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Implemented by:



Housing finance – Kyrgyz Republic

KfW supports the establishment of housing finance in rural areas

KfW is carrying out a housing finance programme in the Kyrgyz Republic with the aim of improving the living conditions of the people there. Funds by the German Federal Ministry for Economic Cooperation and Development (BMZ) are used to support Kyrgyz banks in establishing their range of loan products for medium- to low-income households.

result is a shortage of financing options for long-term loans.

Project approach

KfW Development Bank is supporting the transformation process in the Kyrgyz Republic on behalf of the BMZ. The main aim is to improve the framework for the private sector. This also includes the expansion of financial institutions' housing loan business. KfW has teamed up with the Ministry of Finance of the Kyrgyz Republic to carry out local projects.

As part of this project, three local financial institutions – the commercial bank Kyrgyz Investment Credit Bank, the microfinance bank Bai Tushum and the microfinance organisation Kompanion – receive long-

Context

Most of the housing stock in the mountain country of Central Asia was built during Soviet times. Back then, they belonged to the state. Once the country gained independence, living quarters were gradually privatised. However, the basic structures of the old buildings are deteriorating, and the people are often unable to pay for modernisation themselves.

The Kyrgyz Republic is one of the poorest countries in Central Asia. Many families rely on remittances from family members working abroad. Those wanting to build a house or renovate in the Kyrgyz Republic are usually unable to find adequate financing.

The Kyrgyz financial system is currently undergoing a phase of development. For this reason, it is not yet attuned to the needs of the little people. Interest rates on loans are high. Banks are often unprepared to extend housing loans due to the fact that they cannot adequately assess the risks that could arise from them. There is little confidence in the local currency, the Kyrgyz som. The banks therefore hardly ever receive long-term savings deposits in the local currency. The

Project name	Kyrgyz Republic housing finance
Commissioned by	Federal Ministry for Economic Cooperation and Development (BMZ)
Country/region	Kyrgyz Republic
Lead executing agency	Ministry of Finance of the Kyrgyz Republic





Baktygul Ermekova built her house using a mortgage loan by Bai Tushum, a bank supported by KfW. Photographer: Nursultan Ismailov

term financing loans in the local currency from BMZ funds. The financial institutions supply their customers in rural regions with these funds as housing loans. The loans are expected to be used for the purchase, modernisation and restoration of houses and flats in smaller cities and villages. The financial institutions also receive consulting services in order to prepare them for the housing finance business. In addition to product design, this also includes the development of lending quality standards and dealing with customers fairly.

Loans are disbursed in local currency in order to prevent situations in which customers are unable to repay their loans if the currency depreciates. The financial institutions have adopted internationally recognised lending standards, which ensure that customers do not take on too much debt. Financial institutions also abide by international guidelines for responsible financing, which among other things require a fair treatment of customers. The BMZ has made a loan worth EUR 7.5 million available for financing the loans. The consulting services for the participating financial institutions are funded with a grant totalling EUR 0.5 million.

Impact

The programme got under way at the end of 2012. Since then, more than 300 mortgage loans, roughly 500 renovation loans and nearly 400 loans for the expansion of housing have been paid out. In all, loans in the equivalent of around seven million euros have been issued in Kyrgyz som. The result is a number of

new single-family homes – a typical type of housing construction in the Kyrgyz Republic.

One customer in particular reveals how both the living conditions and the housing facilities are improving substantially: 41-year-old Baktygul Ermekova received a loan from one of the three partner banks to build a house. As a cook at her local school, she earns the equivalent of just EUR 36 a month. On the side, however, she also runs a small livestock breeding operation. Her husband helps out while working at the local gas utility and brings home nearly EUR 340 a month. They have four children together. The expanded house now has room for the entire family. The stable has been moved to the farm as well.

It is not only the population benefiting from the housing finance programme. This programme also contributes to strengthening the capacities of financial institutions, thereby invigorating the entire financial system as well. Moreover, this is expected to be emulated: there is an anticipation that other financial institutions will be encouraged to issue more housing loans outside of the major cities and to provide rural populations with the necessary funds.



Contact

KfW Group
KfW Development Bank
Project Manager Dr Dareg Zabarah
Phone: +49 69 7431 9247
Palmengartenstrasse 5-9
60325 Frankfurt
Germany

KfW Office Bishkek
Director Thomas Edgar Lehmann
Blvd. Erkindik 22 / ul. Moskovskaya 101/1
720040 Bishkek
Kyrgyz Republic
Phone: +996 312 90 90 85-88
Fax: +996 312 90 90 89
KfW.Bischkek@kfw.de