

*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.