleys; (e) operations and repair of fountains and underground passages; and (g) other functions relating to city housing.

The Housing Department’s structure includes:

- The Management Office of the Department
- Housing Units
- The “Lifttemir” Production Unit
- Population Citizenship Service Trust
- Baku City Road Operations Department
- Administrative Buildings Operations Department
- Special Assigned Motor Transport Department
- Supply and Completion Department
- Baku City Fountains Operations Department
- Other services.

The Baku City Main Fundamental Construction and Repair Department is responsible for construction and basic repairs of residential units, communal establishments, roads and a number of public buildings. It assists citizens and organizations with the construction of dwellings and organizes technical inspections.

Main Department for Architecture and Town Building

In accordance with an Order of the Cabinet of Ministers of the Republic of Azerbaijan, the Department for Architecture and Construction has been functioning as the Main Department for

Architecture and Town Building since 1969. The Baku City Advertisement and Information Department and the city district’s construction design departments are operated by the Main Department for Architecture and Town Building. The tasks of the Main Department for Architecture and Town Building include:

- Managing design and construction in the city;
- Managing implementation of the main plan for the city and suburban areas;
- Ensuring effective and purposeful construction;
- Designing and building new dwellings and industrial districts;
- Reconstruction of existing dwellings and industry districts, to provide more suitable housing conditions for the population;
- Directing and supervising the protection, restoration and use of monuments;
- Submitting proposals on rules concerning construction, reconstruction, restoration, basic repair, greening issues and the improvement of design and construction norms.

Housing Cooperative Farm Department

The functions of the Housing Cooperative Farm Department are:

- Registering housing construction cooperatives (HCCs);
- Approving statutes of HCCs;
- Granting orders on the basis of documents submitted by HCC management;
- Enacting orders on the re-registration of flats on the basis of documents submitted by HCCs;
- Studying complaints and applications received by HCCs and taking appropriate measures.

Other institutions that deal with housing and housing-related needs are the following:

The State Oil Fund under the Cabinet of Ministers of the Republic of Azerbaijan (SOFAZ) is a legal entity and an extra budgetary institution. It was established in 1999 through the Presidential Decree No. 240 of the Republic of Azerbaijan for the purpose of ensuring intergenerational, equal and beneficial sharing of the country’s oil wealth. In compliance with regulations relating to SOFAZ, the Fund’s assets may be used for construction and reconstruction of strategically important infrastructure to support the socio-economic

progress.¹² One of its major projects is the building of housing and the general improvement of socio-economic conditions of refugees and IDPs forced to flee their native lands as a result of the Armenian-Azerbaijani conflict. Since 2001, SOFAZ has been allocating money for this purpose. The Fund's assets have been utilized to develop settlements' infrastructure and for the construction of housing and social facilities for refugees and IDPs in different regions of Azerbaijan.¹³

Resources allocated for projects are transferred by SOFAZ to the State treasury accounts of the *State Committee on Affairs of Refugees and Internally Displaced Persons*, as well as to the *Social Development Fund for Internally Displaced Persons*, based on their written, substantiated requests. These are subsequently disbursed to contractors by the implementing agencies.¹⁴ The *Social Development Fund for Internally Displaced Persons under the Cabinet of Ministers of the Republic of Azerbaijan and the Agency for Rehabilitation and Reconstruction of Liberated Areas* execute projects associated with the settlement of IDPs and refugees. These agencies are responsible for overall supervision of projects' implementation, for carrying out bidding processes and other relevant proceedings, and for the organization and coordination of projects through local offices.¹⁵

The *State Committee of the Azerbaijan Republic on Affairs of Refugees and IDPs* is based on Presidential Decree No. 187 dated February 2005. The Committee's main duty is to help formulate and implement State policy resolving matters related to Azerbaijan's refugees and IDPs, inter alia temporary settlements, improving living conditions in regions evacuated after the conflict with Armenia and carrying out construction and repair work. The Committee has a central apparatus, regional departments and other sections. The number of staff and the list of organizations under the Committee are approved by the Cabinet

of Ministers. The Committee is headed by a Chairman who, together with the Deputy Chairman, is appointed by the President.

The *State Statistical Committee of the Republic of Azerbaijan* (SSC) was created by Presidential Decree No. 323 on 24 November 2005, to act as the central executive body for State policy in the field of statistics. It is mandated to collect official statistics on the country's social, economic and demographic situation on the basis of a unified methodology. Its activities are guided by the Constitution and laws of Azerbaijan, by decrees and orders of the President, by decisions and orders of the Cabinet of Ministers, and by its Statute. The central office and local divisions of SSC are financed through the State budget.

SSC conducts population censuses and household budget surveys and also produces official statistics on several topics, including construction. SSC publishes an annual statistical yearbook (*Construction in Azerbaijan*) that contains indicators for construction development in the country. The yearbook reports information on new enterprises, the volume of foreign and domestic investment in construction, the volume of construction activities, the number of employees engaged in construction projects, residential construction, living conditions of the population, and many other related indicators.

By a Presidential order of 11 June 2004 entitled "On improvement of management in the field of water supply system in the Republic of Azerbaijan", the Absheron Regional Joint Stock Water Company became the *Azersu Joint Stock Company* (Azersu JSC). The former had been established in 1995 by decision of Milli Majlis to improve the water supply in the cities of Baku and Sumgayit and on the Absheron peninsula. All Azersu JSC stocks are owned by the State. The main functions of the company are: (a) managing subordinate institutions; (b) coordinating and supervising their actions organizing water supply and sewage services; and (c) developing proposals regarding the implementation of State policy in this area.

The *Azerbaijan Mortgage Fund* (AMF, under the Central Bank of Azerbaijan) was established in December 2005 on the basis of a draft regulation in line with the Presidential decree on development of the mortgage market. The document regulates long-term soft loans to allow individuals to buy

¹² Azerbaijan Online Portal, accessed 3 April 2009 (http://www.azerbaijan.az/_StatePower/_CommitteeConcern/_committeeConcern_e.html#3).

¹³ State Oil Fund of the Republic of Azerbaijan. Online. 30 April 2009. <http://www.oilfund.az/en/content/10/87>.

¹⁴ Ibid.

¹⁵ Ibid.

apartments. AMF started extending mortgages in March 2006. However, in June 2007 it stopped issuing mortgages because of a shortage of finances. In 2009, the State budget allocated funds to AMF for the purpose of resuming mortgages for the non-disadvantaged. This will enable citizens to purchase apartments through mortgages in both new buildings and the secondary market.

International and national organizations

The *United Nations system in Azerbaijan* supports Azerbaijan's development by creating an enabling environment for improving good governance, reducing poverty, ensuring respect for human rights and gender equality, and meeting people's basic health and education needs. The United Nations system is represented in the country by the United Nations Department of Public Information, the Food and Agriculture Organization of the United Nations (FAO), the International Labour Organization (ILO), the International Office for Migration (IOM), the International Monetary Fund (IMF), the Office of the High Commissioner for Human Rights (OHCHR), the United Nations Development Programme (UNDP), the United Nations Population Fund (UNFPA), the United Nations Children's Fund (UNICEF), the United Nations High Commissioner for Refugees (UNHCR), the United Nations Office on Drugs and Crime (UNODC), the World Bank, the World Food Programme and the World Health Organization (WHO). Specific projects related to the housing and land management are mentioned in the chapters below.

UNDP helped establish the *Azerbaijan Reconstruction and Rehabilitation Agency*, a local NGO responsible for (a) coordinating reconstruction activities in war-torn areas, (b) supporting the resettlement of IDPs and refugees, and (c) funding activities generating incomes for vulnerable populations.¹⁶

The *World Bank Group* focuses on assisting national and local governments with formulating policies and programmes relating to two aspects of the housing sector: (a) linking real estate market

development to overall economic development; and (b) making the housing market more efficient to provide adequate shelter for all city dwellers. Through its *International Finance Corporation* (IFC), the World Bank engages in housing programmes that help develop the country's mortgage sector and increase home buyers' access to funding. IFC finances private sector investments, mobilizes private capital in local and international financial markets, and provides advisory services to businesses and Governments to help foster sustainable economic growth.

Operations of the *Asian Development Bank* (ADB) in Azerbaijan began in 2000 and have included projects administered or directly funded by ADB that aim to reduce poverty. ADB was also involved in a housing project that substantially improved the living conditions of IDPs.

The *Union of Architects of Azerbaijan* is a public entity that acts as a consultative body. It develops creative concepts, and together with State organs promotes the country's architecture. It also protects historical architecture. In addition, the Union works to improve architectural education through better professional qualifications for architects. It is involved in architectural studies, issues public opinions on architectural matters, and initiates public involvement in discussions related to projects. The Union promotes the accomplishments of Azerbaijan's architecture, organizes competitions and promotes artistic works. It cooperates with unions of architects in other countries and other creative unions.

The Union of Architects operates according to the Constitution of the Republic of Azerbaijan, Azerbaijani laws and the Union of Architects charter. The Union's sources of financing are membership dues collected from State planning organizations using architects' services, volunteer citizens and organizations, and sales from artistic work.

The *Azerbaijan University of Construction and Architecture* was initially a construction institute within the Baku State University. Since 1930, the University has evolved into a State-financed higher-education institution. In 2000, it was given the name Azerbaijan University of Construction and Architecture by a Presidential decree. The University has about 5,000 students who study in seven sections: Architecture, Construction, Water Supply and Communication

¹⁶ UNDP Azerbaijan, <http://www.un-az.org/undp/sehife.php?lang=eng&page=0101>, accessed 3 April 2009.

Systems Engineering, Transport, Construction Technology, Construction-Economy, and Mechanization and Automation. The University is also involved in scientific research work that examines architectural problems and construction.



Picture 3. Multifamily housing in Baku
Source: UNECE

A. Spatial planning

Regional-urban disparities

Judging from the experience of many UNECE member countries, in order to strengthen its competitive position in the global economic environment Azerbaijan will need to improve its territorial cohesion. Developing an effective spatial planning system to promote spatial balance and consolidation should therefore be one of the Government's key priorities.

Today, Azerbaijan faces a difficult challenge in terms of redistributing economic growth from Baku and the Absheron region, which account for about 90 per cent of all oil and non-oil investments in the country.¹⁷ As mentioned earlier, regional disparities have been addressed in the wider national framework defined by the State Programme for Poverty Reduction and Economic Development for 2003–2005, the State Programme for Poverty Reduction and Sustainable Development for 2008–2015, the State Programme for Socio-Economic Development of Azerbaijan's Regions for 2004–2008 and the State Programme for Socio-Economic Development of Azerbaijan's Regions for 2009–2013. These programmes have created more jobs, social services and utilities. Importantly, the Government has achieved a remarkable reduction in the poverty rate, from 50 per cent in 2005 to 13 per cent in 2008.¹⁸ These four programmes also link up with broader international programmes related to sustainable development, poverty reduction and social equality, most notably the Millennium Development Goals.¹⁹

Despite such achievements, the gap in living standards within and between different regions remains significant.²⁰ For instance, in the Absheron region alone, strong economic growth occurs alongside widening socio-spatial disparities,

deteriorating housing and infrastructure, and increasing environmental problems. The Absheron region also stands out with regard to the above-mentioned national programmes; it has attracted 1,424 out of 2,426 new enterprises nationally.²¹ The region takes up only 3.9 per cent of Azerbaijan's territory, but it produces 80 per cent of overall industrial output while the socio-economic potential of many regions in Azerbaijan remains unfulfilled. A social survey conducted by the Azerbaijan Regional Development Centre in 2008–2009 revealed economic and social inequalities between the country's regions. For instance, only one third of the respondents were satisfied with their living standards, including access to gas, heating, drinking water, decent housing and infrastructure and leisure facilities. Paradoxes were also found: for example, Agstafinskiy Region produces building materials but has very poor roads itself. Given the condition of uneven spatial development, it is necessary for regional socio-economic programmes to be accompanied by a comprehensive spatial planning system as well as spatial impact assessment.

A new spatial planning system could serve to coordinate a wide spectrum of government policies (health, employment, education, culture, and environment), thereby contributing to more balanced and sustainable outcomes of national policies. Specifically, socio-economic and sustainable development strategies as well as economic planning supervised by the Ministry of Economic Development could be complemented by spatial development strategies and spatial planning aiming to reduce regional disparities.

Spatial planning also unifies housing programmes such as affordable housing programmes for the development of social services, physical and transport infrastructure, and economic development. It thereby has the potential to substantially improve living conditions. This role of spatial planning should be recognized in the national strategic frameworks mentioned above.

¹⁷ ESCAP, 2007.

¹⁸ United Nations, 2009; World Bank, 2003; Regional Development Centre in Azerbaijan, 2009a

¹⁹ UNECE, 2006.

²⁰ Regional Development Centre in Azerbaijan, 2009b.

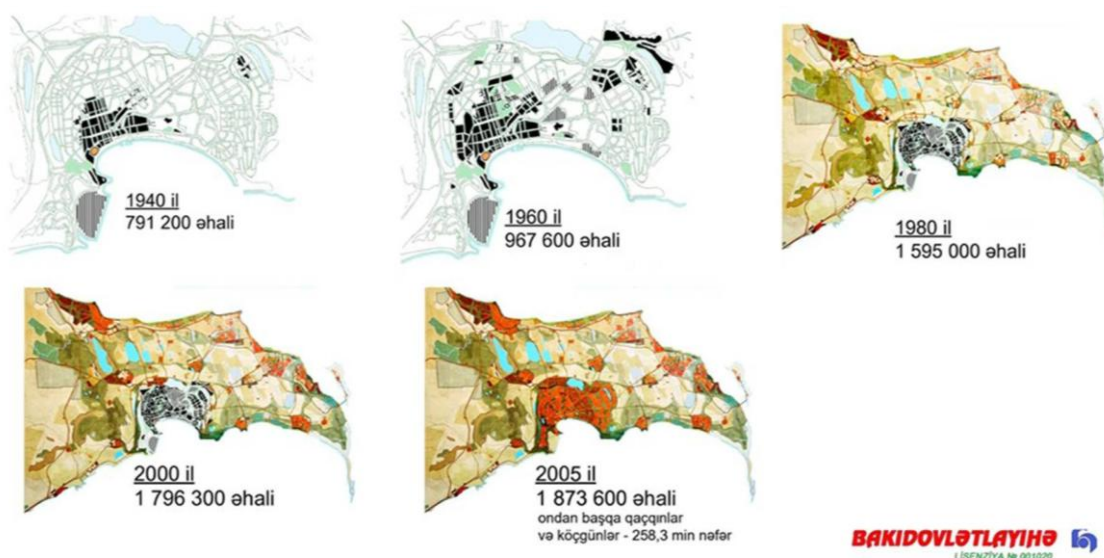
²¹ Regional Development Centre in Azerbaijan, 2009b.

Spatial planning and urban development in Azerbaijan

Spatial planning has not been among the first priorities in the broader market economy transformation Azerbaijan is experiencing. The lack of a forward-looking approach to urban planning has led to urban development being

implemented in a very limited way. As seen in Box 1, harmonizing development of urban areas and guiding them effectively are still major challenges.

Figure 2. Master Plan of Baku City



Source: State Committee on Urban Development and Architecture

While there is a lack of systematic legislation in planning and construction, key existing documents include the Law of the Republic of Azerbaijan on the Fundamentals of Urban Development of 11 June 1999 and the Law of the Republic of Azerbaijan on Architectural Activity of 15 May 1998. There are also Presidential decrees and regulations of the Cabinet of Ministers that deal with specific issues, inter alia the introduction of urban planning and land cadastres and the updating of master plans for *rayons* and cities²². Master plans of some cities have been partly updated to reflect new changes. Figure 2 shows the Master Plan of Baku City,

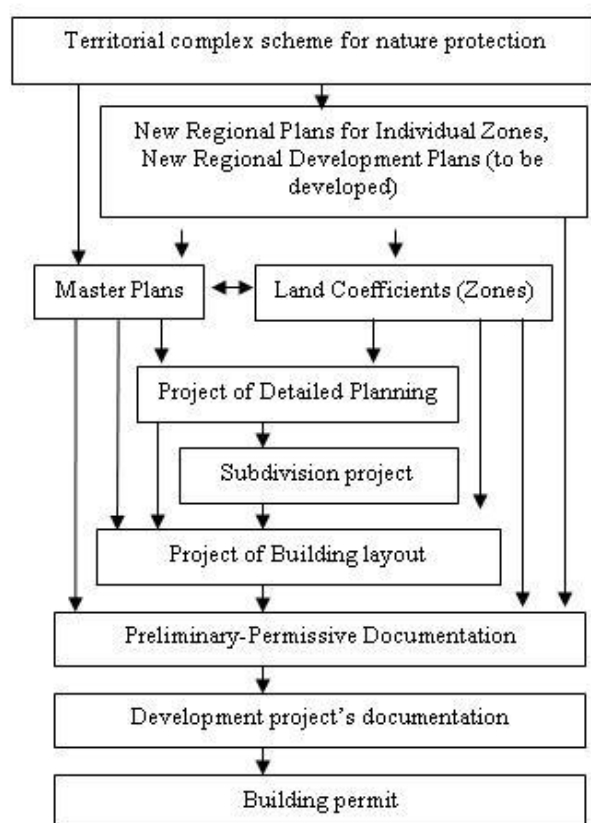
systematically updated up until its expiry in 2005. A new master plan for Baku has not yet been elaborated.

Figure 3 shows the structure of the current planning and planning permit system, which was inherited from the Soviet period. It also includes the recently introduced Territorial Complex Scheme for Nature Protection and the new Regional Plans for Industrial Zones.

Under recent State socio-economic development programmes, the planning system has seen some changes. Regional development plans will be developed for the new economic regions of Azerbaijan, and settlements will have to update their old master plans or develop new ones.

²² Based on an interview with authorities of the State Committee on Urban Development and Architecture.

Figure 3. System of planning and permitting in Azerbaijan



Source: Process visualization presented in Golubchikov, 2004, p. 234.

Planning and development control

Local-level architectural and planning bodies are required to implement national planning policy through control of the development. Figure 4 shows the formal development management procedure and the actual practices, based on the case of Baku.

Estimates indicate that planning and building permit application for a developer entails about 30 steps.²³ Receiving these approvals involves the following stages: (a) getting preliminary planning permission and transferring 10 per cent of the building costs to the local budget (see Figure 4, stages 1–5); (b) obtaining a “construction passport” (stages 6–10); and (c) receiving the building permit (the beginning of construction per se, stages 11–12). However, a widespread practice is to start construction with only “preliminary planning

permission”.²⁴ This is happening because the procedures for getting the planning and building permits are unclear and are taking place in too many stages. Mechanisms to enforce planning and building norms and rules are also insufficiently defined.²⁵ In addition, control of the development only takes into account issues such as material and land use development, without assessing the broader effects of the development project on the surrounding environment, communities and urban economy. It also does not consider how the development project may be affected by other projects.



Picture 4. Façade of an apartment house in Baku

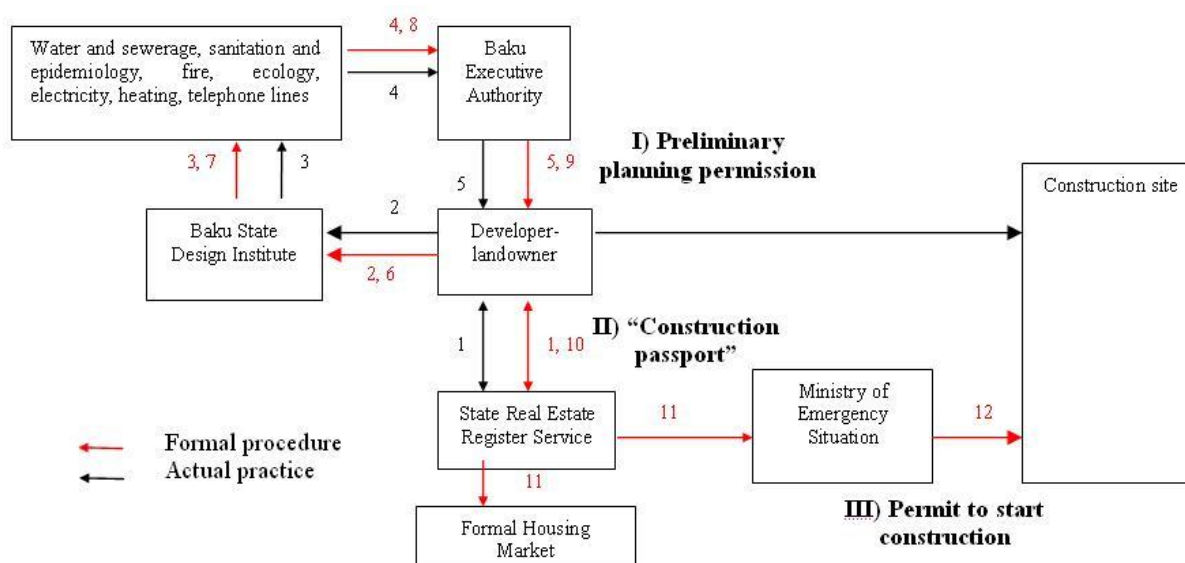
Source: UNECE

²³ IBRD/World Bank, 2009.

²⁴ Novosti-Azerbaijan, 2009b.

²⁵ Findings from interviews with authorities.

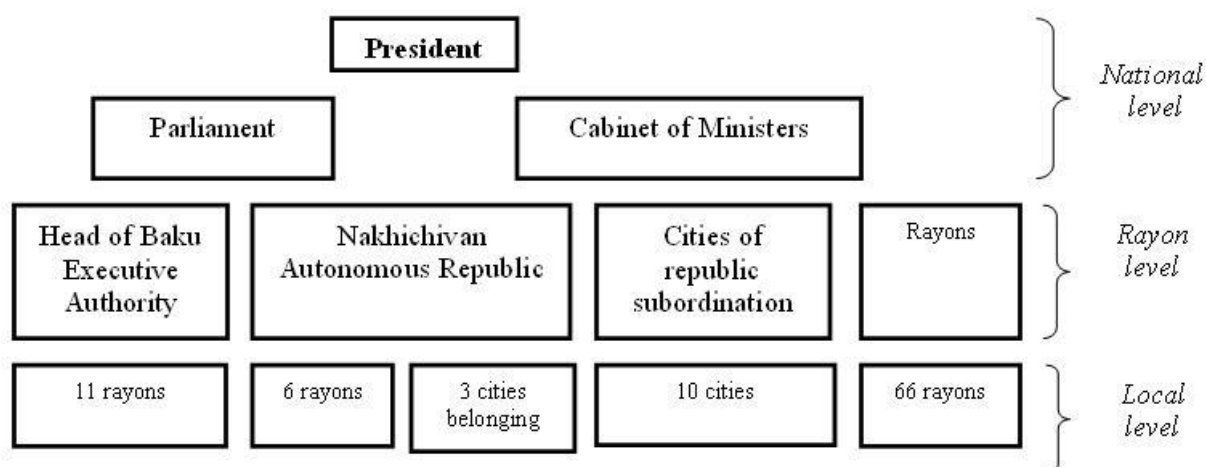
Figure 4. Formal and actual development control in Baku city



Source: Based on IBRD/World Bank, 2009

The recent emergence of the regional level in strategic planning

Figure 5. Administrative-territorial division of Azerbaijan in 2003



Source: Based on UNDP, 2003

Figure 5 shows the administrative-territorial division of Azerbaijan in 2003. In recent years, however, Azerbaijan’s regionalization has taken shape through State strategic programmes for socio-economic development and poverty reduction. Overall, 10 economic regions were formed (see Picture 5). Several key factors were used to define the regions: economic and geographical position, natural conditions and resources, population density, sectoral and territorial structure, and historical aspects. This regionalization will serve as the basis for the

development of regional development plans as part of the State Programme for Socio-Economic Development of the Regions of the Republic of Azerbaijan for 2009–2013.²⁶

²⁶ Findings from an interview with authorities of the State Committee on Urban Development and Architecture.

Picture 5. Recent regionalization of Azerbaijan



Source: State Committee on Urban Development and Architecture

Recent trends in the governance structure

The Government is improving the administration of planning and construction activities. In 2007, the State Committee on Urban Development and Architecture was set up by Presidential decree to design, regulate and implement the uniform urban development policy, planning and architecture. Formally, the allocation of land plots for construction is subject to review by the relevant local executive authority (see chapter I for the role of municipality and local executive body functions). This review is done by the local offices of the State Committee on Land and Cartography, and by the planning body under the executive authority at the *rayon*/city level. Cooperation between these bodies and the State Committee on Urban Development and Architecture is not clearly defined. Moreover, on 30 August 2007, after the collapse of a newly built residential building (see Box 1), bringing more order to inconsistent construction practices was given high priority, notably in the Presidential Decree No. 624 “On the Strengthening of State Control over the Construction Sphere in the Republic of Azerbaijan”. To better supervise building processes and systematize building regulations, the Decree established the State Agency for Control over Safety in Construction.²⁷ The Agency has also representatives at the regional level.

²⁷ Based on interviews with authorities at the State Agency for Control over Safety in Construction.

Recent development of spatial plans

Although master planning has not been a high priority during the last 15 years, some design projects have nonetheless been undertaken. One example is a design project for the “Greater Baku” (1986–2005), which includes Baku city, the industrial town of Sumgait and a number of smaller towns and settlements on the Absheron peninsula (see Picture 6). Together, they form an area of 3,400 km², with approximately 4 million residents - about half of Azerbaijan’s population. Unfortunately, due to illegal land occupation and unsuccessful management of the land, the plan was never realized.

Picture 6. Design project for Greater Baku



Source: State Committee on Urban Development and Architecture

In recent years, the State has increased its investments in urban planning activities from 850,000 AZN in 2008 to 2 million AZN in 2009 (UNDP, 2009). This has led to the development of master plans for 10 cities and several urban redevelopment projects in the Absheron region and Baku (Pictures 7 and 8).

In 2009, the World Bank signed an agreement with the State Committee on Urban Development and Architecture to assist with master planning for Greater Baku and to coordinate participation of different stakeholders.

Picture 7. Urban planning

H. Əliyev prospekti boyunca tikililərin konsepsiyası



Source: State Committee on Urban Development and Architecture

The Bank initially allocated USD 5 million. In March 2009, the State Committee on Urban Development and Architecture announced the recruitment of a consultant, as part of the World Bank loan agreement, to develop three components for the Greater Baku Master Plan: (a) new maps and GIS for the design of a rational planning system and an information system for planning based on the latest technologies; (b) regional and strategic plans; and (c) institutional arrangements for the design of regional plans and data exchange (ABC, 2009b). In April 2009, 35 bids from foreign companies in 16 countries were received. Six are to be selected for further stages of the competition for implementing the Greater Baku Master Plan (ABC, 2009a).

Planning authorities believe that the approval of the State Programme on Socio-Economic Development of the Regions of the Republic of Azerbaijan for 2009–2013 ushered in a new stage for spatial planning in the country. According to the Programme, the State Committee on Urban Development and Architecture is expected to create regional development plans (Figure 3). The State Committee expects a vast amount of work, including generation of a significant volume of economic, demographic, and environmental data that will allow for extensive analysis of the regional development trends and improved formulation of plans.²⁸ A recently conducted

²⁸ Findings from an interview with the State Committee on Urban Development and Architecture.

comprehensive population census is also considered to be a key document for the Committee's work.

Picture 8. Hippodrome reconstruction

Çadır meydanı ərazisində yaşayış kompleksinin konsepsiyası



Source: State Committee on Urban Development and Architecture

New urban development and construction regimes

Drafts of the Urban Development and Construction Codes are now being considered by a special Parliamentary Committee. The documents are expected to systematize planning and building regulations. A parallel development of these two regimes is explained by the fact that planning and construction are supervised by two different executive bodies: the State Committee on Urban Development and Architecture, and the State Agency for Control over Safety in Construction, respectively. The Agency was the initiator of the draft Construction Code and now works in the Parliamentary Committee. The State Committee initiated the draft Urban Development Code in December 2008. The Code passed the first reading, but was subjected to substantial revision. While there is discussion in the Parliamentary Committee about the amalgamation of these two complementary regimes, these laws should remain separate, as two different controls.

Box 1. Unbalanced land development in Baku city



Picture 9. Pirouz Khanlou. October 2005 (in Khanlou)

Irregular and imbalanced land development in Baku is a worrying phenomenon. The city centre gives the first impression of the buildings being carefully looked after; but a jumble of broken roads, beautified facades of decrepit buildings, unplanned residential infill, and the lack of green space are very soon a recognized reality. Being in a strategic position—the “face” of Azerbaijan—Baku provides an extreme example of uneven urban improvement that affects the city’s unity and cohesiveness. A free market economy and democratization were associated with the lack of planning. These phenomena, accompanied by increases in oil revenues, have fuelled the development of a profit-driven housing construction market with limited consideration of spatial and social issues. Between 2000 and 2005, about 500 high-rise buildings (15–25 storeys) and thousands of new luxurious low-rise buildings were constructed, completely changing the land use pattern and character of the city. Nowadays, most housing developers in Baku continue to build without planning or proper coordination. Moreover, new residential infill occupies formerly public spaces. The legislative vacuum, along with the lack of clear planning concepts, have served as justification for ad hoc practices of land allocation. This creates an “unhealthy” built environment that not only puts government and private investments at risk, but will also have detrimental effects on the well-being of the residents for many years to come.

Illegal residential infill and “ghost buildings”

In 2007, a whole new 16-storey residential infill building collapsed in downtown Baku, taking several lives. The building was built without taking account of the closely surrounding houses, which eventually led to a disastrous landslide. According to a 2007 Presidential Decree, each new house is now subject to inspection by the newly formed Agency for Control over Safety in Construction. To date, the Agency has already raised concern about the safety of approximately 200 houses. Furthermore, peculiar housing development in Baku is that the city’s landscape is dominated by unfinished multifamily houses (“shell houses”) that are already in operation, but lack connections to water, sewerage, etc. because the builders did not apply for the permits required by the Baku City Executive Authority at the start of the project. Such houses are therefore illegal de jure, but de facto very widespread.



Picture 10. Demolished building after earthquake in Baku, August 2007
Source: Day.az

B. Land administration

Land management and land administration

The draft on Urban Development Code regulates the development of settlements, cities, and *rayons*. The Code consists of six chapters and 52 articles. These cover aspects such as the assessment of socio-economic development, creating favourable living conditions for the population, designing master plans and supervising their implementation, protecting historical environments, modernizing infrastructure in small cities, building pedestrian walkways and developing green areas. Interviews show that the document was based on the Russian Urban Development Code. It remains to be seen how the Code adheres to sustainable development principles and whether it provides for any monitoring and assessment mechanisms.

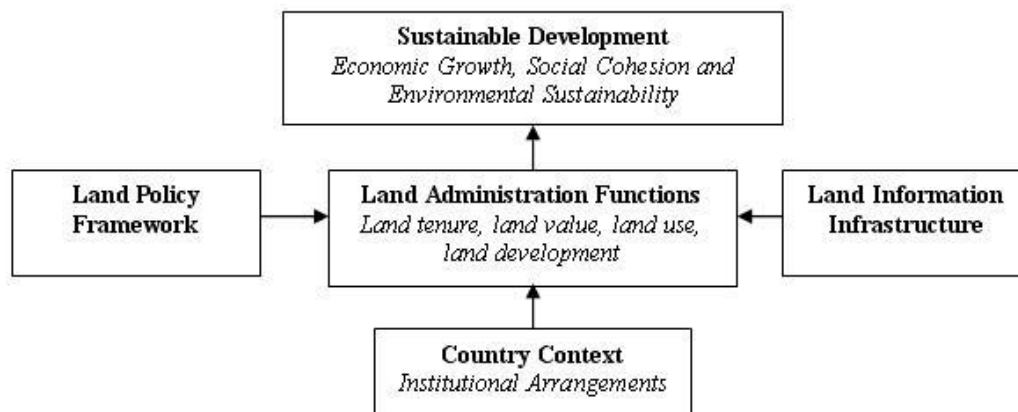
The draft Construction Code includes about 200 articles that set standards for aspects of building design, health, and safety of people in and around buildings. The Code will also bring order to the organization of the overall construction process. The document contains links to the existing normative-technical documentation (SNIP), and further reconsiders the relationship between participants in the construction process (e.g. builders, residents). Equally important, there are provisions on mechanisms for updating, applying, and enforcing building standards and rules. Penalties and administrative responsibilities for non-compliance are likewise included. Nonetheless, it is also necessary that building regulations set standards for meeting national targets for sustainable development, poverty reduction and socio-economic development.

Land administration systems provide the infrastructure for implementing a country's land-related policies and land management strategies (Williamson et al., 2008). Such systems include the marine environment, buildings and all long-lasting structures attached to or under the surface. Mapping, cadastral surveying and registration practices are all familiar functions of land administration; however, a broader role of land administration is organizing sound land management that promotes economic, social, and environmental sustainability. Figure 6. *A sound land management concept*

Figure 6 presents a modern conceptual understanding of a coherent land administration system that takes into account the socio-cultural and institutional arrangements in a particular country, the need for good land information infrastructures and a comprehensive land policy framework (Enemark, Williamson et al., 2005).

As an integrated system, land administration should effectively support the wider government agenda relating to sustainable development and poverty reduction in Azerbaijan. Land information infrastructure (e.g. real estate registration and the real estate cadastre) is fundamental, as it represents a vital information layer for an integrated land management system.

Figure 6. A sound land management concept



Source: Based on Enemark et al., 2005

Legal framework

Since the mid-1990s, a substantial body of legislation has been created that includes: the Law on Privatization of State Property (7 January 1993), the Constitution (27 November 1995), the Law on Land Reform (16 July 1996), the Land Code (25 June 1999), the Law on Mortgage (3 July 1998/15 April, 2005), the Law on Land Tax (24 December 1996), the Law on Leasing (30 April 1992), the Law on State Land Cadastre, Land Monitoring and Land Management (22 December 1998), the Civil Code (28 December 1999), the Law on Land Lease (12 March 1999), the Law on Land Market (26 December 1999), the Law on State Register of Real Estate (29 July 2004/29 June 2004), the Law on Management of Municipal Land (29 June 2001/28 October 2008), the Law on Privatization of Housing Stock in Azerbaijan (26 January 1993), as well as about 50 other relevant laws, decrees and legal acts. Currently, a draft Law on the State Cadastre of Real Estate is being considered.

The land reform and its impact on the land administration system

The land reform has resulted in three types of landownership: the State has 56.9 per cent, municipalities 23.7 per cent, and private interests 19.4 per cent (UNECE, 2007). The land reforms have introduced new principles and relations into the land sector, and have allowed for free-of-charge allocation of land to citizens. They have also introduced payments for land use, conditions for land transaction, peasant and husbandry farms, a specialized land fund for individual housing construction, a new land registration and cadastre system, and monitoring of land use and protection.

In rural areas, initial mass privatization of State agricultural enterprises based on a ballot distribution of land assets has provided equal access to the land resources of these enterprises for the rural population. This was seen as an effective reform, as the private sector made up 98 per cent of the agricultural production in 2000 (UNECE, 2007). As many as 2,651 family farms and 1,191 collective enterprises have been created, while 869,000 families have become landowners. A major problem, however, is that the infrastructure inherited from the Soviet period is 80 per cent dilapidated; there is also a problem of land fragmentation and the need for modernized strategic land management systems (ibid). In urban areas, the effect of land and housing privatization

has been rather challenging, as cities have lost their strategic management of land resources, allowing irregular private development practices. Public areas with essential social and physical facilities for residents have been replaced with commercial housing.²⁹ Moreover, while citizens have received rights to their housing assets (apartments), common areas in buildings and the land under housing estates continue to be managed by municipal authorities.

State and municipal land

Municipalities have become responsible for organizing the use of their land. In reality, both rural and urban local governance structures lack sufficient capacity to make effective decisions, acquire proper knowledge of land tools (zoning, subdivision, negotiation, and taxation) and summon the financial resources for strategic organization and systematic control of their land resources.

The State holds the largest land share, which includes land under buildings belonging to governmental authorities and State enterprises. The land reform provided the State with new opportunities for privatization and effective property management. These required the establishment of the State Committee for Management of State Property through a Presidential Decree of 16 September 2005. However, effective asset management practices have not yet been developed, and currently major attention is being given to selling land plots of former State enterprises to private entrepreneurs.

Overall, the management of State and municipal land is neither coordinated nor transparent. Poor management of the State land resources can be inferred from the fact that the State administration is not always aware of how much land it owns.³⁰ Since 2009, however, a new regulation stipulates that State and municipal land can only be privatized through open auction, which may eventually make the system more transparent.

²⁹ Based on observations during the research mission in May 2009, as well as interviews with authorities.

³⁰ Findings from the fieldwork interviews.

The governance framework

The State Committee on Land and Cartography (SCLC) and its *rayon* offices are in charge of the land reform. SCLC: (a) carries out land management, geodesy, and cartography fieldwork; (b) maintains the land cadastre; (c) issues landownership certificates (this function was transferred in 2004 to the State Service for the Registration of Real Estate); and (d) manages aerial photography and the production of maps. SCLC has four departments: the State Land Design Institute, the State Land Cadastre and Monitoring Scientific Centre, the State Aero Geodetic Enterprise and the Baku Cartographic Factory. At the beginning of the land reform process, SCLC and the State Commission on Agrarian Reforms were preparing a list of the people eligible to obtain landownership rights, and were trying to identify land plots on outdated maps by simple methods. Currently, SCLC exercises control over land use regardless of the type of landownership. Land allocation is determined by the regional offices of SCLC, but the final decisions are actually made centrally by SCLC.

New land relations and the introduction of the land market required a new system of recording, so in 1998 SCLC launched a unified system for the State Land Cadastre as required by the Law on State Land Cadastre, Land Monitoring and Land Management. Land cadastre centres in the 10 regional offices of SCLC were established. To date, the State Land Cadastre already covers 20 per cent of the territory of Azerbaijan (UNECE, 2007).

The State Service for the Registration of Real Estate (SSRRE) was established on 4 August 2003 on the basis of the former Bureau of Technical Inventory. It was fully functional as of 2005. Until 19 May 2009, it was the only organization responsible for the unified real estate registration and cadastre system in the country. During that period, 21 regional offices and 61 branch offices (6 in Baku), were created (a) to register ownership rights for immovable property, (b) to increase investment activity in the country, (c) to establish the framework for the real estate market, (d) to develop simplified procedures for mortgage registration, and (e) to protect ownership rights. In 2005, SSRRE registered 87,000 property transactions, and in 2006, 130,000. SSRRE keeps records both electronically and in hard copy, and provides extracts for owners who wish to sell their property or apply for a mortgage.

The State Committee for Management of State Property (SCMSP) was established in 2005 to privatize and manage State property. Between 2005 and 2009, it established 23 regional offices and 67 local offices (11 in Baku). Between 2000 and 2006, the total number of privatized properties reached more than 35,000. Since 2000, SCMSP has also maintained the National Automated Property System (NAPS) to register and manage all State property. More than 130,000 units of real estate belonging to 15,000 State enterprises and 11,000 lease agreements have been registered in NAPS. SCMSP received financing from the budget. NAPS has not been enhanced since 2000, however. It is only available in Baku, and local or regional offices have no access to it. Currently, the data in NAPS is being updated in an annual inventory exercise in which all ministries, agencies and State-owned enterprises are requested to provide updates on their property and other assets.

On 19 May 2009, both SSRRE and SCMSP were abolished by a Presidential decree that introduced a new State Committee on Property Issues (SCPI) and the State Service on Real Estate (SSRE) on the basis of the former SSRRE. The former SCMSP Chair was appointed the Chair of the new SCPI. On 24 June 2009, the Statute of the new SCPI was approved by the President through the Decree “On the Promotion of the Activities of the State Committee on Property Issues of the Azerbaijan Republic”. The Auction Centre under the former SCMSP was replaced by an Auction Centre coordinated by the new SCPI. Overall, SCPI will have 726 employees, including 260 in the central administration, 315 in the local offices, 80 in the SSRE and 71 in the Auction Centre.

Unified Registration and Real Estate Cadastre System

Since November 2005, the Government has been developing the Unified Registration and Real Estate Cadastre System (URRECS) relying on its own investments and support from several donors (e.g. the Swiss Confederation, KfW, USAID, ACDI/VOCA, the European Union, the Asian Development Bank and the World Bank). On 1 March 2006, the National System of Registration of Real Estate was launched, and parallel registration is now being implemented in four local offices of the current SSRE: in Baku city and the Lankaran, Sheki, Gabala, and Salyan *rayons*. All 21 offices of the current SSRRE are to be integrated into this registration system. The

information centres established in the headquarters of the current SSRE are connected to the Baku office and also gather data from other offices to integrate into the registration software system. The system has mostly dealt with text data. Future plans include an upgrade of the existing registration system and the development and implementation of new functionalities, including a graphical component and its integration with the existing registration system. The system will also allow for online Internet access in order to speed up services and increase transparency.

The Real Estate Registration (RER) project was launched in 2006 following an agreement between the World Bank and the Government of Azerbaijan. The objective of the RER project is to ensure the formation of a reliable, transparent and efficient real estate registration system that can support the real estate market and will be suitable for the management and use of State-owned immovable property (Kadaster, the Netherlands, 2007). More specifically, the project will support further development of URRECS, the creation of the digital Real Estate Cadastre Map and further improvements to the State Property Management System (SPMS). To these ends, the World Bank has provided a loan of USD 30 million and the Government has invested USD 8.5 million. The time frame for the RER project included the period between 22 February 2007 and 22 September 2007 for the implementation of the RER Grant Project, and the period between 23 September 2007 and 28 February 2013 for the RER Loan Project. Overall, the RER project will cover the whole 86,600 km² of Azerbaijani territory. It includes four components: (a) real estate registration (SSRE); (b) State property management and register (SCMSP); (c) base mapping and land cadastre (SCLC); and (d) training, policy development, and project management (the Project Management Unit, or PMU)(SSRE, September 2007).

Overall achievements under the RER project include substantial improvements in the registration of property rights, a full renovation of the SSRE headquarters and the establishment of the PMU in the new offices. The latter was accompanied by the full provision of equipment meeting international standards for the training centre and good progress in the completion of aerial photography for the production of orthophotomaps. However, there have been major delays in project activities due to a lack of coordination between the three implementing

agencies (the now reformed SSRRE and SCMSP, and SCLC), the high turnover in procurement officers in the Project Management Unit, and the need for their retraining. Furthermore, illegal development remain a major concern and a significant impediment to an efficient real estate market (SSRE, 2008). Development of a policy strategy to deal with this problem has already been initiated by the current SSRE, and an inventory of illegal buildings (including their types, numbers, etc.) in pilot areas in 2009 has been agreed upon.

The establishment of an Address Registry has been given top priority by the Government.³¹ Following a Presidential decree of 27 November 2008, a national Address Registry will be developed. It will support public and private activities such as territorial management, land development and land use planning, operation of public services based on infrastructure networks (e.g. electricity, gas, water and sewage), maintenance of roads, public transportation, post/mail distribution and related logistics, police operations, efficient responses to emergency calls, and preparation of the population register and relevant statistics. There is also a specific need to properly manage informal settlements by providing the residents with official addresses. SSRE has requested foreign aid to help establish the Address Registry, based on best practices of other countries.

Progress and challenges for the real estate registration process



Picture 11. One-stop window service in Khirdalan Municipality, May 2009 Source: UNECE

³¹ Findings from interviews with authorities at the current SSRE.

The State Registration of Rights to Real Estate includes the registration of titles associated with transfer of ownership and the registration of titles certified before the enactment of the Law on the State Register of Real Estate. The Law on the State Register of Real Estate standardizes the registration of rights to real estate and other property, their origin, limitation (encumbrances) and transfer. This Law defines who has the right to obtain information from the Register, what data the Register contains and how it is implemented. Furthermore, the Law establishes the procedure for transferring real estate data from the former registration bodies to the new State real estate registration system. The Law also defines requirements for the registration process and the documents to be registered. It contains the description of tasks and the responsibilities as well as the contents of the registry. It provides conditions for the termination of rights, the refusal of registration and the correction of mistakes made in the registration process. It also provides sanctions for non-compliance with regulatory rules. The current SSRE keeps both electronic and paper documentation.



Picture 12. Entering cadastral data in Khirdalan Municipality, May 2009 Source: UNECE

Formally, the State registration of rights to real estate is implemented in the following order: (a) acceptance of the application for the registration with the required documents and a payment slip for the State duty; (b) verification of the documents' data with the data in the State Register; (c) checking of disputes over rights and other issues important for the rejection or suspension of the registration; and (d) entry of records in the verified documents and into the State Register. Overall, the procedure should take no

more than 20 days. The cost of title registration varies by property type and size, and can be in the range of 14–70 AZN. The required documents for the registration are: (a) a completed application form; (b) a document proving the transfer of rights to the real estate (e.g. a notarized agreement of purchase and sale, or documents or certificates issued by relevant registration bodies before the enactment of the Law on State Register of Real Estate, decisions of the court, etc.); (c) the floor plan (“technical passport”) for the construction; (d) the land survey map; and (e) the receipt of payment of the State fee.

SSRE statistics recorded that in a six-month period in 2008, SSRE filed 20,325 initial registrations, 41,281 re-registrations and 9,906 mortgage registrations (SSRRE, 2009). However, substantial delays have recently raised concerns about registration procedures, their high cost and the lack of transparency. In March 2009, for example, there were complaints about long queues and a three-month registration procedure—in contrast to the required 20 days in the SSRE Baku office, which conducts about 40 per cent of the all registrations in the country. People claimed that the main reason for this situation was that there was a parallel queue to register titles for an extra payment, and this took only 3–10 days. However, the office explained the backlog in the registration by the need to deal with widespread inaccuracy of the submitted property documents (Novosti-Azerbaijan, 2009a).

Chapter III

EXISTING HOUSING STOCK, NEW CONSTRUCTION AND UTILITIES

A. Existing housing stock

General description

Although construction activities in Azerbaijan have increased recently and many national projects have been carried out to develop the country's infrastructure, the housing sector still faces significant problems. Housing-related issues are not coordinated by one State institution responsible for national housing policy and relevant activities. There is no single document that sets out State housing policy. Housing-related issues are regulated by a number of normative acts, and legislation is unclear and incomplete.

After gaining independence in 1991, the new Government proclaimed that all normative acts that did not contradict the laws of the Independent State of Azerbaijan would be in force until the adoption of new legislation. The main document that defines the State housing policy is the Housing Code, adopted in the Soviet era in 1983 and still in force. During the period of the current study, a new draft Housing Code was prepared and passed to the Parliament (Milli Mejlis) for consideration. The new Code should respond to current realities, thus better defining the management of the housing stock and relations between owners and developers. It should also provide guidance for all stakeholders in the housing sector, reflecting national needs, identifying possible solutions and providing a clear map of responsibilities in the sector.

Among the strategic frameworks mentioned earlier in this study that also cover the urban and regional development, the State Programme of Social-Economic Development of the Regions of the Republic of Azerbaijan (2009–2013) targets the goal of improving the country's utilities. While it does not address the housing sector per se, one can assume that related programmes will be developed under this framework that will affect housing positively.

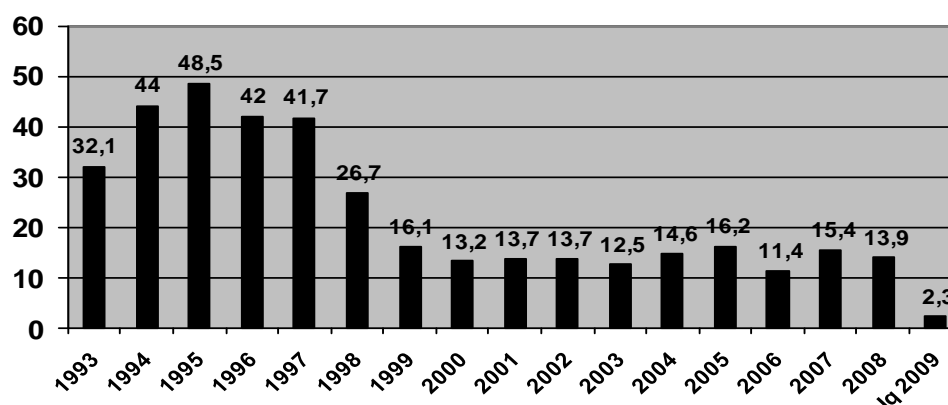
Another important document dealing with the sector is the State Programme on Poverty Reduction and Sustainable Development.

The document consists of nine strategic goals, including:

- Goal 5: Improving public infrastructure
- Goal 6: Developing an efficient and financially sustainable social protection system
- Goal 7: Improving the living conditions of IDPs

The normative document promoting private ownership in the housing sector was the Law on Privatization of the Apartment Stock, adopted in 1993. The privatization rate has currently risen to 85 per cent of the total housing stock. According to data from the State Registry of Real Estate, the privatization process proceeded rapidly in the early 1990s and, after an initial exponential growth of privatization, has now stabilized.

Figure 7.
Privatization of the housing stock (in thousands of units)



Source: State Statistical Committee of the Republic of Azerbaijan

In the 1990s, the privatization process of urban territories and public spaces also proceeded at a fast pace. Before 1993, the privatization of flats involved a very simple procedure - one would pay the nominal costs and then own the flat. During this period, certain groups did not have to pay these costs. Indeed, after the adoption of the above-mentioned laws, there was no charge for privatization. Article 3 of the Law on Privatization of the Apartment Stock lay out several principles of privatization. These include (a) absolute voluntariness in privatization and (c) fulfilment of rights of the population for the privatization of apartments they are residing in under the terms and

rules stipulated in this Law. Article 6 defines cases where privatization is not allowed: “Privatization of apartments in dormitories, repair houses, and houses in closed military settlements, as well as privatization of service apartments is not allowed”. Currently, if someone does not yet own the flat, he or she needs an “Agreement of Social Rent”, which establishes a rental cost based on the floor area of the flat. The price is very low and even families that do not benefit from social protection programmes can afford it. Table 3 shows how the country’s existing housing stock of more than 109 million m² breaks down by ownership.

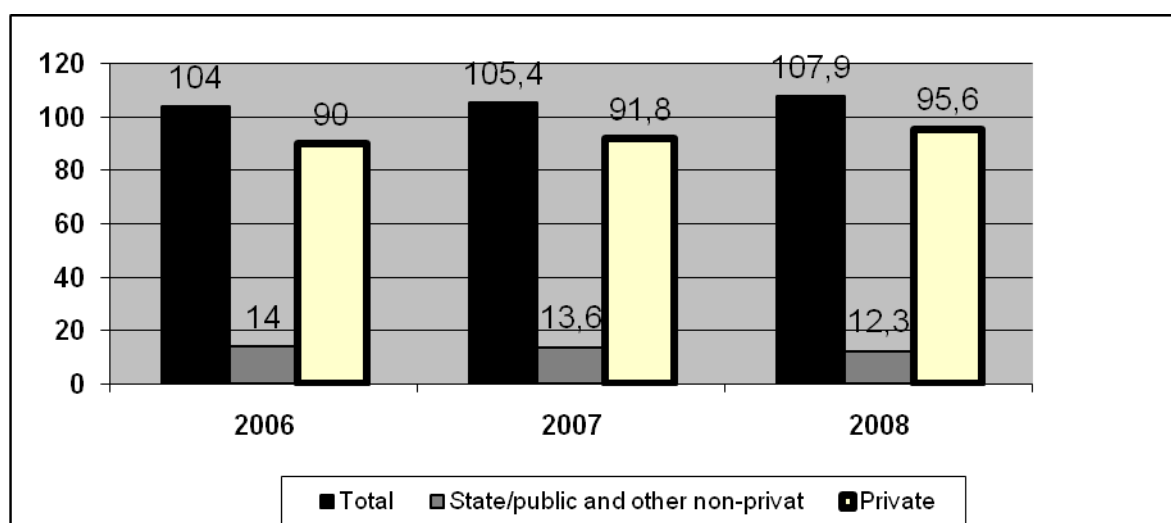
Table 3. Housing stock according to ownership (in million m²)

	Ownership type	2009
1.	Total	109.4
	State-owned	11.3
	Non-State owned	98.1
2.	Urban housing stock	
	Total	61.6
	State-owned	11.0
	Non-State owned	50.6
3.	Rural housing stock	
	Total	47.8
	State-owned	0.3
	Non-State owned	47.5

Source: State Statistical Committee of the Republic of Azerbaijan

The country’s construction boom is reflected in the increase in the total housing stock in recent years.

Figure 8. Housing stock according to ownership (in million m²)

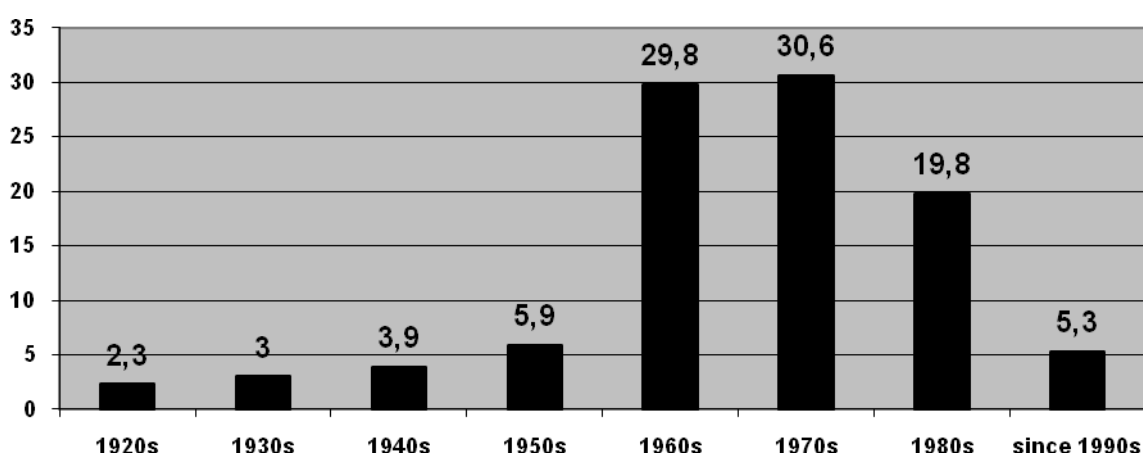


Source: State Statistical Committee of the Republic of Azerbaijan

The housing stock of Azerbaijan consists of existing housing and new housing estates. The existing housing stock can be classified by the period of its construction:

- Housing estates constructed before the Soviet period (i.e. prior to the 1920s), which are located mainly in the historical parts of the cities. In general, these estates are in need of reconstruction and renovation to achieve modern housing standards. Parts of these homes are in a very poor physical condition.
- Housing estates built before the Second World War (1920–1940) are mainly situated in rural areas. Those constructed in urban areas have shared kitchens and bathrooms.
- Housing estates constructed after the Second World War. The mass construction of prefabricated housing began in the 1960s. Many new districts were planned and constructed with these houses. The level of these estates fall below modern standards, especially in terms of construction and technical condition. Energy efficiency is a major concern due to the low quality materials used in these buildings.
- After Azerbaijan gained its independence, the pace of housing construction declined during the 1990s, with mainly private cottage-type estates being constructed. After 2000, the so-called “cooperative construction” became more widespread, especially for multifamily complexes in the country’s larger cities.

Figure 9. Share of apartments by decade of construction (percentage)



Source: Housing and Communal Services in the South Caucasus; Multi-apartment Housing in Azerbaijan, 2006.

According to the data in Figure 9, more than 80 per cent of all residential buildings were constructed some 40–50 years ago and about 30 per cent are in urgent need of renovation or even reconstruction. In total, 18 per cent of the housing stock is made up of *khrushchevki*—prefabricated multifamily housing estates constructed in the 1950s and early 1960s throughout the former Soviet Union. The main purpose of the prefabricated *khrushchevki* was to satisfy the housing needs of population, especially migrants from rural areas and industrial workers. These estates had an operational period of 25 years and

are now experiencing significant physical and structural damage.

At present, Azerbaijan is experiencing a construction boom, especially in the residential sector. Nonetheless, the average floor space per inhabitant is still very low: around 12.5 m², excluding IDP housing.³² In a State Department of

³² State Department of Statistics of Republic of Azerbaijan.

Statistics population survey of April 2009, a general questionnaire also included an annex elaborating city planning and housing issues. The results of this survey will reveal the current conditions in the housing sector and thus provide a better basis for planning future activities.

Illegal construction

As noted in chapter II, like other countries in the region Azerbaijan faces problems of illegal settlements and illegal construction. The number of illegal buildings is quite high, which creates serious barriers not only for their registration, but also for the proper functioning of the housing sector and for general urban development. After independence and the conflict with Armenia in the 1990s, the country faced huge problems relating to IDPs, which number around 600,000 lacking shelter. Many IDP families started construction on “free” land without any legal documentation. At the same time, many houses were built in dangerous areas, such as near gas pipes and electricity lines.

At the moment, there are approximately 800,000 illegal constructions in the country, with 500,000 located in the Baku region. Most have no construction permits or relevant documentation; some have not been accepted by State registration bodies. In Baku city, there are many low-rise illegal buildings mainly constructed by IDPs. These constitute about 90 per cent of the total number of illegal buildings.

This problem of illegal construction has several origins. First, there are families with no living space applying for construction permits, but the level of bureaucracy is very high and getting a response from the authorities can take several months. Families do not want to wait to start constructing their dwellings. Also, there is no strict control of or penalties targeted at illegal construction. Many already constructed and inhabited buildings still have no legal documentation. The absence of modern urban development plans and projects further exacerbates the problem.³³ In addition, the problem is also connected to systemic corruption and ineffective

management of services. Finally, squatter settlements are part of the problem. Large parcels of land, where many illegal buildings are located, belong to the State or municipalities. The squatters living on them are mainly IDPs.

The most common cases of illegal construction feature:

- Squatting on another person’s land (including State or municipal property);
- No legal documentation (including construction permits);
- Unsafe structures and locations (buildings erected on utility/infrastructure pipelines and gas, oil and electricity networks);
- Extensions of existing buildings with no construction permits;
- Violations of the requirements for construction permits (including technical norms and standards).

Many cases of “illegality” fall into the categories of squatting and the absence of legal documentation. The Government has developed some changes and amendments to current legislation allowing the population to legalize these buildings. Also, the Government has taken a liberal policy towards IDPs who have already constructed their buildings and are now living in illegal settlements.



Picture 13. Informal settlement in Azerbaijan, May 2009
Source: UNECE

³³ Urban planning documentation still in force was elaborated and adopted in the Soviet era, during the 1980s. Many of these documents are already outdated.

Box 2. Urban sprawl and informal settlements in Greater Baku and Khirdalan Municipality



Picture 14. Illegal settlements outside of Baku. Source: UNECE

There are approximately 800,000 illegal constructions in Azerbaijan. Of these, about 350,000 are located in Absheron, Baku and adjacent areas. Estimates indicate that about 30 per cent of the population lives in illegal developments and that half of Baku's population (4 million) lives in illegal housing. Ninety per cent of illegal buildings in Baku are thought to be temporary residences for IDPs, but no reliable figures have been available since 1969 (SSRRE, November 2008). The population growth and urban sprawl in Baku have been driven by several major changes. During the period of political instability between 1988 and 1993, about 350 refugees and IDPs from Nagorno-Karabakh and Armenia arrived in Baku (Caucas Europnews, 2009), settled on State-owned land and built houses with their own means. No planning regulations for the territory were enforced and that led to chaotic organization of the living space. Since 1992, the environs of Baku have been further flooded by migration from poverty-stricken provinces; oil-driven economic growth has also intensified urban sprawl. The migrants illegally occupied the land of the former State agricultural enterprises, further exacerbating the spread of informal residential construction.

Nowadays, there is a growing concern about these settlements and communities operating beyond formal regulations. While illegal residents remain socially, environmentally and politically vulnerable, the authorities are experiencing difficulties with properly managing the land.

In addition, there are huge illegal settlement areas in the Khirdalan Municipality of Absheron economic region. These include squatter settlements, illegally occupied lands and self-built illegal housing. Khirdalan received the status of city by Presidential decree in November 2006. The city has 210,000 inhabitants and a total area of 1,800 ha (findings drawn from the interviews conducted in Khirdalan Municipality). Khirdalan has a strategic location: the southern part borders with Shamakhi Highway (M1) and the Moscow–Rostov-on-Don–Baku railway, while the northern part is adjacent to the Jeyranbatan Reservoir. In general, Khirdalan informal settlements feature mixed-quality housing and varied access to basic utilities. Illegal houses lack addresses and are not connected to basic utilities such as running water. A number of positive improvements occurred between 2005 and 2009, when more parks and schools, roads, and new houses were provided by the State. In recent years, some of these illegal residences have gained access to new infrastructure through projects carried out by the State-run water company Azersu and the World Bank (World Bank, 2007). As part of its Utility Project, the World Bank is now undertaking a legalization project for illegally occupied land. Nevertheless, it is not sufficient to address the multidimensional informal settlement phenomenon by solving title registration problems. Informalization around Baku also has clear social and environmental aspects that need to be considered. Since 2009, the World Bank has expanded its Utility Project for the Absheron region into a broader framework. The project now includes the spatial planning component: a sub-project to develop a Greater Baku Regional Development Plan (this information is based on an interview with specialists working for the World Bank Baku office). These recent developments provide hope that the problem of informal settlements will be addressed more comprehensively in the near future.

Energy efficiency in the construction sector

Given the abundance of gas and oil resources in Azerbaijan, energy efficiency in the construction sector does not seem to be a concern. However, some governmental bodies address this issue within the frameworks under their competence. For example, the Ministry of Environment has the responsibility of identifying new sources of energy, and the Ministry of Energy is responsible for the energy supply of all buildings in the country.

In 2004, the State Programme on the Use of Alternative and Renewable Energy Sources in the Azerbaijan Republic for 2005–2015 was adopted by a Presidential decree.³⁴ This programme concentrates on developing new energy resources, however, it covers the construction sector only to a very limited extent. Action 15 of this programme urges different ministries to cooperate in providing buildings with alternative energy resources, prompting them to “provide heat to residential, institutional, and other buildings by using the thermal energy of geothermal waters” (2005–2013). The Ministry of Energy is also working to forecast heating and energy demands relating to ongoing construction projects, as it manages the country’s gas and oil reserves. During the last 4–5 years, meters for energy and gas consumption have been installed almost everywhere, which has led to a minimization of loss and a more rational use of these services by the population.

There is no separate law on energy efficiency, but there is a Law on the Utilization of Energy Resources³⁵. Some amendments are planned for this law, which also covers the issue of advanced technologies for producing and transporting energy. The Law also addresses the development of alternative energy resources. A very important activity in terms of saving energy in buildings is the mass replacement of existing windows by more efficient ones with mechanisms for conserving heat. In addition, architectural planning has an important role in broader efforts to enhance energy savings, through better insulation, correct solar orientation, etc. The Ministry of Energy has made

some calculations and forecasts for energy savings in terms of developing alternative sources. For example, if Azerbaijan was to increase its use of solar energy, the energy savings would be some 30–40 per cent. This option would be especially effective during the summer, as it could generate some 2.5 kW/hour per m². In 2004, the Government adopted the State Programme for the Development of Alternative Renewable Energy, which focuses on alternative energy sources such as wind, hydroenergy and biogas and draws up plans for their development. At the moment, the Government is completing an energy audit with the involvement of international experts.

B. Affordable and social housing

No definition of social housing exists at the national or local governmental levels, nor are there official documents elaborating or regulating social housing issues. There is no single institution responsible for housing, including the social housing sector. For an important part of the population, the improvement of living conditions is not accessible.

At the same time, the State Committee on Affairs of Refugees and IDPs addresses housing conditions of certain vulnerable groups. State social policy in housing mostly concentrates on IDPs, whose number—according to the State Committee—reached 603,251 in January 2009. This translates to approximately 120,650 families. The majority of IDPs live in Baku and Sumgayit, in approximately 360 collective centres. Most of these collective centres are overcrowded and lack kitchens and minimal utilities such as individual toilets and bathrooms. Although there are many different categories of vulnerable groups needing improvement of living conditions, State programmes mostly focus on IDPs and a few other groups. The State provides temporary shelters as well as collective centres for IDPs. Since 2000, the Government has started constructing new settlements for IDPs. Between 2004 and 2008, it built 61 new settlements for more than 17,000 IDP families and approximately 75,000 individuals. By the end of 2009, the Government plans to have constructed new settlements and multifamily buildings for about 20,000 IDP families. The State is also financing the central infrastructure of these IDP settlements.

A second group supported by the State comprises those injured during the conflict with

³⁴ Approved by Presidential Decree No. 462, dated 21 October 2004.

³⁵ Adopted in 1999.

Armenia (numbering approximately 120,000 persons, including 83,000 veterans and invalids). For this group, the Government is providing flats in multifamily residential buildings or constructing independent cottage-type houses. The State also has specific programmes for schoolteachers in rural areas. Recently, it began constructing small houses for schoolteachers, as there is a lack of teachers in these areas. By providing housing, the State hopes to give teachers incentives to move to rural areas and develop education systems there. A further vulnerable group in need of State assistance is children from orphanages, who are obliged to leave these establishments once they turn 18. However, for this category there is no programme supporting their access to affordable housing or shelter.

The State Committee is also discussing ways to support young families who are in need of better living conditions.³⁶ A programme was initiated by the President for the “Adoption of the State Programme in the Sector of Demography and Development of Population in the Republic of Azerbaijan”. Its Article 3 is entitled “The improvement of living conditions for young families”. The programme also defines concrete actions, responsible institutions and the period of implementation. It covers the following activities: (a) creation of a system of affordable loans for young families needing to improve their living conditions; and (b) the allotment of rural land for young families wishing to start building.

The Ministry of Social Protection is also involved in defining vulnerable groups and planning new housing constructions for them. The Ministry receives information from the regions on the numbers of IDPs present in a given area. The identification of vulnerable persons is the responsibility of local authorities, who provide lists according to certain criteria adopted by the Cabinet of Ministers of Azerbaijan. Based on this information, the Ministry plans different types of construction. The Ministry is also responsible for the construction of shelters for disabled persons. For these activities, it organizes public tenders and coordinates the construction process. Most of the vulnerable groups listed above are now becoming owners of flats or houses; in some cases, these

belong to the Ministry of Social Protection or to other State executive bodies.

The Azerbaijan Mortgage Fund was established in 2005 on the basis of a draft regulation in line with the Presidential decree on development of the mortgage market. It makes mortgages available to certain groups. Specific categories can receive loans at 4 per cent interest, quite low in comparison to many other post-Soviet countries. The Law on Mortgage covers the housing needs of socially vulnerable groups. The State also pays the costs of utilities serving IDPs. In some cases, it also provides a fixed monthly amount to certain categories, covering bills for electricity and other utilities. Apart from private and State-supported housing construction, some private businesses and State companies (i.e. oil companies) also provide housing for their employees. All other vulnerable groups not supported by the State have to improve their living conditions by themselves, through the free market. Despite the construction boom, which should increase competition and balance prices, vulnerable groups still cannot afford modern housing units.

C. Housing maintenance and management

As mentioned, housing estates in Azerbaijan often face the problems with poor structural and technical conditions, the result of ineffective management and maintenance. Even so, the country has no special legislation on condominiums. Flat owners in multifamily estates do not own the surrounding land and common property. These properties belong to the State or the municipality, and their management is the responsibility of local government units, namely the Housing and Communal Service Departments. Inhabitants, regardless of whether they live in a privatized, cooperative or State apartment, have to pay a fee for their buildings’ maintenance and management. Owners of flats have to pay annually from 0.01 AZN per m² in buildings without any services, to 0.02 AZN per m² in well-served buildings. In privatized apartments, the fee is 0.015 AZN (1.8 cents) per m².³⁷ These fees are compulsory, but mechanisms defining how the municipality can intervene when residents are not paying do not exist. In interviews, experts noted

³⁶ The term of “young family” applies to families in which one partner is under 35 years of age.

³⁷ Cabinet of Ministers Decision No. 40, 10 March 2000.

that many households do not pay for maintenance. The payment and billing systems are ineffective, as are mechanisms for oversight.

Many of Azerbaijan's housing estates (especially multifamily estates) were constructed some 40-50 years ago, when construction standards were low because the speed and quantity- rather than the quality- of mass construction was prioritized. Maintenance was not managed effectively even in the Soviet era because it required large investments the State could not afford. After the dissolution of the Soviet Union, the situation worsened. The main problems are leaking and unsafe roofs, non-functioning elevators, the lack of proper insulation, neglected common areas and structural problems with buildings.

As of the beginning of 2009, Azerbaijan had 1,082,100 residential houses, of which 7,500 had more than 5 storeys. Over the last 15 years, the majority of multifamily housing estates never underwent repairs or benefited from renovations. Moreover, it is still unclear how much funding would be required for maintenance of the country's housing stock. Faced with ineffective management and insufficient financing, some municipalities have prioritized certain types of repair work. For example, in Baku the Housing and Communal Services Department has emphasized repairs of roofs.

According to a study of the Environmentally and Socially Sustainable Development Network (ECSSD) on Europe and the Central Asian Region³⁸, "urban households are more dissatisfied with housing maintenance than with any other urban service. Households outside Baku were especially dissatisfied, but even within Baku, dissatisfaction levels were high." Privately owned individual houses are in rather good condition compared with multi-storey flat estates. A large number of poorer owners cannot afford the housing maintenance fees due to the low level of land reform for multifamily houses, the lack of decentralization and limited financing. These are all significant obstacles, which serve to exacerbate the deterioration of Azerbaijan's multifamily housing stock.

³⁸ "Multi-apartment Housing in Azerbaijan, 2006", World Bank, 2004.

D. New housing construction

The construction sector of Azerbaijan includes private, cooperative, public and international companies. Several State structures are involved in the sector. However, there is no legislation regulating relations between developers and flat owners. A new Construction Code has been drafted and forwarded to the Parliament, but had not yet been adopted at the time of this study.

Prior to the global economic crisis, Azerbaijan experienced a construction boom that strongly stimulated multifamily housing construction. Yet in many parts of the country, construction has grown chaotically. As explained in chapter II, after the dissolution of the Soviet Union, new master plans were not developed. This situation prevented proper planning for urban areas and effective regulation of new construction activities. In 2009, the Government decided to elaborate master plans for 10 cities in the country.³⁹ These master plans will also address construction issues, including those relating to residential houses. The work will be financed from the State budget (see chapter II).

Starting in the 1990s, new construction has been occurring mostly in city centres and in recreational areas across the country. After 2000, construction activities increased significantly and the housing sector has been an important part in the country's economic growth. Development of multifamily high-rise estates supported increased demand for modern new housing. Many private companies were established for this purpose, and the commercial housing stock became the major supplier of flats to the population. Prices have increased accordingly; in 2007–2008, for instance, the price of 1 m² ranged from 1,000–2,500 AZN, depending on the location.

Since 2000, certain patterns of particular concern have been evident in the real estate market. Developers are pre-selling apartments prior to the start of construction. Secondly, developers often only finish the outsides of apartments/buildings from, leaving the responsibility for completion of the inside to the buyer himself. This obviously leads to various and often insufficient standards regarding electrical installation, heating elements and other technical

³⁹ There are 70 cities in the Republic of Azerbaijan.

necessities, depending on the financial capability of the owner. Also, most new buildings are not accessible to disabled people.

It is also clear that many flats in these new houses are purchased for investment purposes only, meaning that families often are owners elsewhere. Families rarely rent out these flats and they remain empty. The result is more than 1 million m² of non-used housing stock in the country.

The post-2000 construction boom was not accompanied by proper institutional and legislative mechanisms, which has contributed to chaotic and sometimes unsafe construction activities. There has been very poor oversight of construction quality, as well as high rates of bureaucracy and corruption. In 2001, a normative document was adopted on the “Safety of the Housing Stock.” Its implementation is now the responsibility of the local executive governments. As mentioned, in 2006 the Government established the State Agency for Control over Safety in Construction in the Ministry of Emergency Situations. This Agency is involved in almost the whole aspect of the construction cycle. When the developers have a project design and cost calculations ready, they apply to the Agency for additional evaluation. The Agency then vets the structural design of the project for safety and quality. If the Agency approves the project, the municipality can issue the appropriate permits. The Agency also has the right to verify quality during construction at any stage and time. It also has the right to bring court cases against developers and oblige them to undertake the necessary procedures for safe construction.

Construction procedures, permits and certificates

Due to the post-2000 boom, the building sector has become one of the cornerstones of Azerbaijan’s economy, ranking just after the oil and gas sector. Construction permits remain an important aspect of the process. Yet the steps to receive construction permits are too numerous and complicated (see Chapter II). To initiate construction, a private entrepreneur needs to pass through seven stages vis-à-vis different State and municipal bodies:

It takes a minimum of six months to receive the permits. Once construction is finished, a unit from the State Commission inspects the site and approves the building for operation. Azerbaijan

still uses construction norms inherited from the Soviet period, and there are more than 1,700 norms and technical documents having the status of normative standards. Each new construction has to meet the requirements of such construction norms. The inspecting body for ongoing construction is the main Architectural Construction Inspectorate. The State Agency for Control over Safety in Construction oversees the Architectural Construction Inspection in certain categories of construction. There are three types of construction: types I and II are those of State importance, which include multi-storey housing and other public buildings. Construction permits for buildings of types I and II are issued at the local level. It is obligatory for municipalities and developers to reach agreement on every new construction regarding taxation: about 10 per cent of the cost of construction goes to the municipal budget.

Before 2009, there was no obligatory licensing in the construction sector. But beginning in 2009, according to a Presidential decree, construction activities must be licensed. The licenses are issued by the Committee of Architecture and City Planning for design activities. The Ministry of Emergency Situations issues the licenses for the construction of type I and II buildings. All the licenses are centralized, and all the physical and juridical structures must satisfy the conditions of licensing. There are three types of licensing: (a) project design; (b) engineering-operational works; and (c) construction-assembly works. The new Construction Code, likely to be adopted soon, also defines different types of sanctions against illegal and unsafe construction.

While the construction boom has supported the development of a national construction materials industry, Azerbaijan remains very much dependent on imports. For example, iron and steel reinforcement for concrete are imported from Ukraine, wood from the Russian Federation and revetment materials from Turkey. Even though local concrete and brick industries do exist, the private sector claims that there is a deficit of certain construction materials, for example concrete. In Azerbaijan, many imported and locally produced construction materials are neither standardized nor certified. Most of construction equipment used dates from the Soviet period. The construction sector also lacks local professionals, especially highly qualified engineers and construction supervisors. The majority of workers

are locals. This was confirmed as well by the interviews undertaken for the development of this study.

E. Utilities

Responsibility for providing utilities in buildings falls under the authority of local governments. The providers are State companies (e.g. for electricity, gas and sanitation). Waste management is provided by both public and private companies.

Regulations for the quality of utilities are weak. Some international organizations are helping to finance infrastructure projects, for example, the Asian Development Bank is involved in the water and sanitation supply sectors, as is the World Bank. In 1999, the Concept for Reforms in Housing and Communal Services was elaborated and adopted, but has not proved effective in reforming the sector. The country still faces problems in terms of the quality of the water supply. Depending on location and time, water supplies may be regulated by schedules and accessed only at certain hours in the day. The water and sanitation system suffers from physical damage and is of low quality.

Every building has meters for electricity and gas, but not for water. Only some buildings in Baku have meters for water consumption. In 2007, the tariffs for energy supply and water consumption were increased. The approximate price for water consumption per person is about \$10 annually. The price for electricity is 6 qapiks (approximately 7 cents) for 1 kW/hour. One household consumes about 120–130 kW/month.

The oil industries have to pay 2 qapiks for night usage and 4 qapiks for day usage. On behalf of the members of certain vulnerable groups, the Government pays the utility costs directly to the service providers.

An important institutional body determining and adopting tariffs is the Council for Tariffs of the Azerbaijan Republic. The Council is an independent organization⁴⁰ chaired by the Minister for Economic Development. Every company that supplies utilities (gas, electricity, water, public transport, communications, etc.) contacts this Council to set tariffs for services. The Council is not a policymaking body and has none of the attributes of a regulator. It does not have authority over methods of tariff calculation.

Table 4. Communal services in multifamily housing stock

Service	2004	2005	2006	2007	2008
Water pipelines	94.3	92.8	92.4	92.3	89.8
Waste water	92.6	90.9	90.6	90.5	85.6
Heating	76.7	73.1	72.6	72.3	68.1
Gas	93.8	92.8	92.5	92.6	87.4
Hot water	19.2	18.2	16.9	12.3	11.7

Source: Housing and Communal Services in the South Caucasus; Multi-apartment Housing in Azerbaijan

According to the World Bank, households are very dissatisfied with the provision of utility services. As they do not meet the expectations of the population, households are not willing to pay for them.

⁴⁰ Here, “independent” means that the Council has no governmental supervisory/executive body.

A. Housing demand and the availability of housing financing

Investment in housing

As already mentioned in this study, the period up to 2008 was very successful for Azerbaijan in terms of macroeconomic development and poverty reduction, but macroeconomic growth was mainly driven by the oil and gas industries as well as the construction of transit oil and gas pipelines through the country.⁴¹ Significant growth in income (e.g. 138 per cent in 2008, and 140 per cent in 2007), which exceeded inflation (121 per cent in 2008, and 117 per cent in 2007), created an overwhelming demand for housing both in terms of renovations and new construction. The housing stock per capita is extremely low compared to developed countries, only 12.5 m².⁴² A notable percentage of buyers invested in housing to protect savings from inflation,⁴³ to have a residence upon returning from abroad or to provide separate housing for children. Increased uncertainty in the housing and mortgage markets in 2009 led to a relative decline in investments in housing.

Investment in construction

Residential construction has grown steadily in the last five years, as has investment in housing production. However, public investment in housing at the national and local levels did not exceed 15 per cent.⁴⁴ A lack of available mechanisms facilitating the construction of affordable housing, including the lack of available housing financing, resulted in a recent modest increase in the housing stock, which has only kept pace with population

growth.⁴⁵ Apartment construction has been mostly concentrated in the three largest cities (Baku, Sumgait and Ganja) and is primarily targeted towards the luxury segment of the market. In 2007, Baku alone counted for 30 per cent of the total housing construction in the country.⁴⁶ By contrast, less than 30 per cent of construction is undertaken in rural areas.⁴⁷ Given this situation, self-built housing becomes the easiest and most affordable way for the population to improve their housing situation. In 2008, individual housing built by tenants made up 60 per cent of the total housing output.⁴⁸

According to market price dynamics and experts' estimates, there is an overwhelming demand for new and affordable multi-storey housing, but the supply of such housing stock is insufficient due to a lack of financial mechanisms supporting construction companies. Residential construction is financed mainly from the savings of future unit owners through their participation in housing construction cooperatives or through the pre-sale of future dwellings by the developer. In practice, the two operations are similar, but housing construction cooperatives are treated as non-profit organizations and are exempt from profit tax and VAT.

Lower housing prices at the beginning of construction (usually 30–40 per cent of the price of a completed apartment) are more attractive to buyers, despite the fact that no legal protection of their rights is provided. The registration of rights to

⁴¹ Central Asia Housing Finance Gap Analysis. IFC, 2006, p. 16.

⁴² Data of the State Statistical Committee of the Republic of Azerbaijan (www.azstat.org).

⁴³ According to the Baku Realtors Association during last 12 years house prices have risen by 9 times, while overall prices (CPI) have increased only 1.9 times.

⁴⁴ Data provided by State Statistical Committee of the Republic of Azerbaijan in May 2009.

⁴⁵ According to data of State Statistical Committee of the Republic of Azerbaijan, housing stock increased by 12.7 per cent from 2000 to 2008. At the same time, the increase in population was 8 per cent. As a result, housing stock per capita increased from 12.3 m² in 2000 to 12.5 m² in 2008.

⁴⁶ Data of the State Statistical Committee of the Republic of Azerbaijan (www.azstat.org).

⁴⁷ Data provided by State Statistical Committee of the Republic of Azerbaijan in May 2009.

⁴⁸ Ibid.

Table 5. Number and volume of housing constructions by sector

Year	Public sector		Private sector	
	Number of apartments (in thousands)*	Volume of construction (in thousand m ²)	Number of apartments (in thousands)*	Volume of construction (in thousand m ²)
2004	0.3	41	11.9	1 318
2005	1.9	176	13.8	1 417
2006	1.4	146	12.5	1 437
2007	2.8	236	11.9	1 380
2008	2.5	243	14.6	1 602

* Calculated using the reported volume of construction and average size of constructed unit.

Source: Data provided by the State Statistical Committee of the Republic of Azerbaijan in May 2009.

unfinished buildings is possible, but not a common practice. The lack of protection of consumer rights in the housing sector leads to a lower quality in the dwellings constructed and delays in the fulfilment of developers' obligations.

Residential construction financing by commercial banks remains low,⁴⁹ reportedly due to the significant risks involved. However, before 2009, banks were likely to provide short-term loans (two years) to developers at high rates (more than 30 per cent) because it was a very profitable sector (especially the luxury segment).

Usually, property belonging to the developer or its owner was used as collateral. The global financial crisis has seriously affected investment in construction by stabilizing housing prices. Pre-financing schemes no longer work, as buyers cannot benefit from price increases over the period of construction and demand for housing has declined. Many developers facing liquidity problems have frozen construction or are not starting new projects. This situation heightens the risk that developers will fail to finish construction of already sold units.

Rental sector

The Government has no policy for developing the rental housing sector. According to the Housing

Code,⁵⁰ the Government is responsible for providing rental housing to households in need, but such dwellings can still be subject to privatization, so only 12.3 per cent of the total housing stock is public.⁵¹ Demand for rental of moderate housing significantly increases its supply, especially in large cities, but the private rental sector mainly serves foreigners. Major obstacles to the sector's development are (a) the absence of protection of both renters' and landlords' rights, (b) the ban on renting units to refugees, and (c) inefficient taxation of profits. (A profit tax of 14 per cent is supposed to be paid by renters, but in the case of foreigners this becomes the responsibility of the landlord.)

Existing housing stock and access to housing financing

After the mass privatization of State-owned residential dwellings in the 1990s, there was significant underinvestment in housing maintenance. The Government's obligation to maintain privatized dwellings ceased, but most apartment owners have not been able to afford maintenance of their units. Moreover, even if a dwelling is privatized, the Government still owns the building itself (roofs, walls and common spaces) and the maintenance of common areas should be performed by the State. This prevents competition between maintenance companies. As

⁴⁹ In 2008, outstanding credits to construction and real estate sector were 461 million AZN (6.4 per cent of total credits, or 1.2 per cent GDP)

⁵⁰ Housing Code of the Azerbaijan Republic, adopted on 8 July 1982.

⁵¹ This figure also includes housing stock that belongs to housing construction cooperatives and public organizations. Data provided by State Statistical Committee of the Republic of Azerbaijan in May 2009.

IFC has noted,⁵² State organizations have limited financial resources and lack sufficient capacity for repairs and maintenance. The servicing fee is generally too small and is often not understood by tenants. The experience of housing cooperatives in the maintenance of the common areas of multifamily dwellings is still limited. Such cooperatives are generally created for new housing construction and are seriously hampered by the absence of legislation establishing a framework for their operations.

Relationship between housing policy and housing financing

The absence of a State institution responsible for housing policy also contributes to a lack of coordination of housing-related programmes and their funding. Some government organizations finance housing construction for their employees and specific categories of households (e.g. refugees and forced migrants, veterans, and young families).

During 2004 and 2005, the Government established a set of important measures intended to improve housing conditions for a wide spectrum of the population. The main results were the Law on Mortgage and the establishment of the Azerbaijan Mortgage Fund (AMF) in 2005. The main functions of AMF are:

- Refinancing mortgage credits disbursed by authorized credit organizations;
- Developing standards for residential mortgage lending;
- Issuing mortgage-backed securities to attract additional long-term funds for mortgage lending;
- Managing financial risk in mortgage lending through the provision of long-term funding to achieve stability and liquidity.

The Government has already invested 68 million AZN in AMF mortgage programmes, but due to the overwhelming demand for heavily subsidized mortgages,⁵³ the Fund ran out of money

in May 2007 and the programme was suspended. In 2009, the programme was resumed with a commitment by the Central Bank of Azerbaijan to develop the mortgage industry. AMF issued 55 million AZN covered bonds and the Government provided an additional input of 14 million AZN for subsidizing mortgages.

B. State and local governments and ways housing finance is generated

For local government, which shares responsibility for the design and implementation of housing policy with local executive authorities, financial resources are very tight and often sufficient only for performing basic administrative duties. Thus, virtually no local authorities have housing programmes. Local budgets are prepared locally, but are dependent on transfers from the State budget, the only way to cover the budget deficit (about 62 per cent of total local expenditures are financed through transfers from the State budget⁵⁴). Distribution of tax revenues between State and local budgets is complicated. Municipalities have their own tax collection services.

Land and property taxes

Land and property taxes are the main sources of revenue for local budgets, but taxes collected from legal entities go directly to the State budget. The lack of a cadastral valuation system is an obvious drawback. The land tax stipulated in the Tax Code varies according to the size of the city. It ranges from 0.1 (in rural areas) to 0.6 (in Baku) by AZN per 100 m² for land, and in terms of housing, 2–8 AZN per 100 m² for land for construction and non-agricultural purposes. For agricultural land, the tax is calculated according to normative values of land based on different multipliers (coefficients), determined by the State. All land users (except the State and local governments) are subject to taxation.

Property taxes paid by individuals are another source of revenue for local governments, but at present these are based on normative values far

⁵² Central Asia Housing Finance Gap Analysis. IFC, 2006, p. 17.

⁵³ Mortgages were provided for 3–25 years at 6–8 per cent per annum. LTV was up to 85 per cent, and PTI was up to 70 per cent, with no restrictions on OTI. The maximum size of mortgage was 50,000 AZN. For

several categories of households (e.g. young families, the military), the interest rate was 4 per cent per annum.

⁵⁴ Law on State Budget of Azerbaijan Republic for 2009. N 715-IIIГ, 25 November 2008

below market rates. The tax rate is determined by the Tax Code, at 0.1 per cent of the property's value. Legal entities have to pay a tax of 1 per cent of the property's value. A real estate and land mass market-based valuation system was planned to be implemented by the end of 2009 with the technical assistance of the World Bank through the Real Estate Registration (RER) project. Under current legislation, the situation with common areas in multi-unit dwellings is not obvious. While the owners of units actually use these common areas, formally they belong to the State or to a legal entity created by the developer; in practice, these areas are not subject to taxation.

Land sales

Earnings generated by selling land plots for construction could provide sufficient funds for housing policies. However, no obligation has been placed on local governments to use the income generated from the sale of land for housing purposes. According to current legislation, starting in 2007 all allocations of land must be done through tender procedures (except State programmes when land should be allocated free of charge)—but still subject to subsequent approval by the Government. By the beginning of 2009, only two tenders had been completed because of the late adoption of tender procedures, so it is too early to evaluate the effects of tenders on housing finance.

Taxation of construction and sales of units

In 2007, a special State tax was introduced on the construction of multifamily dwellings. When a developer starts construction work on a site, that developer must pay a tax of 5–50 AZN per m² of floor area to be constructed for sale. (This depends on location, i.e. it is the lowest in rural areas and the highest in central Baku). The tax should be paid through equal instalments, on a quarterly basis over two years. In addition, the developer, like other companies, must pay VAT (18 per cent) on the proceeds of the sales of units as well as profit tax (22 per cent) and property taxes (all of these go to the State budget). In 2008, the Cabinet of Ministries adopted minimum prices for housing units for VAT taxation purposes. The minimum price is calculated at 225 AZN per 1 m² of housing multiplied by the regional coefficient (which range from 0.6 in rural areas to 3.5 in Baku centre). Revenues from housing transactions are subject to

profit tax, except when selling a unit that has been one's primary residence for more than three years.

Overview of the banking sector

The banking system in Azerbaijan is represented by 46 commercial banks, of which 14 have a share of foreign capital of 50–100 per cent.⁵⁵ The country has quite a high sovereign rating (BB+) from international agencies such as S&P and Fitch. A number of the leading banks also have good ratings from such international agencies. The banking sector is fully implementing *International Financial Reporting Standards* (IFRS) principles, and has experienced healthy growth in recent years. Total assets increased from 2.3 billion AZN in 2005 to 10.2 billion AZN in 2008,⁵⁶ although 40 per cent of all assets are controlled by State-run banks.⁵⁷ Mortgage loans currently comprise approximately 1.2 per cent of total banking assets.⁵⁸ The banking sector is fairly profitable, with an average return on equity (ROE) of 10.8 per cent.⁵⁹

The depth of the banking sector has likewise increased. As a percentage of GDP, total banking sector assets almost doubled over six years (from 14.3 per cent in 2002 to 27 per cent in 2008). Bank deposits as a percentage of GDP increased by 50 per cent, indicating an increase in confidence in the banking system. Moreover, in 2007, a State deposit insurance system was created with the guarantee of 6,000 AZN per deposit,⁶⁰ but now the idea is to increase it to 30,000–50,000 AZN. Long-term funding, especially from local sources, is limited: domestic deposits do not usually exceed 2 per cent per year, about 50 per cent of all assets are short-term, and 70 per cent of the banking system's resource base has a maturity of less than one

⁵⁵ *Statistical Bulletin of the National Bank of the Republic of Azerbaijan*, 3/2009, table 4.2.

⁵⁶ *Statistical Bulletin of the National Bank of the Republic of Azerbaijan*, 12/2006, table 4.2.

⁵⁷ Data provided by National Bank of the Republic of Azerbaijan staff in May 2009.

⁵⁸ *Ibid.*

⁵⁹ Calculated using data from *Statistical Bulletin of the National Bank of the Republic of Azerbaijan*, 3/2009, tables 4.2 and 4.4.

⁶⁰ *Law of the Azerbaijan Republic "On deposit insurance" N226-IIIQ*, 29 December 2006.

Table 6. Assets and deposits of the Azerbaijan banking sector

	2002	2003	2004	2005	2006	2007	2008
Assets (in million AZN)	849	1 047	1 706	2 252	3 778	6 726	10 237
Percentage of GDP	14	15	20	19	21	25	27
Deposits (in million AZN)	546	630	1 049	1 381	2 233	3 438	4 055
Percentage of GDP	9	9	12	12	13	13	11
Share of deposits in foreign currency (percentage)	84	82	80	81	61	47	55

Source: National Bank of the Republic of Azerbaijan (www.nba.az).

year.⁶¹ Without sources of long-term capital, growing capitalization remains insufficient to fund mortgage lending, particularly in view of high property prices.⁶²

In 2008, the average interest rate on bank loans for households was 21 per cent for local currency loans and 22 per cent for foreign currency loans.⁶³ The total volume of credits to households is about 32 per cent of the total volume of credits and 6 per cent of GDP. Despite such unaffordable rates, the volume of credits to households increased by 40 per cent during 2008 (from 1.657 billion AZN in 2007 to 2.335 billion AZN in 2008). The interest rate on deposits was 12.5 per cent for both local and foreign currencies, far below inflation (20.8 per cent). Due to increased uncertainty with respect to the financial and commodity markets, commercial banks have excessive liquidity, but stick to “wait and see positions” and issue practically no loans.

There are about 77 credit unions and 32 microfinance institutions (MFIs) operating in the country.⁶⁴ Unlike banks, credit unions generally do not have the right to accept deposits, so they refinance loans through shareholders’ equity or refinancing facilities offered by international

donors. MFIs lack the special legislative environment that could create a more effective framework for their operations. MFIs have about 320,000 clients with an outstanding loan portfolio of more than USD 500,000,⁶⁵ but only MFIs sponsored by international investors have the capacity to extend their services.

Mortgage market

Development of the mortgage market in Azerbaijan began in 2005 with the adoption of the Law on Mortgages.⁶⁶ The Law established a legal framework for mortgage lending, including the possibility of using unfinished buildings as collateral. The Presidential Decree “On the Establishment of the Mortgage Lending System in the Azerbaijan Republic”⁶⁷ defined a basis for simplifying the mortgage registration process and for preparing the Law on Savings and Construction Banks (still under discussion); it also created a State mortgage refinancing facility (AMF).

The mortgage market has grown significantly since 2005, albeit from a low base. Currently, the mortgage loans outstanding in the banking system come to approximately 217 million AZN (less than 1 per cent of GDP and 2 per cent of the total loan portfolio)⁶⁸. The number of mortgages registered in 2008 totalled 17,700, which is about 15 per cent of

⁶¹ Annual Report of the National Bank of the Republic of Azerbaijan, 2007, p. 67.

⁶² The average price for a two-bedroom apartment in Baku is USD 75,000. Thus, the total bank equity of USD 2.2 billion could hypothetically finance a maximum of about 29,000 apartment units.

⁶³ *Statistical Bulletin of the National Bank of the Republic of Azerbaijan*, 3/2009, table 3.2.

⁶⁴ Data provided by National Bank of the Republic of Azerbaijan and Azerbaijan Micro-finance Association staff in May 2009.

⁶⁵ Data provided by Azerbaijan Microfinance Association in May 2009.

⁶⁶ Law on Mortgages, N883-III, 15 April 2005.

⁶⁷ The Presidential Decree “On the Establishment of the Mortgage Lending System in the Azerbaijan Republic”, N299, 16 September 2005

⁶⁸ Data provided by National Bank of the Republic of Azerbaijan in May 2009.

total housing rights turnover,⁶⁹ and IFC estimates that there is substantial room for further growth of the market.⁷⁰ The State-supported mortgage programme launched by AMF at the end of 2006 created the necessary bases for development of the mortgage market.

Under the programme, the Central Bank of Azerbaijan selects banks who act as agents of AMF in issuing mortgages. The interest rate for the borrower was up to 8 per cent, of which AMF receives 4 per cent. There were no limits on banks' issuance of mortgages, which in combination with the high demand has led to AMF unexpectedly running out of money in May 2007 and being unable to purchase all mortgages issued by participating banks. In 2007, the conditions of the programme were changed by a Presidential decree: the term was increased to 25 years, the loan-to-value (LTV) up to 85 per cent, the PTI up to 70 per cent. No restrictions were set on DTI. The maximum size of a mortgage was set at 50,000 AZN. For several categories of households (e.g. young families and public servants, academicians, refugees and IDPs, as well as certain military personnel), mortgages were provided at 4 per cent interest rates. Before liquidity problems occurred, AMF had refinanced mortgages totalling about 62 million AZN, of which 92 per cent were issued in Baku city.⁷¹

Before the world financial crisis, a few banks offered their own mortgage programmes, but could not compete with the heavily subsidized State mortgages. Bank mortgage terms were unaffordable, with interest rates around 16–18 per cent and average terms of five years.⁷² One MFI provider issues mortgages of 5,000–200,000 AZN for three to five years. Interest rates are around 22–24 per cent, while LTV is up to 70 per cent. At this stage of development in the mortgage market, mortgages are affordable only for a small share of high-income households. Less than 2 per cent of

workers can afford monthly payments for a typical commercial mortgage; these are mainly employed in the financial sector and mining. A number of other financial institutions also offer mortgage loans, but for smaller amounts.⁷³ The microfinance sector has the potential to offer housing microfinance loans, but is focused mainly on trade and agriculture lending in regions (especially in rural areas). MFIs' social mission is to assist low and moderate-income households to get access to credit.

One of the major problems that Azerbaijan banks face with issuing mortgages and expanding their mortgage portfolios is the lack of cheap long-term capital. The short-term deposit based banks constantly operate without an appropriate match in the maturity of assets and liabilities, which further leads to high interest rates and liquidity risks. Another problem is the lack of personnel experienced in mortgage lending, necessary to implement sound risk management policies, methods and tools. It is encouraging to note that AMF and IFC have launched educational and training programmes and are actively involved in preparing industry standards and best practices. However, most banks still do not actively use insurance as a tool to mitigate mortgage risk. The insurance sector is undercapitalized⁷⁴ and lacks necessary links to the developing residential mortgage industry (standardized insurance policy documentation related to residential mortgages is lacking). Insurance companies working with banks engaged in mortgage lending offer mainly two insurance products: life and property insurance, which are not obligatory by law. Moreover, some of the products necessary for supporting the developing mortgage industry do not exist, such as title insurance and primary mortgage insurance (i.e. insurance against bank losses on defaulted mortgages).

The National Bank of the Azerbaijan Republic launched a centralized credit bureau on 1 January, 2005, with technical assistance from the World Bank. According to the Law on Credit Bureaux,

⁶⁹ Data provided by State Register Service of Real Estate of the Republic of Azerbaijan in May 2009.

⁷⁰ Central Asia Housing Finance Gap Analysis. IFC, 2006, p. 20.

⁷¹ Data from 2007 Annual Report of the National Bank of the Republic of Azerbaijan and meetings with its staff in May 2009.

⁷² Central Asia Housing Finance Gap Analysis. IFC, 2006, p. 26.

⁷³ TBC Kredit offers mortgages from USD 10,000 to USD 200,000 for purchasing or construction of home or purchasing a land plot. Mortgages are provided for 2–12 years with the maximum LTV of up to 70 per cent.

⁷⁴ As of October, 2008, the aggregate reserves of insurance companies were about 90 million AZN.

banks are obliged to submit information on all loans electronically. During the past few years, the number of records and requests submitted to the credit bureaux increased substantially, but it does not yet have full coverage or error-free data⁷⁵. Amendments to the Law, allowing for the creation of private credit bureaux, are under discussion at the National Bank.

In 2002, the Government abolished the licensing requirement for real estate appraisals, so currently anyone can start such businesses. No uniform qualification or industry standards exist, so the quality of appraisal services varies. Moreover, appraisers' financial responsibility for mistakes or discrepancies in the valuation reports is very unclear, which is why AMF had to introduce internal systems of appraisal certification. IFC has created the Association of Appraisals. It currently provides training, proposes amendments to legislation and facilitates the development of this self-regulated body.

Although realtors are quite active in the housing market, banks do not cooperate with them in promoting mortgages. The main reason is the lack of confidence in realtors because of the absence of licensing requirements. However, some realtors have offered clients mortgage advisory services at the clients' expense. Currently, there are no specialized mortgage services or collectors.

Although the mortgage segment of the financial market is expanding rapidly, a number of legal concerns limit further development. A crucial problem is that the bankruptcy laws in Azerbaijan have not been tested to any great extent, and foreclosures may take up to several years in practice, especially when court decisions are involved. This arises from the ability of the borrower-in-default to exercise the option of having the bank's claim adjudicated in court at any time, even when an out-of-court settlement is near completion. The main issues of concern were carefully identified in an IFC study in 2006.⁷⁶

At the moment, two key tax elements in the development of mortgage lending are missing: (a) mortgage interest deductibility; and (b) the tax

treatment of capital gains related to the sale of residential properties. Despite these obstacles, the mortgage market has good potential for growth, but it is limited by a lack of affordable financing. The main source for mortgage operations is funding provided by international organizations such as IFC, which provides financing for several commercial banks and their housing programmes. The country's capital markets are not well developed. The total capitalization of Azerbaijani companies traded on local stock exchanges is about 3.5 billion AZN, or less than 10 per cent of the country's GDP. There is no large institutional investor, while the menu of available financial instruments is very short and lacks corporate debt securities (currently less than 75 million AZN).

Outstanding government securities (170 million AZN) are short-term (with a maximum of two years).⁷⁷ However, it is not certain whether there is sufficient liquidity or interest among potential bond purchasers for large issues with longer maturity periods, non-governmental pension funds still do not exist. Assets of the State Oil Fund are about USD 11 billion (and have to be invested outside of the country), but there does exist a demand for instruments with positive yield and that are affordable for households.

There is no law on mortgage securities, and hence no special tax treatment of mortgage securities or mortgage transfers. AMF has just started discussions with the Central Bank on how to stimulate refinancing operations in the mortgage industry. Despite these obstacles, during the summer of 2009, AMF issued mortgage securities (covered bonds) of some 55 million AZN.⁷⁸

⁷⁵ Interview with AMF staff, May 2009.

⁷⁶ Central Asia Housing Finance Gap Analysis. IFC, 2006, p. 33

⁷⁷ *Statistical Bulletin of the National Bank of the Republic of Azerbaijan*, 3/2009, tables 3.3 and 3.4.

⁷⁸ Butler, Stephen, and Simon Walley. Creating a Covered Bond Framework. Report prepared for IFC, May 2008.

*Socio-economic conditions, housing policy
framework and spatial planning*

1. Continue the implementation of programmes supporting the housing sector and projects promoting sustainable socio-economic development in Azerbaijan. The country is now on a promising path towards sustainable development. To this end, along with the adoption of new legislation, several programmes and projects have already been initiated. Now, the challenge is to continue and to intensify such programmes.

2. Establish a single institution/ agency to effectively develop and administer the country's housing and communal services policies. Several institutions are involved in the drafting and implementation of housing policies, but the chain of responsibilities is not clear. Housing-related issues are not covered by one responsible institution at the moment, which makes it complicated to plan strategies and undertake different programmes. The Government should establish or designate a single institution / agency to oversee the design and administration of housing and communal services policies. The central body should also coordinate the housing-related activities of the local government. It is important to staff this institution with very qualified professionals.

3. Invest in capacity-building in State institutions. There is a lack of skilled human resources in some institutions, and generally so in the housing and land management sectors. For instance, the State Committee on Urban Planning and Architecture currently has only 60 employees out of the 135 that they are authorized to have. There is a demand for urban planners and architects, but they have not yet acquired the necessary skills for such positions.

4. Develop a comprehensive spatial planning strategy. The Government should elaborate a general spatial development strategy as part of the national socio-economic development strategy. The document should provide a long-term “spatial vision”, outlining a comprehensive territorial strategy for Azerbaijan that takes account of

sustainable development principles. It will need to ensure better cooperation between the various government bodies, other stakeholders and programmes relating to infrastructure, employment, housing, entrepreneurial support, etc. It will also need to establish effective links between them, thus comprehensively involving all actors having a spatial impact.

5. Deliver spatial planning through the promotion of “hybrid” governance. Good governance is a key to spatial planning. Given the tradition of a strong central government in Azerbaijan, a new system of spatial planning could be delivered through the “hybrid” governance, which integrates centralized and decentralized competences. Hybrid governance might provide more flexibility at the regional and local levels while allowing an oversight role for the central government. Given the new role of spatial planning, it would be useful to form a responsible coordinating body at the ministerial level. Scaling up the State Committee on Urban Planning and Architecture and the creation of a Ministry of Housing and Spatial Development would ensure better coordination of other Ministries and government departments.

6. The Government should establish a coordination mechanism responsible for housing and spatial planning. This entity should ensure coordination with other Ministries and government departments, and elaborate related policies. Given the greater regionalization, it may be necessary to establish a system of regional agencies responsible for coordinating spatial development in regional, sub-regional and inter-urban contexts. These agencies could be either directly set up by the State (e.g. by the State Committee on Urban Development and Architecture) or by a newly established Ministry. Such agencies could build strategic partnerships to coordinate different aspects of interregional/regional/sub-regional/inter-urban spatial development, and could provide support to municipalities. They could, inter alia, build a regional-specific evidence base, conduct research, develop scenarios for regional development and implement comprehensive programmes.

7. Design a new hierarchical system of plans.

Three levels of planning activities are essential for delivering the national planning policy. The national level should be represented by an overarching strategy covering different aspects of spatial planning (see recommendation 4). The second level, made up of Azerbaijan's economic regions, should provide regional development plans. In the case of Baku, the Greater Baku Plan could translate national spatial development policy into guidance for its region. But the most detailed documentation should be provided at the local level, where close cooperation between administrators, business and the public is the most feasible. This would allow for local development plans with participation by citizens. Partnerships for implementing community projects could be developed at the local level to involve different stakeholders.

8. Promote further improvement of the spatial planning regulatory environment, taking the Urban Development and Construction Codes into account.

As urban development and construction are complementary in terms of improving settlements, cities and regions, a clearer relationship between them should be established in Azerbaijan. Both regimes have specific competences shaped by numerous technical and normative regulations and laws. It might only be necessary to establish general referencing between them, as construction activities can affect the broader context of urban planning, and vice-versa.

9. Provide systematic knowledge, education and professional training for better spatial planning practices.

The proposed approach to the spatial planning system would require broader knowledge and skills as well as new ways of working with the public. It would not only require skills of planning, architecture and surveying, but also a wide range of other professional and general knowledge such as community governance, economic planning, communication, risk-taking, leadership and teamwork. The most challenging issue is building the capacity of local authorities and agencies, as many changes relating to spatial planning would need to be translated into the local context.

Land administration

10. Support the land administration system through a comprehensive land policy.

The State Committee on Land and Cartography should take an active role in designing the country's land policy and programmes, setting clear guidelines and monitoring implementation processes to ensure that the nation's land resources are managed strategically. Land policies should include the programme of work for large-scale real estate evaluation, the development of effective land administration and the formation of a unified system of real estate registration and land cadastre.

11. Improve the land administration governance structure.

A better integration of the governance structure to support the land administration system gained significant momentum on 19 May 2009, when SCPI and SSRE were established (see chapter 1). It is important now that, within these broader reform efforts, officials design a set of standards to promote a more integrated governance structure for land administration as well as implement new mechanisms to monitor good governance practices. The following governance standards should generally be taken into consideration: participation, fairness, accountability, transparency, efficiency, responsiveness, orientation towards consensus, inclusiveness, subsidiarity and the absence of corruption.

12. Improve application and data processing procedures.

The existing real estate registration does not always meet the standards established by the Law on the State Register of Real Estate. Issuing clear procedural guidelines and operational manuals to the local offices of real estate registration may improve their performance. Guidance for real estate registration should also be made available to the public in the form of brochures and information bulletins. Furthermore, measures to enforce good customer service and monitor citizens' access to it should be developed.

13. Implement a mass inventory of real estate units.

A lack of complete records of buildings, physical infrastructure and the housing stock poses a major challenge to the establishment of an effective land administration system. Therefore, regardless of the form of ownership, a mass inventory of all real estate assets relating to urban

structures should be carried out for the purpose of their good management. A mass inventory project should also include an inventory of unauthorized construction, with an examination of compliance with rules for construction and urban development regulations; it should also verify whether buildings are located in unsafe areas, e.g. above gas pipelines or under high-voltage lines.

14. Encourage and gradually improve the Real Estate Cadastre. The Government should devote extra efforts to developing the Real Estate Cadastre so as to reach the same levels as the other activities associated with real estate registration. At the Cadastre's current stage of development, priority should be given to orthophoto-mapping activities and to developing the cadastral (index) map. Further improvements to the cadastre system could be implemented at a later stage.

**Existing housing stock,
new construction and utilities**

15. Strengthen legislation covering housing and utilities. There are obvious gaps in the legislation dealing with housing and municipal services. The current legal framework does not correspond to the existing situation. New housing and construction-related legislation is under consideration and could be adopted in 2009. This would solve important problems, but the situation should be analysed carefully in order to avoid additional, different issues from arising in these sectors.

16. Develop programmes for outdated and damaged housing stock, especially with respect to multifamily buildings. The Government should draft policy that targets damaged and outdated housing stock. Many countries have combined different policies to address this problem both through demolishing dangerous estates or improving their technical conditions. Financial schemes for such projects should also be elaborated and calculated. This process would take some time, but renovations could be planned incrementally.

17. Elaborate affordable/social housing policies to cover all vulnerable groups. Even though the Government has housing programmes for IDPs and refugees, other socially vulnerable groups need improvements in their living conditions. Social housing policies should be elaborated for those who cannot participate in the free market. These should cover all vulnerable groups as well as all

aspects, including financial, institutional, methodological and technical ones. International donors and the private sector should be involved in the process. Meanwhile, the Government should create incentives to stimulate construction and management of social housing.

18. Effective legislation and mechanisms for illegal housing and settlements should also be applied. Illegal construction and settlements are quite problematic for Azerbaijan because they prevent proper use of land and encourage the black market. The Government should elaborate policies that target existing illegal estates and settlements. This is a difficult task, as most of these estates belong to IDPs. In this case, the residents should be compensated. The existing State Oil Fund should participate in the process when illegal settlements are on land where oil resources exist. At the same time, illegal buildings that meet planning and safety norms should be legalized. The Government should also establish clear mechanisms for preventing further illegal construction. This can be achieved through a well-developed penalty system combined with simplified procedures for receiving permits and reduced bureaucracy.

19. Adopt diversified approaches and solutions to deal with illegal settlements. While the formalization (market-oriented titling) of these dwellings is carried out with help from donor organizations and the World Bank, such solutions should be combined with, inter alia, social support, environmental evaluation and improved access to financial resources. An analytical study of informal settlements and a country-specific typology of such housing are needed. Meanwhile, even if informal dwellings cannot be unambiguously registered in the Real Estate State Register, it is still necessary to include them in the Real Estate Cadastre.

20. Plan and support renovation projects, with a special focus on energy efficiency in buildings. The country's economic development needs to be more focused on the living environment, especially in big cities. Azerbaijan has a significant historical and cultural heritage, also in its urban areas. To meet modern planning standards, greater attention should be given to the renovation of historical areas as well as other buildings. A very important aspect here should be the focus on the energy efficiency when renovating, including the employment of modern concepts and construction materials. Although the country has considerable oil and gas resources, energy efficiency policies

would foster further economic growth and would have a positive impact on family budgets.

21. Start auditing the country's entire housing stock, especially multifamily buildings. Statistical information on housing exists, but it does not contain important data on the condition of the housing stock, the exact number of units, renovations urgently needed, etc. To better plan future activities in the sector, the country should undertake an audit of its housing stock. The volume of work is considerable, but audit efforts could start initially in a pilot programme in Baku city. This would aid planning of future renovations and improvement works.

22. Delegate rights and financing, not only responsibilities, to allow local governments to effectively manage housing and communal services. The housing and utilities sectors should be under the responsibility of municipalities, which should have clear local policies, programmes and financing to improve conditions for the population. At the moment, municipalities lack financial resources and, while there is no national housing policy, they play a passive role in the housing and utilities sectors. Each municipality should have the right to collect tax revenue and to direct these resources to planning, renovating and managing residences.

23. Develop a comprehensive housing policy framework, according to the situation and assessed needs, in particular focus more on reconstruction and renovation of the existing housing stock, and less on new housing construction. More attention should be devoted to the existing housing stock, which in Azerbaijan's case constitutes an important capital in terms of renovation and additional housing supply. When planning housing developments, primary consideration should be given to using the existing stock and to renovating the first generation of mass housing. Social housing construction could focus on the existing housing stock. This would not only make the living environment healthier, but would also support the integration of vulnerable groups into Azerbaijani society and urban life.

24. Update housing sector management and maintenance processes, allowing owners to be responsible for both individual and common properties. In order to ensure the sustainable long-term development of housing and utilities, the Government should create adequate and modern

mechanisms for housing maintenance and management. These could be financed through a low but permanent housing tax that vulnerable groups would be excluded from paying. Legislation should support the establishment of homeowners' associations, both legally and financially. Public awareness campaigns are crucial in this regard. It is also very important to reform the existing bodies responsible for communal services and make them more effective. The utilities sector must be revamped and the infrastructure renovated, using modern approaches and standards. Privatization of utility services should also be taken into consideration.

25. A Law on Condominiums should be drafted and enacted in order to regulate the use of common areas (basements, attic, staircases and common walls) in privatized multifamily housing and in new multifamily cooperative homes. The Law should also secure the use of common land plots and define the responsibilities of property owners. Technical passports issued by the State Service on Real Estate should be added to the list of documents submitted by housing construction cooperatives. Grant ownership of common areas in housing complexes to owners, establishing clear rights and responsibilities.

26. Elaborate training for specialists in housing, especially in the utility, technical and management sectors. The educational system should also correspond to current realities. At the moment, there are some universities that have programmes for housing specialists but offer no training in the areas of housing utilities, maintenance and management. Universities should thus elaborate appropriate curricula for these sectors. In addition, policymakers should support the establishment of professional colleges where different types of technical personnel can be trained. Specialized education is a key issue, especially if the country intends to develop the construction sector in the context of a rational and modern environment.

27. Collect property tax and channel it to local governments and require them to use this revenue for maintenance and repair of the local housing stock. The Government should collect property tax under a conditional framework, which might include a tax on wealth in excess of a certain platform. The Government should also support efforts to improve transparency relating to local government revenues and expenditures. For their

part, local governments should direct this income towards different renovations and repair works on housing estates and utilities.

Financial framework

28. Increase financial means for housing projects at both the national and local levels. Housing policies could be funded through the revenues of local self-government units, as foreseen in the existing budget law. Revenues from land taxation and sales of municipal land should be earmarked for housing purposes. In addition, at both the national and local levels portions of additional tax revenue resulting from economic growth should be allocated for housing purposes. Municipalities should consider establishing partnerships with private developers in order to receive contributions from municipal budgets and expand their social programmes.

29. Finance proper strategies for housing renovation and repair. The high proportion of degraded multifamily housing stock in Azerbaijan indicates that renovation and repair work is an urgent priority for the Government. Housing finance, including public-private partnerships, should be directed at these problematic areas. This strategy should exist alongside improved housing finance for new housing developments.

30. Adopt legislation on real estate mass valuation. Mass valuation is crucial for determining the taxable value of land and real estate properties. Full use should be made of the World Bank materials from the Azerbaijan Real Estate Registration Project and of the UNECE study, *Land (Real Estate) Mass Valuation Systems for Taxation Purposes in Europe* (Federal Land Cadastre Service of Russia, on behalf of the UNECE Working Party on Land Administration).

31. Encourage private investment in housing. The Government should promote private investment by simplifying administrative procedures, creating a favourable investment climate, reducing entry barriers and introducing such incentives as differentiated tax rates and tax exemptions. Within this framework, private local and foreign investment should not only be directed to new construction, but also to the renewal, repair and maintenance of the existing housing stock.

32. Consider public-private partnerships in the housing sector, and their potential to promote

affordable housing and improve living standards. Public-private partnerships include co-financing models in which the State contributes to financing repair and maintenance under the condition that owners and tenants share a part of the costs. Local governments might consider establishing funds at the municipal level or in homeowners' associations to carry out repair and maintenance in collaboration with residents. Another option would be providing municipal lands for construction projects that contribute to the achieving local housing goals.

33. Improve legislation on mortgages. The Government should ensure easy and costless foreclosure processes both for debtors and borrowers, but this process needs to be supplemented by social assistance programmes. Law enforcement officers play an important role in both out-of-court and judicial settlements, but fees for these services (7 per cent of the total outstanding debt to be collected) are a substantial burden for both lenders and borrowers. Parties tend to look for ways to avoid using these services. Thus, the Government should make law enforcement services more affordable for the mortgage industry.

The Government should introduce the concept of "mortgage by operation of law" for houses purchased through mortgage loans. This would decrease transaction costs, increase protection of lenders' rights and stimulate development of the housing market. Amendments to existing legislation providing for escrow accounts would also facilitate development of the mortgage market. Escrow accounts are used in established mortgage markets to mitigate risk. A neutral party opens an account on behalf of the purchaser. Access to this account by either the seller or the purchaser/borrower is contingent upon meeting conditions agreed by both parties. Equally important, the Government should increase the coverage and reliability of information collected by credit bureaux. Historical information about the creditworthiness of potential borrowers could decrease credit risk for lenders and make mortgages more affordable. Credit bureaux could help educate potential borrowers on how to maintain a good credit rating and how to assess their own borrowing capacities.

34. Strengthen linkages between the insurance and residential mortgage sectors. The Government should also encourage insurance

companies to expand the range of standard insurance products necessary to further develop the residential mortgage industry. There are no regulations with respect to title insurance. Title insurance would mitigate banks' risk associated with third-party claims against a property. It would ensure that banks had sound collateral and that borrowers had adequate compensation for termination of their ownership rights. Title insurance would thus lower overall financial risk for both mortgage lenders and borrowers. It is also important for developing the secondary mortgage market, since it protects potential investors in securitized mortgage portfolios from the consequences of potential title disputes.

Furthermore, independent appraisals should be addressed. The Government should develop an effective system for certifying and monitoring professional residential real estate appraisers and should introduce mandatory certification. Appropriate standards, methods and procedures for residential appraisals are also needed. The Government should support current efforts to create a professional appraisers' association.

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

35. Encourage the development of a market-driven banking sector and support microfinance institutions. The Government should strive to increase banks' confidence in the housing market, in particular in the system of property valuation and in the security offered by the property. This could be achieved by stimulating the housing market to increase transactions. The Government should also improve its information systems with respect to mortgage finance and real estate markets, including property valuations and prices paid for transactions. This information should be published regularly and be made easily accessible to the public. Microfinance organizations are quite successful in targeting households with low and moderate incomes, but classical mortgage loans are too large for them to issue. The creation of an encouraging legal framework could help address issues of home improvement and/or repair, especially in low-income areas. As recommended in the UNECE housing finance guidelines, beyond a targeted subsidy approach, there should be

alternative financial mechanisms to develop social housing.

36. Create a State subsidy system to improve people's access to affordable housing. Taking into account the high percentage of people living in rural areas (48 per cent of the population in 2007) and employed in the agricultural sector (39 per cent of the country's employment in 2007), housing policies should primarily target problems in rural areas. Housing policy should also be aimed at the creation of affordable housing finance mechanisms to improve the housing situation for IDPs, forced migrants and other vulnerable groups that currently live in low-quality housing without basic services. Given the economic difficulties and fiscal constraints, the subsidy system must be targeted to groups in urgent need of State support. These groups should be able to solve their housing problems through transparent, means-tested (i.e. income-based) subsidies. The programmes should contain tools for assessing the effectiveness and efficiency of the money being spent.

37. Encourage the education and training of inexperienced borrowers. To increase the demand for housing finance, the Government should implement training programmes for inexperienced borrowers (e.g. commercial developers, municipal enterprises and households). These programmes could include training in the drafting proper construction proposals, market analyses and research on possible sources of loan repayment. In addition, it is important to encourage training programmes that improve the residential mortgage lending skills of bank staff, since this would benefit the stability of the whole banking sector in the long run.

38. Promote the creation of mechanisms for refinancing loans. Financial institutions need to develop options for accessing long-term capital for mortgage financing, including a covered bond system, a common instrument in Europe, and the mortgage-backed securities common in the United States. On a related note, a law regulating mortgage-backed securities and a law regulating the operation of the secondary residential mortgage market should be developed and adopted.

39. Promote the implementation of better risk-management systems and introduce special bank regulations on mortgages. Mortgage lenders could substantially improve their residential mortgage operations by implementing

basic residential mortgage lending policies and procedures, standardized documentation and internal structures to encourage larger-scale mortgage lending and servicing. Banking legislation currently does not provide specific guidance with respect to residential mortgage lending by banks. For example, banks are not regulated with respect to their mortgage portfolio risk management policies and procedures. This is understandable, given the early stage of the development of mortgage lending in Azerbaijan. However, given the specific features of mortgage lending, the lack of regulation is a potential risk for the economy as a whole and for the banking sector in particular.

40. Establish effective mortgage lending practices in the banking sector. For a number of reasons, standardizing policy would be an important step in this sector. First, Azerbaijani banks could realize operational efficiencies and cost savings, plus they would be encouraged to operate in a transparent manner. Second, standardization is an essential prerequisite for the future development of the secondary mortgage market (mortgage-backed securities and/or mortgage bonds), a major source of long-term capital. Finally, standardization would increase transparency in the mortgage market, levelling the playing field and increasing consumer confidence. The Government should support ongoing cooperation between the National Bank, the Azerbaijan Mortgage Fund and IFC on this issue.

41. Integrate housing finance with effective land management practices. National and local governments should support policies that strive to increase housing finance and affect the demand side of the residential market through effective land supply. If greater availability of financial tools increases the housing demand, insufficient land supply will put pressure on housing prices and lead to affordability problems.

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