

Approved by Decree of the President  
of the Republic of Azerbaijan  
dated December 6, 2016



**Strategic Roadmap  
for Development of Affordable Housing  
in the Republic of Azerbaijan**

## Table of contents

<b>1. EXECUTIVE SUMMARY</b>	
<b>2. GLOBAL TRENDS</b> .....	<b>4</b>
<b>3. HIGHLIGHTS ON CURRENT SITUATION IN AZERBAIJAN</b> .....	<b>6</b>
3.1. Current status of affordable housing .....	6
3.2. SWOT Analysis for Affordable Housing .....	7
<b>4. STRATEGIC VISION</b> .....	<b>8</b>
4.1. Strategic Vision for 2020 .....	8
4.2. Long-term vision for 2025 .....	8
4.3. Aspirational vision for post 2025.....	10
<b>5. TARGET INDICATORS</b> .....	<b>12</b>
<b>6. STRATEGIC OBJECTIVES</b> .....	<b>13</b>
<b>7. STRATEGIC TARGETS</b> .....	<b>14</b>
<b>7.1. Strategic Target 1. Empower MIDA with defined strategy and targets to design and execute affordable housing</b> .....	<b>14</b>
7.1.1. Priority 1.1. Clarify MIDA's organizational structure, duties and support areas.....	14
7.1.2. Priority 1.2. Define affordable housing targets and government support mechanisms	17
<b>7.2. Strategic Target 2. Implement key mechanisms to enable an effective affordable housing market</b> .....	<b>19</b>
7.2.1. Priority 2.1. Identify land parcels and transfer ownership to MIDA LLC .....	20
7.2.2. Priority 2.2. Define beneficiaries of public housing fund .....	22
7.2.3. Priority 2.3. Build both domestic and international private-sector partnership .....	25
7.2.4. Priority 2.4. Ensure an effective mortgage lending market .....	28
<b>8. FINANCING MECHANISMS</b> .....	<b>33</b>
<b>9. IMPLEMENTATION, MONITORING AND EVALUATION</b> .....	<b>34</b>
<b>10. ACTION PLAN</b> .....	<b>36</b>

# 1. EXECUTIVE SUMMARY

Making affordable houses more available to Azerbaijani people will help support economic development, raise living standards of population, boost economy, create new jobs and develop the mortgage market in Azerbaijan. The Decree of the President of the Republic of Azerbaijan No 858, dated April 11, 2016, which established MIDA State Housing Construction Agency (hereinafter referred to as “MIDA”) under the President of the Republic of Azerbaijan, is aimed at stimulating the growth of the construction sector against the growing need for housing.

MIDA State Housing Construction Agency will develop affordable housing projects and implement key support mechanisms (state support, project pooling, private sector involvement and ensuring an effective mortgage market) which will ensure effective and efficient operation of the real estate market. To make this happen, MIDA Limited Liability Company (hereinafter referred to as “MIDA LLC”) was established under the agency to act as a customer in development projects in order to ensure efficient use of funds allocated for the construction of multi-storey residential buildings.

The strategic vision for 2020 aims to strengthen MIDA’s position in responding to housing needs, developing necessary infrastructure (schools, hospitals etc.), and constructing residential buildings. The long-term vision for 2025 is designed for urban transformation while the vision for post 2025 is aimed at filling gaps in order to ensure continuous development of a district-based housing sector in the regions. To achieve this goal, Azerbaijan has set the following strategic targets based on “The Main Directions of Strategic Roadmap for the National Economy and the Main Sectors of the Economy” which was approved by the Decree of the President of the Republic of Azerbaijan No 1897, dated March 16, 2016:

- Develop and implement affordable housing projects;
- Empower MIDA with roles and responsibilities based on defined strategies and targets;
- Implement key mechanisms, which facilitate the operation of the affordable housing market.

To achieve strategic objectives for affordable housing, different KPIs for each priority area (the number of housing units provided by MIDA LLC, average construction period, the number of buyers etc.) will be captured. Key strategic objectives include improving the housing needs of the citizens of Azerbaijan Republic, especially low-income families, enhancing competitiveness in the construction sector, ensuring the continuous development of the housing sector, and implementing the state policy in this respect.

The strategic targets for 2020 will increase direct GDP impact by AZN 168 million and indirect GDP impact by AZN 81 million in real terms in 2020. It is estimated that about 10 000 new jobs will be created in the construction sector. The estimated investment need to capture the impact is AZN 900 million, which will be secured through public and private resources.

## 2. GLOBAL TRENDS

The definition of the word “affordable” varies with the practice of many different countries. However, most countries have adopted the standard of not exceeding 40% to 50 % of family incomes to buy a house<sup>1</sup>. According to estimates, today about 330 million families in both emerging and developed economies are facing problems with buying affordable houses and this indicator keeps increasing.\*International practice focuses on 4 key directions to reduce housing costs and meet housing needs of the population:

- Selection and designation of lands suitable for affordable housing;
- Implementation of state support mechanisms for development of utility systems and lines;
- Ensuring epy efficiency of housing development;
- Selecting financing mechanisms and beneficiaries.

Acquiring and utilizing land resources for affordable housing is of particular importance to housing agencies as land costs constitute a large portion of total housing costs and locations where houses are built and affect the quality of housing units and living standards. There are different approaches adopted in this respect, for example, TOKI, the Turkish housing administration, which provides affordable housing, uses idle public lands to construct houses in partnership with private contractors. On top of that, TOKI is exempted from VAT and land use taxes.

Particular attention should be paid to the use of idle lands or lands that are not being used for intended purpose. For example, the Chinese government imposes a tax on lands (accounting for 20% of its total cost), which have not been used as intended for one year. The government may even confiscate lands, which have not been used for more than 2 years for their intended purpose. Similar approaches are adopted in the countries like the Philippines and Brazil. Even in such a densely-populated city as New York, 10 % of the lands that are subject to zoning for housing are not used and the city mayor intends to use these lands to provide housing to low-income population groups. In countries with limited land resources like Singapore, land management is of particular concern as public lands constitute 90 % of Singapore’s territory.\*Laws in the country allow the government to purchase lands at a price lower than the market price and transfer them to national housing agencies.

Countries like Japan, South Korea and India use a “land pooling” method, which is applied to consolidate adjacent lands for housing development and transfer property to land owners in exchange for the lands they provide to the housing agency. Quality of infrastructure, particularly, transport network is one of the important factors to be considered in land selection and designation. In Hong Kong, the government has focused on building railroad network connecting new residential houses, which have been constructed for the last 40 years, with the city center. In Denver, the USA, affordable houses are developed in parallel with new transport lines.

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<sup>1</sup> Source: MGI ([www.globalhousingindicators.org](http://www.globalhousingindicators.org))

In developed countries, energy efficiency has a significant role in reducing housing costs. For example, the USA and Great Britain have reduced energy costs by 20% to 30% through focused housing requirements. On top of that, the British government provides incentives and bonuses to house owners with regard to maintenance and repair work.\*

It is also possible to achieve considerable cost reduction through optimization of the construction process. Industrialization of construction is one of the important innovations offered in this regard. That is, most of the planned construction work is carried out off-site and includes prefabrication. In South Africa, this method has helped reduce the volume of construction operations by up to 25%-30%. International practice suggests that this way it is possible to reduce costs by 30 %, and the project completion period by 50%.<sup>7</sup>

Theoretically, there are 2 key factors which contribute to the deceleration of construction industrialization: huge investment needs and high demand. Small-sized companies are not capable of responding to these needs. However, centralized state agencies can satisfy these needs. For example, Great Britain has succeeded in saving costs by 30% by creating a centralized material supplier.<sup>2</sup>

Increasing financing opportunities is one of the key factors contributing to a healthy housing market. In most countries, lack of financial support is one of the key challenges facing the potential beneficiaries. Low-than-average incomes of target social groups have resulted in higher-interest loans (higher-risk loans). In the USA, India and other countries, the government provides insurance for mortgage loans in order to reduce the risk premium.

Another way to reduce housing costs of beneficiaries is increasing access to finance for credit organizations, which offer mortgage loans. In Malaysia, national mortgage organizations can offer lower interest-rate loans as they are exempted from a number of restrictions and procedures that apply to other credit organizations. The USA and Great Britain aim to lower house prices by applying lower interest-rate loans and tax exemptions to developers, which are involved in affordable housing projects.

In addition to selling affordable houses, the USA and the Netherlands offer houses for rent to selected beneficiaries, and the government provides financial support to them. In Turkey, beneficiaries own the house after renting it for a certain period as determined by the government.

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\* <sup>2</sup> Source: MGI ([www.globalhousingindicators.org](http://www.globalhousingindicators.org))

### **3. HIGHLIGHTS ON CURRENT SITUATION**

#### ***3.1. Current status of affordable housing***

Today, housing demand is higher than supply in the new housing market, particularly, in certain segments where MIDA participates, despite the fact that in Azerbaijan house ownership rate is higher than what is required according to international standards. Making affordable houses more available to Azerbaijani people will help support economic development, raise living standards of the population, boost economy, create new jobs and develop the mortgage market in Azerbaijan. The primary goal of establishing MID Astate housing construction agency is to stimulate the growth of the construction sector against the growing housing needs.

MIDA LLC, which was established under MIDA state housing construction agency, is currently operating to implement housing projects or place orders for the construction of facilities in the lands it owns or it has acquired under civil and legal transactions. Densely populated areas with smaller living space, availability of workplaces, transport and social infrastructure as well as higher urbanization level are considered to be key priorities in affordable housing.

While determining the sequence in which affordable housing projects are implemented, it is necessary to consider improving housing conditions for employees of the state agencies, government organizations and state-run enterprises through state-supported programs as well as addressing the housing needs of low or medium income social groups, IDPs and refugees. Making affordable houses more available to the population will foster the development of the national economy. Azerbaijan will increase opportunities for affordable housing and ensure stable operation of the real estate market. That will result in increased confidence of both domestic and foreign investors in housing projects.

MIDA will operate in the following areas:

- Staffing the agency and increasing key opportunities;
- Determining low-risk projects in the early stages of activities;
- Implementing housing projects in densely populated areas with higher housing demand;
- Developing legal and regulatory framework for launching new housing policies and ensuring clear transfer of power to MIDA;
- Determining key strategies and drafting a national housing plan (state program);
- Implementing urban transformation and neighborhood rehabilitation projects in the future.

### 3.2. SWOT Analysis for Affordable Housing

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Being a social project (public support);</li> <li>- Covering the entire territory of Azerbaijan (including regions);</li> <li>- Having access to administrative resources (state support);</li> <li>- Ensuring efficient use of public funds (not based on rate of profit unlike mortgage lending programs);</li> <li>- Availability of similar practices (implementation of projects designed to improve housing conditions for IDPs and refugees);</li> <li>- Enhanced competitiveness (establishment of a new participant – MIDA LLC in the real estate market);</li> <li>- Sustainable sector (based on the growth rate of population).</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of complete legal framework;</li> <li>- Program owners being newly established organizations (MIDA housing agency, MIDA LLC);</li> <li>- Limited investing opportunities (low rate of profit due to the key strategy being designed for affordable housing);</li> <li>- Limited offers in the early stages of operation (potential requirements to be fulfilled by stages).</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Opportunities for benefiting from public property and possessing private property (land provision by the State Committee on Property Issues of the Republic of Azerbaijan, local executive authorities and municipalities);</li> <li>- Financial sustainability (state budget, State Oil Fund of the Republic of Azerbaijan, Azerbaijan Mortgage Fund OJSC);</li> <li>- Availability of a large number of experienced local and international companies;</li> <li>- Opportunities for project value optimization (competitive environment);</li> <li>- Projected increase in the long and medium term purchasing capacity of population (AZN 45,75 billion for 2017, AZN 47,76 billion for 2018, and AZN 49,89 billion for 2019);</li> <li>- High housing demand.</li> </ul>	<ul style="list-style-type: none"> <li>- Lower demand in the public sector;</li> <li>- Weak initiatives in the private sector.</li> </ul>

## **4. STRATEGIC VISION**

### **4.1. Strategic Vision for 2020**

*The strategic vision for 2020 will be responding to housing needs in Azerbaijan and strengthening MIDA's position towards constructing residential buildings and relevant social infrastructure to achieve this goal.*

#### **Highlights on strategic vision**

Azerbaijan has set strategic targets as its vision for 2020 and beyond for its affordable housing (see the next chapter for details). Building up on its current state outlined in the previous chapter of the Strategic Roadmap for Development of Affordable Housing In Azerbaijan (hereinafter referred to as "Strategic Roadmap"), Azerbaijan will launch 6 strategic priorities by leveraging its key strengths and fully capturing the relevant opportunities and advantages. In this direction, Azerbaijan's detailed strategic roadmap for 2020 will prioritize the following vision components of its vision for 2025:

- Empower MIDA to design and execute affordable housing projects to meet Azerbaijan's urgent housing needs
- Support MIDA and attract financing through establishing a relevant regulatory framework to strengthen the position of MIDA LLC in constructing affordable housing, related social infrastructure and community service buildings (administrative, non-residential, etc.).

The 6 strategic priorities for 2020 will increase direct GDP impact by AZN 250 million in real terms and create about 6 000 new jobs in Azerbaijan.

### **4.2. Long-term vision for 2025**

*The long-term vision for 2025 envisages major and planned urban transformation and urban development.*

#### **Highlights on long-term vision**

Azerbaijan will ensure high quality standard housing for its population via MIDA LLC and support urban development.

It will ensure complete oversight of responding to housing needs of the population in all regions of the country. By conducting regular studies on the housing needs of the population, Azerbaijan will meet the existing demand based on short and long-term housing plans (a governmental program) and will ensure a planned and modern urban transformation. It will develop and implement a consistent and streamlined action plan to provide housing for people in need thereof, develop cities according to action plans, which will envisage resettling unauthorized buildings and preventing slum formation and sustain the construction sector with local and international investors.

To develop the regions of the country, affordable housing will be provided, and main focus will be maintained on families that are very much in need of housing. Azerbaijan targets to close the affordable housing gap nation-wide by 2025 with the measures taken by MIDA. Affordable housing projects and housing developed each year will serve to satisfy the housing needs of low and mid income young families.

To deliver the aspired targets for this period, Azerbaijan will establish a relevant regulatory framework for empowering MIDA with required authority. In addition to the legal and budgetary measures, Azerbaijan will ensure support mechanisms such as financial support for the developers and buyers, granting of public land for affordable housing development projects.

Affordable housing projects developed by MIDA LLC will be supported by providing land parcels both inside and outside city (region) centers by the government and local administrations. The identification and the transfer of ownership of convenient land areas to MIDA LLC will enable cost decrease and project pooling potential. MIDA will utilize earnings from the projects, which are carried out based on district market values, to subsidize the projects that will have to be implemented at values lower than the market average.

For the development of affordable housing projects, MIDA's main focus will be on meeting the housing needs of low- and mid- income households. MIDA LLC will provide affordable houses to the beneficiaries who are selected based on the government's order. In this respect, MIDA LLC's goal will be to increase the social well-being of the population and improve housing situation rather than making profit.

However, for its sustainable operation, MIDA LLC will also focus on launching high-income housing projects within high-end neighborhoods. MIDA LLC will identify potential uninhabited areas and assess the potential demand for high-end new residences within relevant neighborhoods. It will ensure its sustainable operation by profiting from market-value projects to subsidize its housing projects with prices lower than the district market average.

MIDA State Housing Construction Agency will select lands based on the proposals made by MIDA LLC. To this end, MIDA LLC will ensure access to the existing land cadaster and establish fruitful cooperation with other agencies. These actions will also enable identifying areas for future housing projects for post-2025. In addition to the activities carried out by the registration authorities, these measures will ensure conclusive proof of ownership to be included in the state land registry, and improve the entire land registry system across the country.

With the involvement of the relevant state agencies, MIDA state housing construction agency and MIDA LLC will establish a transparent system on beneficiary selection and allocation of developed affordable houses, and publicly announce the defined criteria to be a beneficiary according to the specifics of each project. Depending on the needs and government policy, the beneficiaries will be identified on needs basis, targeted group and government order.

The development of these projects in Azerbaijan will be accelerated through MIDA State Housing Construction Agency and a series of favorable measures. Azerbaijan will utilize applicable delivery models of housing development (i.e. public private partnerships or public delivery model to involve local and international private developers). The private developers will be qualified to participate in the projects based on relevant criteria set for the selection of companies and tendering process (e.g. organizational capability, strength and quality of partnerships, financial health, real estate development experience, and approach to housing development). Based on the affordable housing development plan, MIDA LLC will establish linkages with the local and international development companies choosing the right model in line with the project requirements.

With the involvement of the international investors (including international organizations) in housing development projects, international investment and capability transfer in construction sector will be enabled, which will advance the construction sector, along with the growing number of local construction companies that benefit from the projects with MIDA LLC.

The affordable housing projects will foster the development of the construction sector and increase employment in the sector, and boost the production and trading of construction materials.

As a key enabler in the sector, the government will ensure a healthy development of the mortgage market supporting the affordable housing ownership for the qualifying beneficiaries. The mortgage market will be advanced through strengthening the legal framework and property registration system, closing legal gaps in the existing regulatory mechanisms, which are designed for property ownership registration (for example, pre-registration of property rights), defining lending standards and data infrastructure and upgrading mortgage bond products. Azerbaijan Mortgage Fund OJSC (hereinafter referred to as "AMF OJSC"), MIDA LLC and relevant financial sector agencies will cooperate on the reform process drafting the required legal amendments.

A close partnership will be established between AMF OJSC and MIDA LLC to guarantee public oversight and coordination for the mortgage usage of the affordable housing beneficiaries. The mortgage products for affordable housing will reflect affordable housing prices, relevant maximum fund amount and minimum pre-payment rate for affordable houses. The administrative process of mortgage loans will be upgraded respectively to secure the system efficiency.

### **4.3. Aspirational vision for post 2025**

*The aspirational vision for post 2025 envisages ensuring sustainable development of affordable housing in the regions across Azerbaijan and implementing measures to rehabilitate slums.*

#### **Highlights on aspirational vision**

In its post-2025 state, Azerbaijan will ensure MIDA LLC's unimpeded access to the registry services provided by the State Committee on Property Issues (hereinafter referred to as "SCPI") of the Republic of Azerbaijan. Through continuous access to the centralized database on all existing land resources in Azerbaijan, MIDA LLC will develop its projects in a more focused and clear manner.

Using the registry services provided by SCPI, MIDA LLC will more easily identify potential areas for housing project development for both low, mid and high income projects and utilize city land resources more efficiently.

MIDA will refurbish its organization, capabilities and resources post-2025 to ensure large-district based planning for urban transformation and slum rehabilitation, construct community service and public sector buildings.

District based planning will secure the transformation of neighbor hoods, which developed with limited planning, into properly planned districts. This involves better city/housing planning (for example, proximity to transport junctions).

As part of this direction, MIDA LLC will analyze the housing need within each populated district, taking into account possible large-scale population movements as part of the urbanization trend. It will identify potential construction zones and negotiate with low-cost developers over the design and cost of housing buildings as well as the facilities in the surrounding area. While ensuring the house ownership of newly established low and medium income households by 2025 and post-2025, Azerbaijan will monitor the available housing stock, its age, quality and upgrade with the development of relevant new projects with the support of MIDA LLC.

Azerbaijan will develop an urban transformation plan and implement it through MIDA LLC for the necessary actions assuring district based planning, slum rehabilitation, new district development and renovation of the existing housing stock. The transformation plan will address the existing slum districts as well as Soviet period aged house stock.

Urban transformation will focus on the following areas:

- Increased access to fully available utilities,
- Better psychological well-being.

In addition to large transformation projects, MIDA will implement the construction of schools, hospitals, patrol stations, stadiums etc. as part of the district based projecting. MIDA will extend its capability to oversee the construction of residential, public service and other buildings and related contracting.

The extensive activity in the affordable housing will further develop the construction sector in post-2025 period. The private sector delivery for MIDA via tenders will assure the progress of local construction companies. Champions among local companies (leading companies) with the experience gained through the affordable housing projects will be identified and will have the potential to extend its services to neighboring countries.

MIDA LLC will take necessary measures in tendering to determine construction companies in terms of the usage of local workforce, construction materials, engineering and other services.

## 5. TARGET INDICATORS

To ensure effective achievement of the strategic objectives for affordable housing, various KPIs for each priority will be captured. As a result of the implementation of the objectives pursued in the Strategic Roadmap, it is estimated to:

- Increase Azerbaijan's GDP directly by AZN 168 million and indirectly by AZN 81 million in 2020, in real terms (totally AZN 249 million).
- Add 10000 formal employment by executing its strategic priorities.

The following are the performance indicators defined for each priority area:

- Clarify MIDA's organizational structure, duties and support areas, develop and implement affordable housing projects,
- Establish an effective organizational structure and prepare a development plan and also ensure opportunities to fulfill the duties that are specified in the Charter of MIDA,
- Ensure that most of the services provided by MIDA LLC are channeled through the e-government portal;
- Number of housing units provided by MIDA LLC;
- Average construction period of housing units;
- Number of buyers,
- Involvement of 5 % of the idle lands during the implementation of the Strategic Roadmap,
- Achieving 10% reduction in project implementation costs by using idle public lands for housing development,
- Level of selection of beneficiaries from targeted social groups and number of beneficiaries from classified social groups;
- Provide 10% of the families, which are included in the selected social groups, with housing units over the next 10 years,
- Reduce urbanization problems,
- Improve housing conditions for IDPs and refugees who have not been provided with housing units so far,
- Attract foreign investments to the construction sector across the country,
- Accelerate the application of international best practices,
- Provide opportunities for saving more than 10 % of the project costs through enhancing competitiveness,
- Number of domestic and international construction companies participating in the tendering process,
- Define the ratio for using budgetary allocations for the housing projects implemented by MIDA LLC, with the goal of ensuring efficient use of public funds, and use the ratio as a KPI,
- Define the ratio of use of mortgage funds by low-income families and use the ratio as a KPI,
- Total number of mortgages granted by AMF OJSC for the housing units that sold by MIDA LLC to beneficiaries,
- Joint review of matching the selection criteria of AMF OJSC and MIDA LLC.

## **6. STRATEGIC OBJECTIVES**

The Strategic Roadmap pursues the following strategic objectives:

- Respond to housing needs of the people of the Republic of Azerbaijan and improve the housing conditions of low-income families,
- Improve the social security of the population,
- Increase opportunities for overseeing the urbanization process,
- Enhance competitiveness in the construction sector,
- Increase the development rate in the construction sector,
- Ensure efficient use of public funds,
- Construct environmentally friendly and power efficient multi-storey residential buildings,
- Improve public administration in city planning and construction.

## **7. STRATEGIC TARGETS**

### ***7.1. Strategic Target 1. Empower MIDA with defined strategy and targets to design and execute affordable housing***

Azerbaijan will reap the economic and humanitarian benefits of a world-class affordable housing system spearheaded by an efficient, best-in-class national housing administration.

A government agency with necessary authority is critical for affordable housing development in Azerbaijan. For this purpose, based on Decree of the President of the Republic of Azerbaijan for “the Establishment and Organization of Activities of State Housing Construction Agency under the President of the Republic of Azerbaijan” No. 858 dated on 11 April 2016, the State Housing Construction Agency (MIDA) under the President of The Republic of Azerbaijan was established. MIDA has the opportunity to implement best-practice processes, coordinate stakeholders, and ensure effective oversight of Azerbaijan's affordable housing sector.

At the same time, with the goal of constructing multi-storey residential buildings, ensuring and organizing efficient use of funds allocated for this purpose, MIDA LLC was established under MIDA State Housing Construction Agency based on that Decree. The primary goal of MIDA LLC's activities is to ensure the construction of environmentally friendly and power efficient multi-storey buildings in modern architectural design, in order to meet the housing needs of citizens in an affordable manner and improve their housing conditions by using land parcels and other properties that are at its disposal or that were obtained based on civil and legal transactions or as a result of other activities.

To achieve proper implementation of the affordable housing program, MIDA should be empowered with defined strategies and targets, and key enabling mechanisms will be implemented to ensure effective operation of the affordable housing market. To reach these targets, it is critical to provide proper land stock, define potential buyers of affordable houses, implement state support mechanisms, build fruitful partnerships with local and international sector players, and ensure effective implementation of other priorities.

#### ***7.1.1. Priority 1.1. Clarify MIDA's organizational structure, duties and support areas***

##### **Rationale**

MIDA is in its early phase of development and many details (organizational structure, duties, legal infrastructure, and so forth) should be determined by using advanced practices.

Establishing a government agency to execute affordable housing projects is a common practice in countries across the world. The national housing administrations in the world typically has a range of responsibilities, including planning district-based housing, often using public land; working with the private sector for project implementation; developing funding from private and public sources etc.

For example, Turkey, established TOKİ, its housing development authority, as an umbrella organization for the country's housing sector, and TOKİ's key activities include developing housing projects for low- and middle-income residents and supporting urban transformation. A similar program in Brazil, Minha Casa&Minha Vida (My house, my life) was established as part of the government's growth acceleration program. The government provides mortgages

from the public bank for qualifying families within this program. In Morocco, the Ministry of Housing constructs tax-free houses for disadvantaged citizens on public land reserves.

MIDA's organizational structure includes key units first and also new units (for example, real estate, social services, city planning, implementation/project) to be added as the administration is scaled up (see exhibit 1). Best practice is to have the head of the administration report directly to top officials in order to ensure the government's dedicated focus to housing development - and this may be the case with MIDA.

**Figure 1. Key units initially included in the organizational structure of MIDA**



Azerbaijan will create an effective organization and authority structure for MIDA and MIDA LLC, coordinate all levels of the housing value chain with related stakeholders and develop effective, best-value projecting processes.

**Action items**

***Action 1.1.1. Examine the legal framework of housing, ensure clear transfer of authority to MIDA and share the drafted legal changes with relevant stakeholders***

The initial action will be identifying the requirements for coordination in all levels of housing value chain with related stakeholders through MIDA. The second action will be developing effective and fast projecting processes to empower MIDA for successful housing delivery while ensuring best value for money. Next, the authority to be granted to MIDA will be defined to ensure an effective delivery of government's affordable housing policy. All the perspective developed will be utilized to prepare a draft on required legal changes.

Although the existing laws provide for granting land parcels to MIDA LLC and installing utility systems and lines up to the construction site through public funds, they do not define any financing mechanisms for these activities (including transferring the existing utility systems and lines). Providing finance for social projects is one of the priorities of the government, so allocation of the funds through MIDA and inclusion of the above-mention provision in the laws will speed up the activities.

MIDA will share the drafted legal changes with relevant stakeholders (i.e. ministries and government agencies involved in construction, infrastructure permits and social policies, local administrations and municipalities) with the approval of relevant executive authorities to

collect opinions and suggestions. After relevant changes are approved, the legal amendments will be published.

***Action 1.1.2. Create an effective organization development plan for MIDA***

MIDA will draft an organization structure and an organization development plan (detailed under Priority 1.2). It will define the roles, KPIs and incentive scheme for the organization; prioritize the critical units that should be established under MIDA in the initial phase starting with zoning and planning, strategic planning, feasible studies, construction supervision, legal counselor, human resources and so forth; prepare a budget for human resource development; and start the process of preparing job descriptions and job allocations.

***Action 1.1.3. Prepare and get the approval of budget for MIDA, and take measures to minimize funding from government***

Medium and long-term budgetary allocations will be provided, and the budget for MIDA will be developed and implemented in coordination with the Ministry of Finance of the Republic of Azerbaijan.

**Expected results and indicators**

Determination of MIDA's organizational structure, responsibilities and support areas is essential in terms of designing and implementing affordable housing. Creating an effective organizational structure and development plan will allow MIDA to fulfill the duties that are specified in its Charter. The implementation of this priority is expected to create more than 200 new jobs.

**Key Performance Indicators:**

- Clarify MIDA's organizational structure, duties and support area, develop and implement affordable housing projects,
- Establish an effective organizational structure, prepare a development plan and ensure the opportunities to fulfill the duties that are specified in the Charter of MIDA,
- Ensure that most of the services provided by MIDA LLC are channeled through the e-government portal;

**The required investment**

The additional investment required for hiring independent consultants, creating e-systems etc. will be estimated based on the feasibility study.

**Expected risks**

The newly-established MIDA may face challenges in fulfilling its duties as a result of incomplete institutional capacity, infrastructure and management issues. International best practice suggests that empowering such agencies with excess authority in the early stages of implementing housing projects may result in abusive activities. On top of that, it is important that the housing units provided by MIDA LLC should be in conformity with general city planning requirements, that is, "overlapping plans" may result in the violation of architectural planning.

## **7.1.2. Priority 1.2. Define affordable housing targets and government support mechanisms**

### **Rationale**

The average Azerbaijan resident's living space has gradually increased over the past 15 years, from 9.3 square meters to 12 square meters per person (see Exhibit 1). Three related indicators such as the share of private house ownership, urbanization, and living space per resident have almost remained stable.

**Table 1: The share of private house ownership, urbanization, and living space per resident over the last 10 years**

<b>Years</b>	<b>2000</b>	<b>2006</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Total area, million m<sup>2</sup></b>	112,4	139	162,2	164,1	166,4	168,9	171,3
<b>State-owned property</b>	11%	7%	6%	6%	6%	6%	5.5%
<b>Non-state property</b>	89%	93%	94%	94%	94%	94%	94.5%
<b>Share of urban housing versus rural %</b>	50%	52%	53%	53%	53%	53%	53%
<b>Average living space per resident m<sup>2</sup></b>	9,3	11	11,9	11,9	12	12	12

Source: State Statistical Committee of the Republic of Azerbaijan

Some regions are experiencing faster population growth than others. From 2009 to 2015, several Azerbaijan regions including Aran, Baku city, Daghlig Shirvan, Shaki-Zagatala, Guba-Khachmaz and Yukhari Garabagh saw population growth that outpaced the growth in living space. In Absheron and Baku, real population growth is likely to be even higher than the official growth rate due to an influx of blue-collar workers from rural areas.

Each year, approximately 30,000 new houses are sold in Azerbaijan, which is in line with the new housing need of the newly formed households. Given the high rate of ownership, modest number of new sales each year, potential for housing market shrinkage and best-practice examples, MIDA's initial objective can be to create 10 percent (approximately 3,000) of new homes sold per year. This growth will contribute a healthy number of new, affordable houses without distorting the housing market. Each year housing targets of MIDA will be updated based on real housing market figures and taken into consideration with key facts established in other countries with similar initiatives.

State Statistical Committee of the Republic of Azerbaijan reports that the number of dwellings introduced into use data is 16,237 in 2015, which means an unmet housing need of more than 10,000 considering an annual need of 30,000. MIDA will define its initiatives and consider this fact.

Azerbaijan's housing policy will be formed to address supply (current and projected housing stock), demand (income distribution and housing usage) and the government's aspiration to continuously improve residents' quality of life. In particular, supply will be determined by the

current and projected housing stock segmented by type, size, location, and price; spatial distribution of centers of employment; and commuting patterns by income segment. Demand will be determined by household income distribution and projects; land and floor space per household by income segment; housing cost as a share of household income by income segment; and a socially acceptable baseline of quality.

Considering these factors, MIDA will enact near-term interventions to generate initial investment, establish a long-term goal of facilitating a sustainable housing market, and set aspirational targets for housing development in the regions.

The existing real estate market will help to set housing targets in Azerbaijan. Targets include housing the low and medium income families, city planning, urban transformation, and the development of the construction sector.

### **Action items**

#### ***Action 1.2.1. Predict housing development and draft state housing program within joint partnership with AMF OJSC and MIDA***

MIDA and AMF OJSC will prepare a report with the support of external consulting companies to identify the expected local population growth and respective housing need, existing and expected annual housing market development, level of urbanization and population with affordable housing need per city. The report will also evaluate the housing market, available land and define the supply potential within the existing and expected macroeconomic factors.

The external consulting companies will develop a proposal on the potential government aspiration for social housing by considering impacts on social policies and housing for low-income groups, city planning, urban transformation, development of construction sector and budget constraints. Finally, the selected consulting companies will develop a proposal on the target for annual housing delivery by MIDA LLC considering benchmarks and healthy housing market growth. The following issues will be a priority in this proposal: housing development with regional focus in areas with high urbanization and high housing requirement for 2016-2018, focusing on nation-wide housing plan for 2018-2025, and larger scale district-based urban transformation and slum rehabilitation projects in post 2025 period.

#### ***Action 1.2.2. Hold public discussions***

The highlights and results of the report will be publicly discussed with the involvement of relevant stakeholders. By analyzing the key facts and proposal provided in the report, the outcome of the discussions will define initiatives among stakeholders and a relevant governmental draft program will be prepared and submitted, based on a budget and plan that will be detailed by MIDA.

#### ***Action 1.2.3. Define and approve state support mechanisms and improve regulatory framework for affordable housing***

MIDA's development strategy will be strengthened by three support mechanisms of the government. These mechanisms will include providing financial support to developers and buyers, and using public lands.

In addition, financial support will be provided through agencies like AMF OJSC and ANFES and other international agencies to developers that undertake the construction of a certain amount of housing within a 5-year period (e.g., more than 500 units) in terms of funding

support and crediting (in line with the strategy developed for the mortgage funding and detailed in Priority 2.4).

In order to implement affordable housing projects, the government will grant public land to MIDA LLC or utilize such lands to subsidize affordable housing projects in a project pooling approach.

With the aim of optimizing housing development costs, the opportunities for tax exemptions and privileges will be explored in order to reduce the selling price of housing units through these measures.

Government support proposals as well as proposals on making relevant amendments to the regulatory framework will be prepared. In addition, information on these amendments and specified support mechanisms will be communicated to the public via press releases and internet.

### **Expected results and indicators**

It is estimated that the execution of affordable housing will increase direct GDP impact by AZN 159 million and indirect GDP impact by AZN 81 million in real terms in 2020, totaling AZN 240 million. A total of 10 000 new jobs will be created in the construction sector.

### **Key performance indicators**

- Number of the housing units provided by MIDA LLC;
- Average construction period of the housing units;
- Number of buyers,

### **Required investment**

The estimated investment required for housing projects is approximately AZN 900 million until the end of 2020.

### **Expected risks**

Insufficient budgetary allocations for the implementation of affordable housing projects can be a major risk, i.e. planning the budget without considering instabilities in the construction sector and basic material market may cause financial shortage in the process of project execution.

Planning the housing development without considering demographic changes that affect the regions across the country may lead to discrepancy between the supply and demand. Population growth rate and domestic migration are the key factors to be considered in measuring the demographic trends. Potential growth of the existing households in the regions and job creation are also the key factors, which contribute to domestic migration. Hence, the substantial increase in housing development should be in a par with the expected growth of households.

## ***7.2. Strategic target 2. Implement key mechanisms to enable an effective affordable housing market***

To develop an affordable housing market, MIDA y will carry out its activities based upon this Strategic Roadmap. The mechanisms to achieve government aspirations will include securing land, increasing affordability of development, defining beneficiaries, securing partnerships, and expanding access to mortgages.

### **7.2.1. Priority 2.1. Identify land parcels and transfer ownership to MIDA LLC**

#### **Rationale**

Land designation and acquisition is one of the key success factors in the implementation of affordable housing projects. Cost optimization with regard to the acquisition of land plots, as well as suitability of location - existence of employment centers, transport and social infrastructure - is critical for offering houses at affordable prices.

By using idle and public lands, MIDA can implement affordable housing projects with a cost advantage. Transfer of ownership of lands to MIDA LLC will allow for cost optimization through project pooling.

Land plot intended for affordable housing will be provided through three primary means:

- Local executive authorities interested in increasing their region's affordable housing offerings will provide MIDA LLC with land;
- Municipal lands will be acquired at the expense of public funding and transferred to MIDA LLC;
- As described in Priority 1.1, public land will be used for affordable housing development.

In the future, MIDA LLC, in partnership with local administrations, will aim to develop affordable housing in residential areas primed for neighborhood rehabilitation.

The practice of other countries may be used for land acquisition designed for affordable housing. For example, in Turkey, municipalities have provided affordable housing agencies with suitable lands. Using these lands, TOKI has implemented housing projects in the cities with the population of more than 40 000 people, and later in those inhabited by less than 40 000 people after reaching the portfolio quota.

As for public lands, the government either retains the lands for housing projects or allows the housing agencies to build houses in these lands. The Chinese government sells the ownership right to the public lands based under a 70-year long leasing agreement. In Turkey, TOKI is authorized to select idle public lands.

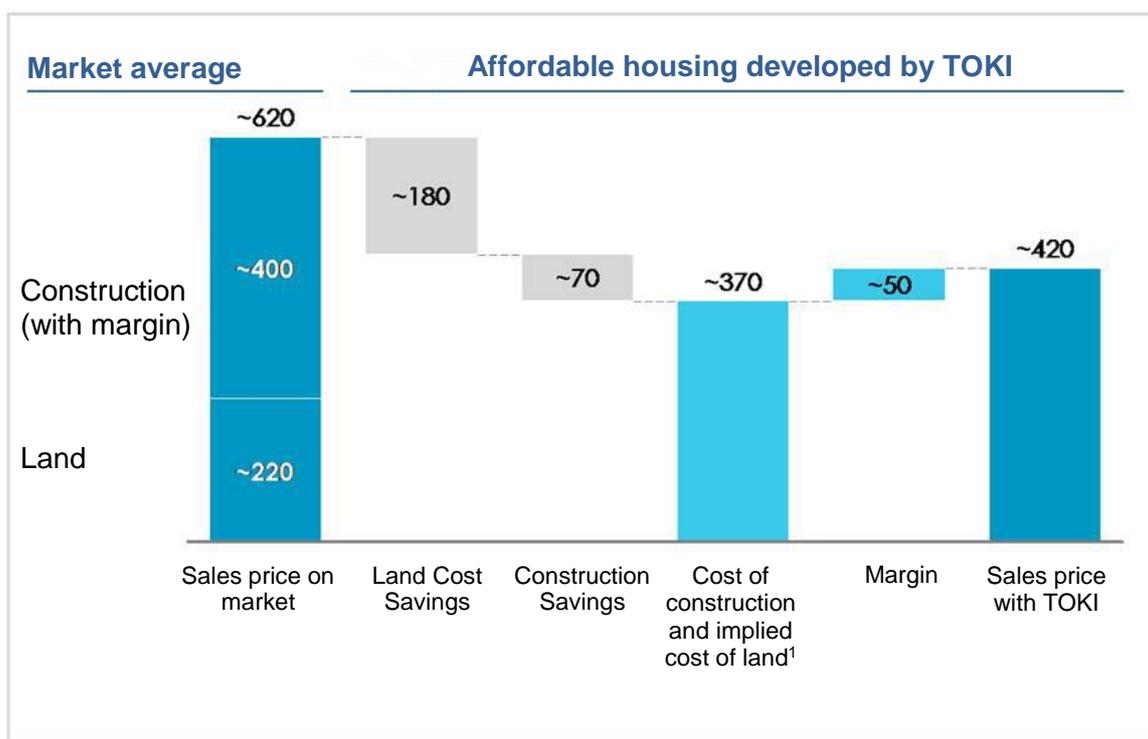
By using idle and public lands, MIDA LLC can implement affordable housing projects with a cost advantage. In Azerbaijan, public lands inside cities such as Baku and Ganja that are owned by state or state enterprises offer potential areas for housing projects. Public lands outside city centers are especially relevant for district-based projects as they are close to transport networks and job centers.

Azerbaijan will be able to use idle and public land to save money on houses built within the affordable housing project. This model has worked well in other countries. In Turkey, the average market cost of a home is approximately USD 620 per square meter. However, affordable housing is developed at much lower cost (approximately USD 420 per square meter) thanks to savings in both land cost and construction (see Exhibit 2).<sup>3\*</sup>

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\* <sup>3</sup> Construction savings strategies are detailed in the next priority.

**Exhibit 2. An example of cost reduction for affordable housing projects (USD/m<sup>2</sup>)**



1 Theoretical cost of land was calculated by reverse engineering based on “sales price-construction cost-margin.”  
Source:TOKI

**Action items**

***Action 2.1.1. Conduct a nation-wide study for affordable housing development projects and locate necessary lands***

With the support of local executive authorities and municipalities, MIDA LLC will make a nation-wide study for affordable housing development project to locate idle public lands inside the city (high-demand districts) and outside the city center, and potential districts for urban transformation/ slum rehabilitation (e.g. Soviet-period unregistered housing neighborhoods) as a future consideration (in post-2025).

***Action 2.1.2. Transfer ownership of selected lands to MIDA LLC for affordable housing development projects***

The Cabinet of Ministers of the Republic of Azerbaijan will implement necessary measures to transfer ownership of selected lands to MIDA for housing development projects (forming a project pooling opportunity of different lands).

***Action 2.1.3. Implement infrastructural initiatives for unlocking suitable lands and create a healthy housing market***

To facilitate unlocking suitable public, municipal and private lands for affordable housing, the first two of the following 4 initiatives will be a priority:

- verification of existing title deeds;
- classification of zoning,

- institutionalization of indisputable title deeds,
- development of a relevant geographical information system (GIS).

These initiatives will facilitate unlocking lands for affordable housing and create a sound housing development market. They will include the verification of existing deeds (identifying parcels of land and linking them to the land registry), classification of zoning via single authority to enforce zoning requirements and service charges, institutionalization of indisputable title deeds as a conclusive proof of ownership, and developing relevant Geographical Information System recording location, size, rights, uses, and values of all parcels.

### **Expected results and indicators**

The above-mentioned actions will facilitate unlocking lands for affordable housing. MIDA will reduce costs and achieve effective implementation of targeted housing projects by using public lands for housing development.

### **Key Performance Indicators:**

- Involvement of 5 % of the idle lands during the implementation of the Strategic Roadmap,
- Achieving 10% reduction in project implementation costs by using idle public lands for housing development.

### **Required investment**

No additional investment is needed to implement the priority.

### **Expected risks**

The government may assume risks related to land acquisition and development by considering the challenges that exist in emerging countries when providing deeds and title of ownership in the process of implementing affordable housing projects. On the other hand, private sector partnerships may be useful in terms of managing construction risks.

## ***7.2.2. Priority 2.2. Define beneficiaries of public housing fund***

### **Rationale**

To ensure efficient and maximum use of public funds, MIDA will define target social groups for affordable housing. Concessions and classification criteria applicable to each group will be clearly determined. Key targets in the selection of beneficiaries will include increasing house ownership and providing government support for economically vulnerable population groups through cost reduction.

The most important step to be taken after defining beneficiary groups is verifying and registering the eligible families. It is critical to ensure the application of accurate and fair beneficiary verification procedures to avoid cases such as wasting public funds or not involving eligible families in the housing projects. Housing allocation should be transparent and its results should be publicized clearly.

## Action items

### **Action 2.2.1. Identify beneficiaries based on selected categories**

MIDA will target two population groups for affordable housing in Azerbaijan: persons identified based on selected categories and those who are identified based on the government order

**Persons identified based on selected categories.** This group will include people who are identified based on defined criteria for affordable housing. The payment will be made directly by them or through preferential loans provided by AMF OJSC.

**Persons identified based on the government order.** Upon agreeing with MIDA, relevant state authorities, organizations and enterprises will place orders for housing units constructed by MIDA LLC. The government will make the payment for the housing units, which will be provided to those beneficiaries.

The perspective of increasing the attractiveness of rural life will also be considered in defining beneficiaries. One of the steps taken in this respect will include certain conditions in the categories that apply to young families.

### **Housing allocation**

Countries around the world use several different models to allocate housing including lottery; first-come, first-served; needs-based; agency-driven and market-driven options. MIDA will analyze all these models to decide which one will be most suitable for the country's housing allocation. Currently it is planned to apply the first-come, first-served model through online allocation system.

Priority areas for the development of affordable housing are those with the highest population (more than 200,000) and low floor space per capita (less than or equal to 12 square meters per person). Absheron regions, Baku, Ganja, and Sumgayit (see exhibit 2) meet these criteria more than others. Moreover, additional criteria will be used to prioritize affordable housing projects including internal migration rate, number of internally displaced people, and the share of the workforce that earns minimum wage.

**Table 2. Number of population, living space per capita and average monthly salaries in regions across the country**

Densely populated regions and cities	Number of population (thousand, persons) 2015	Per capita living space (m <sup>2</sup> ) 2015	Average monthly salary (2015)
Baku	2 225,8	11,6	666,8
Absheron	168,7	14,5	336,0
Sumgayit	336,2	9,3	378,5
Ganja	330,1	11,8	321,0
Shamkir	72,7	16,5	292,1
Shaki	67,3	11,8	255,6
Lankaran	87,2	14,2	267,2
Masalli	49,7	9,3	284,3

Khachmaz	66,6	13,1	312,3
Yevlakh	68,0	12,1	266,0
Shamakhi	47,6	15,7	272,8
Nakhchivan	80,9	20,8	424,6

Source: State Statistical Committee of the Republic of Azerbaijan

Beneficiaries who are eligible for housing units sold by MIDALLC will be aligned with the categories that are eligible for mortgage loans provided by AMF OJSC. This will allow common government policy, which is aimed at providing favorable conditions for low-income families.

***Action 2.2.2. Establish infrastructure, make public announcement of beneficiary criteria, ensure application and allocation process, monitoring and annual reporting***

MIDA LLC will establish infrastructure (e.g. website, electronic system) to record applications and manage housing allocation, and make public announcement of beneficiary criteria. MIDA will also plan semi-annually for respective application and allocation process based on the development plan and will run that process according to the plan. Lastly, it will monitor and publicly report the beneficiaries and the allocation of the housing units on an annual basis.

***Action 2.2.3. Coordinate the process for the identification of beneficiaries who receive government support***

Based on the government order, MIDA LLC will develop housing under relevant government-supported projects in order to improve housing conditions for employees of government agencies, organizations and enterprises, and solve social and household problems facing the IDPs and refugees.

**Expected results and indicators**

Beneficiaries of the public housing stock will be identified based on international best practices. Application of additional criteria by MIDA will facilitate online selection of housing units and help those with demonstrated need to benefit from affordable housing.

**Key Performance Indicators:**

- Level of selection of beneficiaries from targeted social groups and number of beneficiaries from classified social groups;
- Provide 10% of the families, which are included in the selected social groups, with housing units over the next 10 years,
- Reduce urbanization problems,
- Improve housing conditions IDPs and refugees, who have not been provided with housing units so far.

**Required investment**

The investment required for the priority will be captured in Priority 1.2.

**Expected risks**

When identifying beneficiaries, it is important to ensure that they are selected from target social groups. Failure to apply proper criteria or forged documents provided by buyers to

benefit from the housing fund may be a potential risk. To avoid such incidents, MIDA in close partnership with state authorities should strictly monitor the process of beneficiary selection by applying an electronic system and should use the e-signature tools.

### **7.2.3. Priority 2.3. Build both domestic and international private-sector partnership**

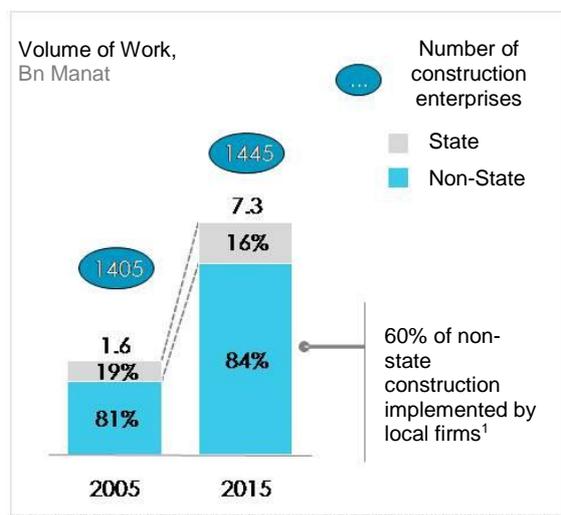
#### **Rationale**

It is particularly important to benefit from the practice of developers in order to ensure effectiveness and efficiency of the housing projects. Alongside increased public investments in the construction sector, building partnership with private sector delivery partners will ensure timely and quality housing development.

MiDALLC will stimulate the participation of construction companies through incentives like provision of land, infrastructure and other privileges. On the other hand, private contractors may leave their resources and practices at the disposal of MIDA LLC and assume some portion of construction risks. Tendering among the private contractors will result in high quality housing delivery for beneficiaries.

MiDA LLC will benefit from partnership with both local and international construction companies via contracting in defined terms. In recent years, the volume of construction work has been increasing in parallel with the capabilities of local construction companies that are candidates for affordable housing projects (see exhibit 3). In 2005, the volume of construction work totaled AZN 1.6 billion. In 2015, this volume of work had more than doubled to AZN 7.3 billion, of which 60 percent was handled by local private contractors.

#### **Exhibit 3. Volume of construction work and opportunities for local construction companies**



<sup>1</sup> 51% of overall volume of work

Source: State Statistical Committee of Azerbaijan Republic, TOKI

In addition to leveraging local contractors, MIDA LLC will also seek the support of international housing construction companies that offer experience in affordable housing delivery as well as developed organizational capabilities and financial health. Azerbaijan will consider highly qualified international construction companies, particularly those with prior Azerbaijan experience, for partnership on affordable housing development.

## **Action items**

### ***Action 2.3.1. Choose different delivery models***

Azerbaijan will focus on two delivery models to develop affordable housing: public-private partnerships and a public delivery model.

**Public-private partnerships.** Local executive authorities and municipalities will be actively involved in the selection of idle lands and provision of logistical services, MIDA LLC will engage private developers to build housing units on public land. This cooperation will be carried out based on a variety of commercial options. Completed housing units (MIDA's share of units based on partnership conditions) will be sold directly to beneficiaries based on the terms and conditions to be stipulated by MIDA LLC or will be allocated by the government to buyers or tenants.

**Public delivery model.** MIDA LLC will engage private contractors to build housing on the land under its ownership and, at the same time, will remain the main contractor and land owner. MIDA will sell or rent completed housing units to citizens and while maintaining its strong management role. By exerting more control over the process, governmental bodies will open the possibility of creating a large-scale housing industry without depending on the timing or financial capacity of the private market.

MIDA LLC will allocate ownership rights within the public-private partnership model. This model is basically applied in the projects offering completed housing units at prices higher than the market average. However, within the second model MIDA LLC will act as a customer and retain the ownership right. This model is used more often in low-margin projects.

### ***Action 2.3.2. Set relevant criteria for selection of private construction investment companies***

MIDA LLC will set relevant criteria for the selection of private construction investment companies. The criteria, which are based on the delivery model, will consider organizational capability, potential and quality of partnerships (legal status, partners, agreements with suppliers etc.), financial health (financial documents, bank records etc.), real estate development track record (experience and evidence on completed and ongoing projects etc.), and approach to housing development (design, cost, maintenance etc.).

**Organization capability.** Organization criteria will cover two sub-areas: capabilities and opportunities, strength and quality of partnerships. Capabilities and opportunities will be determined by the maturity of the organization and relevant experience, organizational structure, expertise across critical functions and the availability of adequate capacity and resources to commit to the project. Strength and quality of partnerships will be judged by the legal status of the bidder; a formal agreement between partners, with clear allocation of risks and responsibilities; status of any ongoing or expected litigation against bid participants; quality of other suppliers, contractors and subcontractors, and partner firms of the construction company; and term relationships with key suppliers relevant to the proposed project.

**Financial health.** Financial health criteria will be judged based on at least three years of audited financials, including data on net asset value, debt-to-equity ratio, and liquidity, as well as evidence of good financial standing through bank lines of credit.

**Real estate development record.** MIDA LLC will take into account a potential partner's experience in residential real estate development in Azerbaijan and the region; experience in developing residential buildings; and evidence, through customer testimonials, of the partner's ability to maintain timelines and budgets and to market and sell units.

**Approach to housing development.** Finally, consideration will expect an understanding of requirements and key success factors for housing (design, cost, maintenance) and the needs of the local market (specification, features), as well as an explanation of the company's approach to developing and marketing housing.

***Action 2.3.3. Reach out to local investors, explain the development plans of MIDA, and invite potential international investors***

MIDA LLC will reach out to local investors, explain the development plans of MIDA, and invite potential international investors (highly qualified construction companies in the region, especially with prior Azerbaijan experience) for partnership.

**Expected results and indicators**

Public-private partnership model could be applied to affordable housing when building partnership with local and international private sector players. As a result of properly implementing the criteria to select delivery partners, MIDA will involve in its projects the private partners that are differentiated by their strong organization, long-term financial standing, successful experience in real estate construction as well as approach to housing construction (cost optimization, design etc.).

**Key Performance Indicators:**

- Attract foreign investments to the construction sector across the country;
- Ensure transparency in tendering;
- Accelerate the application of international best practices;
- Provide opportunities for saving more than 10 % of the project costs through enhancing competitiveness;
- Number of buyers;
- Number of domestic and international developers participating in the tendering process.

**Required investment**

No additional investment is required for the priority.

**Expected risks**

Ensuring transparency in the tendering process is one of the key preconditions for implementing housing projects based on international best practice. In this respect, it would be expedient to apply an online system designed to select private sector players in order to implement housing projects.

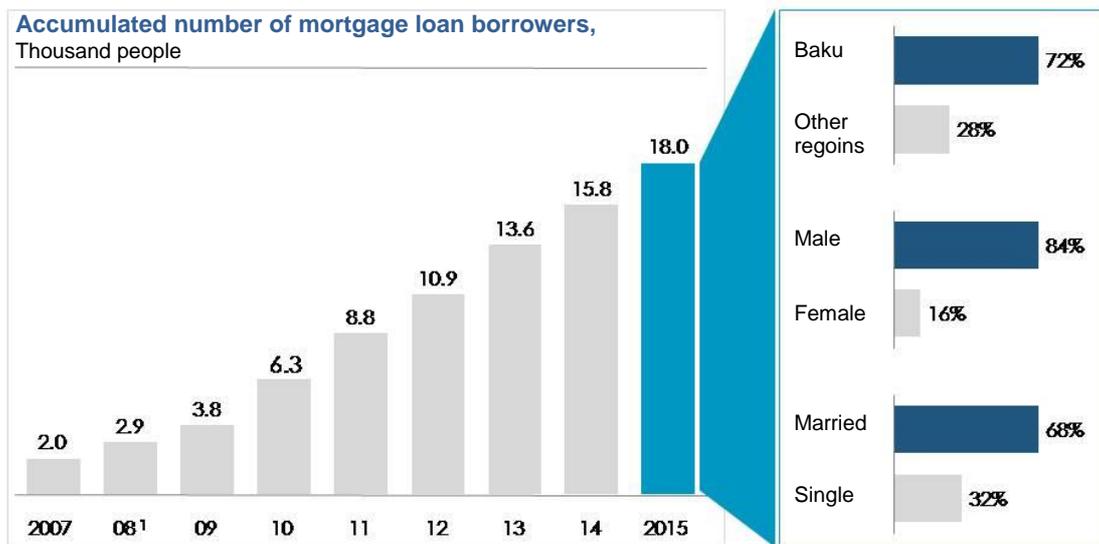
It is critical to comply with predefined construction quality standards. Focus should be given to avoiding non-compliance with quality standards when defining construction norms and optimizing costs.

## 7.2.4. Priority 2.4. Ensure an effective mortgage lending market

### Rationale

Mortgage lending is a common practice which is applied to increase opportunities for housing. Since 2007, a total of 18 000 mortgage loans have been provided to Azerbaijani citizens (see: Exhibit 4). The majority of these mortgage holders are married and live in Baku. Coordination and cooperation with AMF OJSC should be strengthened to ensure an effective mortgage lending market and to facilitate the terms and conditions of mortgage lending for MIDA's customers,

**Exhibit 4. Mortgage lending for 2007-2015**

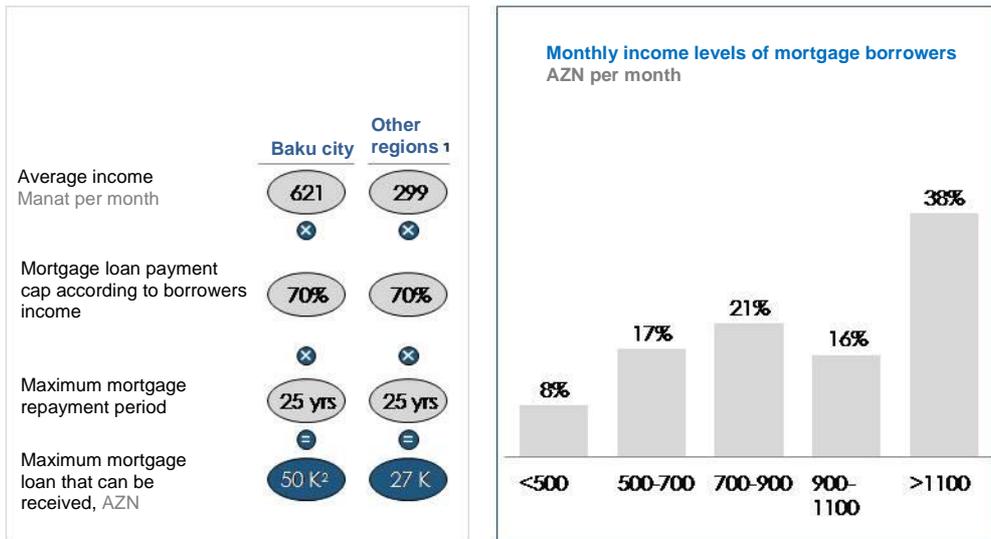


<sup>1</sup> 2008 data calculated as average of 2007 and 2009 due to no available data  
Source: AMF OJSC

By considering income distribution among mortgage borrowers, it can be concluded that the number of the mid-income borrowers of such loans is low. Actually, the income of 8% of the mortgage borrowers is lower than AZN 500 per month. Persons whose wages exceed AZN 1100 are the largest group among mortgage borrowers.

The maximum amount of mortgage in Baku is AZN 50 thousand. This figure makes AZN 27 thousand in other regions (Exhibit 5)

**Exhibit 5. Maximum amount of the mortgage loans affordable to medium-income families**



- <sup>1</sup> Average salary per city and number of employee per city
- <sup>2</sup> Even though every citizen could get up to 54K AZN loan with his income level and maximum monthly payment allowance, he/she will receive maximum 50 K AZN due to maximum mortgage fund per borrower limit

Source: Azerbaijan Mortgage Fund

Azerbaijan's outstanding mortgage/non-oil GDP and mortgage penetration are low compared with peer countries (See: Exhibit 6). As such, Azerbaijan has much room for growth of the mortgage market to benefit homeowners at all income levels.

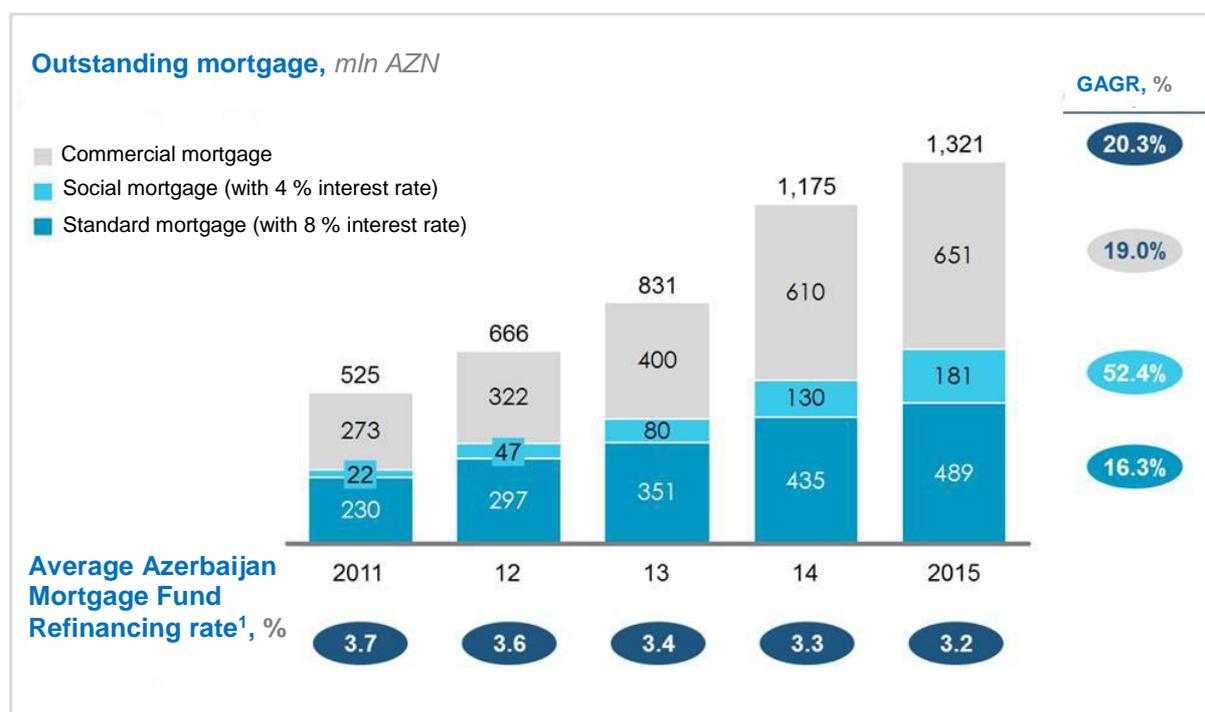
**Exhibit 6. Growth potential of the mortgage market (% , 2014)**



<sup>1</sup> Penetration among population +15  
Source: Central Bank of Azerbaijan, Azerbaijan Retail banks, World Bank Global Index

In the existing mortgage market, social (low-interest) mortgages are growing faster than the other types of mortgages offered by the Azerbaijan Mortgage Fund (see: Exhibit 7). With a compound annual growth rate (CAGR) of more than 50 percent from 2011 to 2015, social mortgages' growth rate demonstrates the market's interest in mortgages for affordable housing. 82% of the above-mentioned mortgages were used in secondary housing market. Streamlining the provision of mortgage loans based on relevant documentation for purchasing the housing units, which are provided by MIDALLC, will stimulate the growth of the mortgage market and construction sector.

**Exhibit 7. Mortgage loans provided by AMF OJSC**



<sup>1</sup> Average of outstanding Azerbaijan Mortgage Fund loans  
 Source: Central Bank of Azerbaijan, Azerbaijan Mortgage Fund

The current interest rate is 8 percent for general loans and 4 percent for social loans, 78 percent of which are assigned to military service members.<sup>4</sup>

Best practices suggest three steps to develop Azerbaijan's housing finance sector: strengthening the enabling environment, initiating the primary market, and funding mortgages through capital markets.

**Strengthening the enabling environment.** Economic stability and strong legal and regulatory frameworks are fundamental to the smooth functioning of financial markets. As such, the Azerbaijan government is committed to ensuring best-in-class legal framework, institutional setup, property market, banking sector, and housing policy. Several actions will help Azerbaijan reach this target, including forming a statistical basis for home valuation (villas, apartments) and standardizing the valuation process; updating the legal framework for the liquidation of real estate collateral; and completing the centralization and digitization of the cadastre system.

**Initiating the primary market.** Developing Azerbaijan's mortgage market involves ensuring that banks are able to offer direct lending through mortgage products. As such, the

<sup>4</sup> Source: AMF OJSC

Azerbaijan government is committed to ensuring best-in-class lending standards, insurance services, other basic financial products and services, and access to long-term funds via AMF OJSC. Several actions will help Azerbaijan reach this target, including defining lending standards for banks and ensuring full migration to an electronic land registry for easier processing.

**Funding mortgages through capital markets.** Fully realizing the potential of a mature market requires the establishment of liquidity facilities as mechanisms to turn loans into bonds (covered mortgage bonds) as well as securitizations. As such, the Azerbaijan government is committed to ensuring best-in-class legal, accounting and tax framework. Several actions will help Azerbaijan reach this target including continuing to develop securitizations; upgrading the current instrument issued by the AMF OJSC to improve investor attraction; and supporting the development of pension funds, which invest heavily in mortgage bonds as well as the development of insurance companies.

### **Action items**

#### ***Action 2.4.1. Identify, approve and publish preconditions and legal amendments required to take the actions for the development of mortgage market.***

AMF OJSC will investigate via a committee formed by relevant stakeholders (MIDA, Financial Market Supervision Chamber, Central Bank, State Committee on Property Issues, private banks and other relevant stakeholders) to identify preconditions and legal amendments required to take the actions for the development of mortgage market, and then it will come up with relevant proposals. These proposals will include; strengthening legal framework and registration system for the liquidation of real estate collateral; developing statistical database of mortgage and housing market for better valuation; centralization and digitization of cadastre system (currently this project is being carried out by State Committee on Property Issues); defining lending standards and establishing a developed data management infrastructure; upgrading mortgage bond products and supporting the development of pension funds.

#### ***Action 2.4.2. Improve the legal framework for partnership and cooperation between AMF OJSC and MIDA***

The legal base for partnership and cooperation between AMF OJSC and MIDA will be improved.

#### ***Action 2.4.3. Include MIDA LLC' beneficiary selection criteria in respective mortgage eligibility procedure***

To develop mortgage market in Azerbaijan, MIDA LLC and AMF LLC will jointly consider the opportunities to expand beneficiary selection criteria among citizens in three areas (real estate value, interest rate and administrative process).

**Maximum mortgage amount and real estate value.** For the purposes of affordable housing, MIDA LLC will define a maximum mortgage amount and minimum pre-payment level based on the eligibility criteria of the borrower and the actual cost of constructing the affordable housing.

**Interest rates.** AMF OJSC and MIDA LLC will apply preferential interest rates for housing mortgages.

**Administrative process.** MIDA LLC will develop a special procedure for affordable housing that will reduce application duration and cost.

MIDA LLC and AMF OJSC will set a working group to define and tailor respective mortgage eligibility criteria in accordance with MIDA LLC beneficiary criteria and affordable housing prices. This working group will carry out a single screening and compliance among enterprises, especially for the following aspects: maximum mortgage amount, minimum pre-payment rate for affordable houses, interest rate for affordable house loans, administrative process of mortgage loans, and funding for MIDA LLC's buildings still in development.

### **Expected results and indicators**

Creating an effective mortgage market will allow almost all MIDA beneficiaries to benefit from mortgage loans. GDP impact for 2020 in real terms is expected to be about AZN 9 million.

### **Key Performance Indicators:**

- Define the ratio for using budgetary allocations for the housing projects implemented by MIDA LLC with the goal of ensuring efficient use of public funds, and use the ratio as a KPI,
- Define the ratio of use of mortgage funds by low-income families and use the ratio as a KPI,
- Total number of mortgages granted by AMF OJSC for the housing units sold by MIDA LLC to beneficiaries,
- Average mortgage lending period,
- Matching the selection criteria by AMF OJSC and MIDA LLC.

### **Required investment**

The investment required for the priority will be captured in Priority 1.2.

### **Expected risks**

Given the economic conditions of MIDA LLC beneficiaries, it should be noted that their purchasing capacity can be lower than that of total population. AMF OJSC should consider this factor in mortgage lending. On top of that, MIDA LLC and AMF OJSC should conduct a joint review of matching the selection criteria.

Mortgage loans will be funded through capital market tools like mortgage bonds. However, given that the capital market is in its early stage of development, the market players may face uncertainties when using the tools.

Given the risky mortgage loans as well as the problems facing a number of countries today, these tools should be used under direct supervision of competent state authorities.

## **8. FINANCING MECHANISMS**

The achievement of the specified strategic targets requires AZN 900 million investment. The implementation of actions in the State Strategy will be funded by using the following sources:

- Public budget;
- Non-budgetary funds;
- Funds provided by ANFES and other credit and investment organizations;
- Local budgets;
- Funds provided by local companies, businesses and organizations irrespective of type of ownership;
- Foreign investments;
- Securities;
- Loans, grants and technical assistance provided by international organizations and other countries;
- Funds provided by AMF OJSC;
- Funds provided by citizens;
- Other sources not prohibited by legislation .

In order to ensure effective spending of funds for priority targets, budgets will be prepared within performance based budgeting process. A larger portion of the required funds will be provided at the expense of the restructuration of existing budgets, joint financing initiatives of private sector and different investors.

## 9. IMPLEMENTATION, MONITORING AND EVALUATION

### Implementation of the Strategic Roadmap

**Oversight and governance:** Accelerated decision making, clear accountability, and additional execution capacity will ensure appropriate oversight and governance.

- A mechanism for accelerated decision making at the highest political level will be set up for the strategic vision and roadmap. This mechanism will enable clearly visible leadership other main decision makers to emphasize the importance of implementation. Decisions about implementation priorities and concrete targets will be made using this mechanism.
- The main executive organization will appoint responsible persons for each relevant priority and action in order to implement them in a timely and proper manner. With the involvement of other organizations specified in the action plan, working groups under the top management of responsible organizations will also be formed for each priority. Reporting meetings of the work groups will be conducted at least twice a year at the initiative of the main executive organization and under its leadership. Work progress and activities to be performed will be discussed in the meetings. The work groups will carry out their activities based on annual work programs. The responsible person will determine daily work schedules and task allocation. Typically, current work group meetings will be held in the offices of the main executive organization as requested by the responsible person. The main executive organization will ensure that appropriate conditions are created for unimpeded activity of the work group and, when necessary, it will involve external experts to make best use of their technical support.
- An appropriate coordination group (delivery unit) will be established to monitor the implementation of the Strategic Roadmap and provide central execution support in areas such as in problem solving or coordination across institutions. The unit's major work will serve to create organization across the institutions, processes, and technology required for implementation. This coordination unit will oversee teamwork across work groups in line with the action plan, summarizing of quarterly reports and preparation of annual reports. Furthermore, it will be responsible for ensuring that the involved institutions arrange for the required financial and human resources, and empowered to inject additional resources when needed.

**Strategic alignment and financing:** To allow for an efficient implementation process that avoids wasted resources and conflicting objectives, the strategic roadmap will fully be fully integrated into other sectorial plans and existing budgets.

- All related strategic documents proposed by relevant governmental institutions will be harmonized with the Strategic Roadmap and the mandates of existing state agencies will be realigned to the objectives wherever necessary. This alignment work will include developing transparent, measurable implementation targets, which will be communicated publicly and used to track progress.
- Detailed implementation plans will be developed for all strategic priorities as governance for their execution, based on provided actions, to provide transparency regarding the resources required and expected impact. While the assigned leader will

bear overall responsibility for fulfilling the implementation plan, it will involve all key institutions and private sector organizations in its application.

**Stakeholder mobilization platform:** Both domestic and international partners from both public and private sectors will be mobilized to join in the execution of the Strategic Roadmap.

- Appropriate actions will be taken to identify and involve key strategic partners. The involvement of multiple organizations and stakeholders is required for the successful implementation of each strategic priority. To ensure alignment of objectives and proper coordination, advisory councils and working committees will be formed to work with the private sector and state owned enterprises as well as with critical international partners, such as international financial institutions.
- Civil society will be mobilized and engaged to generate broad support for the roadmap. Furthermore, active communication, transparency and inclusiveness will help to mobilize the public and private sectors, society as a whole, and other relevant stakeholders.

### **Monitoring and evaluation of the Strategic Roadmap**

The Strategic Roadmap will be monitored and evaluated to ensure successful implementation through required tools, processes and other resources. During monitoring and evaluation, focus will be placed on the implementation of core actions, expected results and indicators versus priorities, and also compliance with the completion schedule will be checked. The monitoring and evaluation will be carried out in accordance with procedures based on international methodologies.

The annual activity programs of the work groups will be agreed with the coordination unit and approved by the main executive organization. Representatives of the coordination unit will participate in the quarterly meetings of the work groups.

The main executive organization will submit work progress reports to the coordination unit at least 10 days prior to the working group meeting. By taking into account extensive analysis and evaluation of the above report, including discussions held in the meeting of the working group, monitoring results and recommendations will be submitted to the main executive organization within 10 days following the meeting date. The coordination unit and the main executive organization will take actions to ensure that the working group in its daily activities takes the monitoring results and recommendations into consideration.

## 10. ACTION PLAN

No	Action	Main responsible entity	Other entities/ recommendations	Result indicators	Implementation period
<b>Strategic Target 1. Empower MIDA with defined strategy and targets to design and execute affordable housing</b>					
<b>1.1. Clarify MIDA's organizational structure, duties, and support areas</b>					
1.1.1	Examine the legal framework of housing and clear transfer of authority to MIDA, share the drafted legal changes with relevant stakeholders	Cabinet of Ministers	Ministry of Economy, Ministry of Communication, and Technologies Ministry of Justice, State Committee on Property Issues, MIDA housing agency, "MIDA" LLC, "Azerigaz" PU, "Azersu" OJSC, "Azerishig" OJSC, "Azerenergy" OJSC, "Azeravtoyol" OJSC	<ul style="list-style-type: none"> <li>Clarify MIDA's organizational structure, duties, and support;</li> <li>Develop and implement affordable housing projects;</li> <li>Establish an effective organizational structure and prepare a development plan as well as ensuring opportunities to fulfill duties specified in the Charter of MIDA;</li> <li>Ensure that most of the services provided by MIDA LLC be channeled through the e-government portal.</li> </ul>	2017-2018
1.1.2	Create an effective organization development plan for MIDA	MIDA	Ministry of Labor and Social Protection, Ministry of Economy		2017-2018
1.1.3	Prepare and get the approval of the budget for MIDA and take measures to minimize funding from government	Cabinet of Ministers	Ministry of Economy, Ministry of Finance, MIDA housing agency, AMF OJSC MIDA LLC		2017
1.1.4	Establish MIDA and MIDA LLC and prepare procedures for providing MIDA's housing units to citizens	Presidential Administration of the Republic of Azerbaijan	Cabinet of Ministers, Ministry of Justice, Ministry of internal Affairs Ministry of Taxes, Ministry of Communication and Technology, Ministry of Labor and Social Protection, State Committee on Property Issues, State Committee on Work with IDPs and refugees, MIDA housing agency		2016 implemented

No	Action	Main responsible entity	Other entities/ recommendations	Result indicators	Implementation period
<b>1.2. Define affordable housing targets and government support mechanisms</b>					
1.2.1	Predict housing development and draft state housing program within joint partnership with AMF OJSC and MIDA	Cabinet of Ministers	Center for Strategic Studies under the President of the Republic of Azerbaijan, Ministry of Labor and Social Protection, Ministry of Youth and Sport, Ministry of Economy, State Committee of City Planning and Architecture,  State Committee on Work with IDPs and refugees, MIDA housing agency, AMF OJSC	<ul style="list-style-type: none"> <li>• Direct GDP impact of AZN 159 million and indirect GDP impact of AZN 81 million in real terms in 2020, totaling AZN 240 million increase;</li> <li>• Create approximately 10000 new jobs in the construction sector;</li> <li>• Number of the housing units provided by MIDA LLC;</li> <li>• Average construction period of the housing units;</li> <li>• Number of buyers.</li> </ul>	2017-2018
1.2.2	Hold public discussions	MIDA housing agency	<i>Recommended:</i> involvement of local and international experts		2018
1.2.3	Define and approve state support mechanisms and improve regulatory framework for affordable housing	MIDA housing agency	Ministry of Economy, Ministry of Taxes, Ministry of Finance, Ministry of Justice, AMF OJSC		2017
<b>Strategic target 2 Implement key mechanisms to enable an effective affordable housing market</b>					
<b>2.1. Identify land parcels and transfer ownership to MIDA LLC</b>					
2.1.1	Conduct a nation-wide study for affordable housing development projects and locate necessary lands	MIDA housing agency	Ministry of Ecology and Natural Resources, Ministry of Agriculture, State Committee on Property Issues, State Committee of City Planning and Architecture, Local executive authorities	<ul style="list-style-type: none"> <li>• Involvement of 5 % of idle lands during the implementation of this Strategic Roadmap;</li> <li>• Achieving 10% reduction in project implementation costs by using idle public lands for housing development.</li> </ul>	2017-2018
2.1.2	Transfer ownership of selected lands to MIDA LLC for affordable housing development projects	Cabinet of Ministers	MIDA housing agency, State Committee on Property Issues, State Registry Service for Real Estate		2017-2018

No	Action	Main responsible entity	Other entities/ recommendations	Result indicators	Implementation period
2.1.3	Implement infrastructural initiatives for unlocking suitable lands and create a healthy housing market	Cabinet of Ministers	Ministry of Justice, Ministry of Economy, MIDA housing agency, State Committee on Property Issues, State Registry Service for Real Estate		2017-2020
<b>2.2. Define beneficiaries of public housing fund</b>					
2.2.1	Identify beneficiaries based on selected categories	MIDA housing agency	AMF OJSC, Ministry of Labor and Social Protection	<ul style="list-style-type: none"> <li>Level of selection of beneficiaries from the targeted social groups and number of beneficiaries from classified social groups;;</li> <li>Provide 10% of the families, which are included in the selected social groups, with housing units over the next 10 years;</li> <li>Reduce urbanization problems;</li> <li>Improve housing conditions of IDPs and refugees who have not been provided with housing units so far</li> </ul>	2017-2018
2.2.2	Establish infrastructure, make public announcement of beneficiary criteria, ensure application and allocation process, monitoring and annual reporting	MIDA housing agency	Ministry of Internal Affairs, Ministry of Defense, Ministry of Justice, Ministry of Youth and Sports, Ministry of Labor and Social Protection, State Committee on Work with IDPs and refugees, State Committee on Property Issues, State Examination Center MIDA LLC		2017
2.2.3	Coordinate the process for the identification of beneficiaries who receive government support	MIDA housing agency	MIDA LLC		Every year in advance
<b>2.3. Build both domestic and international private sector partnership</b>					
2.3.1	Choose different delivery models	MIDA housing agency	Ministry of Finance	<ul style="list-style-type: none"> <li>Create full transparency in the tendering process;</li> <li>Accelerate the application of international best practices;</li> <li>Provide opportunities for saving more than 10 % of the project costs through</li> </ul>	2017-2018
2.3.2	Set relevant criteria for selection of private construction investment companies	Ministry of Economy	MIDA housing agency, Ministry of Finance		2017
2.3.3	Reach out to local investors, explain the development plans of MIDA, and invite potential international investors	Azerbaijan Investment Company	MIDA housing agency, MIDA LLC, Ministry of Economy		2017-2018

№	Action	Main responsible entity	Other entities/ recommendations	Result indicators	Implementation period
				enhancing competitiveness; <ul style="list-style-type: none"> <li>Number of buyers; Number of domestic and international construction companies participating in the tendering process</li> </ul>	
<b>2.4. Ensure an effective mortgage lending market</b>					
2.4.1	Identify, approve and publish preconditions and legal amendments required to take the actions for the development of mortgage market	AMF OJSC	MIDA housing agency, Ministry of Labor and Social Protection	<ul style="list-style-type: none"> <li>GDP increase impact of AZN 9 million in 2020 in real terms;</li> <li>Define the ratio for using budgetary allocations for the housing projects implemented by MIDA LLC with the goal of ensuring efficient use of public funds, and use the ratio as a KPI;</li> <li>Define the ratio of use of mortgage funds by low-income families and use the ratio as a KPI;</li> <li>Total number of mortgages granted by AMF OJSC for the housing entities that are sold by MIDA LLC to beneficiaries;</li> <li>Joint review of matching the selection criteria by AMF OJSC and MIDA LLC.</li> </ul>	2017
2.4.2	Improve the legal framework for partnership and cooperation between AMF OJSC and MIDA housing agency	MIDA housing agency	Ministry of Justice, AMF OJSC		201
2.4.3	Include MIDA LLC's beneficiary selection criteria in respective mortgage eligibility procedure	MIDA housing agency	Ministry of Labor and Social Protection, AMF OJSC		