

Generating Revenue Through Auctioning Land Use Rights

Bishkek and Osh, Kyrgyzstan

Background

Traditional land allocation systems in Kyrgyzstan did not take account of the potential impacts of market forces on land use and made valuable land use rights available without realizing any revenue to the city. The Chief Architect of the City of Bishkek (population 800,000) wanted to develop a new way to allocate land that would utilize market forces and generate revenue for the city while encouraging private investment and development. After considering the legally-permitted options, he initiated a process of sealed-bid auctions of land use rights because auctions are easy to organize and administer, do not require expensive preparation by bidders, and are not easily open to corruption or question. Soon thereafter, the City of Osh (population 250,000) initiated a similar process.

Innovation

In Bishkek and Osh, the Mayor and Chief Architect assigned city staff to draft regulations establishing a committee to oversee preparation for the auction. The committees in Bishkek and Osh were composed of five to twelve top city officials involved in land issues, as well as additional experts. Auction committees determined the parcels, permitted uses, and types of rights to be auctioned. The committee also set a starting price for each parcel, under which no bids were accepted, and held a public informational meeting for potential bidders. City staff prepared the necessary documents before the auctions were held, including application forms, general information, descriptions of the parcels, and bid forms and envelopes. Participants in the auction paid a deposit of 10 percent of the starting price before bidding began, part of which was refunded to losing bidders. For each parcel offered, the land use rights were awarded to the highest bidder, who signed an auction protocol and purchase and sale agreement with a city representative. The Bureau of Technical Inventory then registered the sales and issued the documentation allocating the parcels to the winning bidders, who paid the city within 10 days.

A sealed bid auction process provides good and transparent documentation for all transactions and can be conducted by city employees in city facilities. The cost of holding an auction varies based on staff time and the cost of advertising, the largest cost component. Auctions in Bishkek and Osh have cost only a few hundred dollars to conduct, primarily because the advertising campaigns have relied heavily on state-owned or operated media.

Results

At Bishkek's first auction in August 1995 bids were made on five land parcels. Since then Bishkek has held nine competitive auctions of land rights, which have earned the city over \$60,000. Osh conducted two auctions in 1996 in which it sold 99-year usage rights on nine parcels of land, earning the city nearly \$12,000. Attendance at the auctions has varied from a few to over 50 bidders, and as many as 12 bids were placed on some land parcels. Bidders are most interested in parcels when the use rights, taxes, development fees, and other obligations such as infrastructure provision are clearly defined. In addition to generating revenue for cities, the auctions have dramatically altered the way land is allocated by replacing traditional procedures with competitive methods.

In August 1996 Bishkek and Osh sponsored a national conference for chief architects from more than thirty major Kyrgyz cities, all of whom expressed interest in holding auctions of their own. An auction manual and training video are available, which should make the practice easily replicable. This format is also transferable to other city functions, such as procurement, construction tenders, and disposal of surplus inventory and equipment.

Summary

To allocate land in a way that would utilize market forces and generate local revenue, the City of Bishkek held a sealed bid auction for land use rights. Since then Bishkek has earned over \$60,000 through competitive auctions of land rights. Also, the City of Osh conducted two auctions of land use rights, earning nearly \$12,000.

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