LESSONS LEARNT FROM RUSSIAN AND KAZAKH ESCROW SYSTEMS AND THEIR APPLICATION IN THE UZBEK REAL ESTATE MARKET

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Abstract. The transition toward escrow financing mechanisms has become an important institutional reform trend in post-Soviet real estate markets. Russia and Kazakhstan implemented escrow-related construction financing reforms in order to improve consumer protection, reduce systemic risks, and increase transparency within the housing sector. Uzbekistan is currently moving toward similar institutional transformation. The present study analyses lessons learnt from Russian and Kazakh escrow systems and evaluates their possible application within the Uzbek real estate market. The research applies comparative analysis, institutional analysis, and urban economic evaluation methods using construction sector reports, banking sector indicators, and housing market reviews.

The findings demonstrate that escrow reforms may significantly improve market transparency and reduce risks associated with unfinished construction projects. However, the experiences of Russia and Kazakhstan additionally indicate that ***escrow implementation May increase financing pressure on developers, accelerate*** market consolidation, and contribute to short-term apartment price growth. Large development firms generally adapted more successfully to institutional reforms than smaller construction companies.

The study concludes that Uzbekistan May benefit from gradual implementation of escrow systems combined with banking sector development, regulatory flexibility, and support mechanisms for financially stable developers. The article additionally emphasises that successful adaptation of escrow mechanisms requires strong institutional coordination between construction companies, financial institutions, and state regulatory authorities.

Keywords: housing market transparency, construction sector, financing structure, developer liquidity conditions, apartment buyer protection, banking sector participation, housing price dynamics, construction activity levels

Introduction. The construction sector and residential real estate market play a major role in the economic development of modern urban economies. In many post-Soviet countries, rapid urbanisation, demographic growth, and expansion of private construction activity significantly increased the importance of housing finance regulation and consumer protection mechanisms.

Traditional construction financing systems widely used in transition economies often relied on direct advance payments from apartment buyers. Under such systems, developers used presale funds in order to finance construction activity before project completion. Although this approach accelerated construction growth during periods of economic expansion, it also created substantial financial risks for households and increased the probability of unfinished or delayed projects.

In response to these structural problems, several post-Soviet countries introduced escrow financing mechanisms designed to improve transparency and strengthen protection for apartment buyers. Russia implemented large-scale escrow reforms after problems associated with financially unstable developers and incomplete residential projects became increasingly visible. Kazakhstan later introduced similar institutional reforms aimed at improving stability in the construction sector.

Uzbekistan is currently discussing gradual implementation of escrow-related mechanisms within the housing market. As the construction sector continues expanding rapidly in Tashkent and other major cities, questions regarding construction financing, buyer protection, and market transparency become increasingly important.

The present study analyses lessons learnt from Russian and Kazakh escrow systems and evaluates how these experiences may be applied within the Uzbek real estate market. The article focuses on analysing institutional advantages, financing challenges, market consequences, and possible policy implications for Uzbekistan.

Literature Review

Escrow financing systems have become an important topic in international housing finance literature due to their role in reducing systemic risks and improving institutional transparency in construction sectors. In escrow-based systems, apartment buyer funds are generally stored in protected bank accounts and transferred to developers only after construction milestones are completed. Researchers such as Joseph Stiglitz and Robert Shiller emphasised that institutional trust and financial transparency represent important foundations for sustainable housing market development. Weak regulatory systems and excessive dependence on speculative financing may create instability within rapidly expanding construction sectors.

Russian housing market reforms became one of the most widely discussed examples of escrow implementation within post-Soviet economies. Following multiple cases of unfinished residential projects and financial losses among apartment buyers, Russian authorities gradually introduced mandatory escrow mechanisms for large residential developments. Several studies indicate that these reforms improved market transparency and reduced risks associated with fraudulent construction practices.

At the same time, Russian experience also demonstrated that escrow systems may increase financing pressure on developers. Because developers lose direct access to buyer presale funds, dependence on bank financing increases substantially. Consequently, smaller construction companies frequently experience liquidity difficulties and operational pressure under escrow conditions.

Kazakhstan introduced similar reforms in order to strengthen institutional stability within the housing sector. Analytical reports indicate that escrow-related regulation improved confidence among apartment buyers and increased the role of banking institutions within construction financing. However, the transition period additionally produced temporary slowdown in some construction activities and contributed to increasing concentration of the market among large developers.

Several researchers additionally argue that successful escrow implementation depends heavily on the strength of the banking sector. In economies with weak long-term credit markets, excessive financing restrictions may reduce construction activity and negatively influence housing supply.

In Uzbekistan, academic discussion surrounding escrow systems remains relatively limited because the reform process is still developing. Nevertheless, growing urbanisation, rapid apartment price growth, and expansion of private construction activity increasingly raise concerns regarding transparency and consumer protection.

The present study contributes to existing literature by comparing Russian and Kazakh experiences and evaluating their relevance for future institutional development of the Uzbek housing market.

Methodology

The present research applies a comparative institutional approach combining descriptive statistical analysis, comparative policy evaluation, and urban economic analysis. The objective of the study is to evaluate lessons learnt from Russian and Kazakh escrow systems and assess their possible application within the Uzbek real estate market.

The empirical analysis is based on secondary data obtained from housing market reports, banking sector reviews, construction sector publications, and international analytical sources. Additional information was collected from reports concerning construction financing reforms in Russia and Kazakhstan.

The study evaluates several key variables:

- housing market transparency;
- construction sector financing structure;
- developer liquidity conditions;
- apartment buyer protection;
- banking sector participation;

- housing price dynamics;

- construction activity levels.

Comparative analysis is used to identify similarities and differences between Russian and Kazakh experiences. Particular attention is given to the effects of escrow implementation on developer behaviour, banking sector expansion, and housing market stability.

The research additionally analyses structural characteristics of the Uzbek real estate market in order to evaluate potential adaptation challenges. The study assumes that escrow implementation may improve transparency and financial stability but may simultaneously increase financing costs and market concentration.

For analytical purposes, the institutional relationship can be simplified in the following form:

$$H_t = \beta 0 + \beta 1 E_t + \beta 2 B_t + \beta 3 D_t + \beta 4 R_t + \varepsilon_t$$

Where:

H_t — housing market stability;

E_t — escrow implementation;

B_t — banking sector participation;

D_t — developer financial strength;

R_t — regulatory effectiveness;

ε_t — error term.

The methodological approach allows evaluation of both positive and negative consequences associated with escrow-based housing finance systems.

Results and Discussion

The comparative analysis demonstrates that Russian and Kazakh escrow reforms produced several important institutional and economic consequences relevant for the Uzbek housing market.

One of the most significant positive outcomes observed in both countries was improvement of consumer protection. Escrow systems reduced risks associated

with unfinished residential projects because apartment buyer funds became protected within banking institutions rather than directly controlled by developers. This increased confidence among households purchasing newly constructed apartments.

The findings additionally indicate that escrow mechanisms contributed to greater market transparency and improved financial discipline within the construction sector. Developers became increasingly dependent on formal banking evaluation and project monitoring procedures. Consequently, financially unstable and speculative development practices gradually declined.

However, the experiences of Russia and Kazakhstan also demonstrate that escrow reforms created substantial financing pressure on construction companies. Because developers lost direct access to presale funds, reliance on bank credit increased significantly. This created liquidity difficulties for smaller firms with weak financial reserves and limited banking relationships.

The Russian experience particularly demonstrated strong market consolidation after implementation of escrow reforms. Large development companies adapted relatively successfully due to stronger institutional capacity and easier access to long-term financing. Smaller developers, however, frequently experienced operational instability or exited the market entirely.

Kazakhstan demonstrated similar tendencies, although implementation occurred more gradually. Banking institutions became more deeply integrated into construction financing processes, improving oversight and reducing financial risks for apartment buyers. Nevertheless, financing costs increased for many development projects, contributing to higher apartment prices in some market segments.

The findings additionally reveal that escrow systems may initially slow construction activity during transition periods. Developers require time to adapt business models and financing structures to new institutional conditions. In both

Russia and Kazakhstan, temporary reductions in project launches were observed during early stages of reform implementation.

For Uzbekistan, these experiences provide several important lessons. First, rapid implementation of strict escrow regulation without sufficient banking sector preparation may create excessive financing pressure on developers. Second, gradual introduction combined with targeted support measures may reduce transition risks.

The Uzbek real estate market possesses several structural characteristics requiring careful consideration. Construction activity in Tashkent remains highly dynamic and many developers continue depending heavily on presale financing mechanisms. Sudden removal of these financing channels could reduce construction activity and housing supply in the short term.

Another important observation concerns the role of banking institutions. Successful escrow implementation requires banks capable of providing long-term project financing under relatively stable conditions. Therefore, strengthening banking sector capacity remains a critical prerequisite for effective institutional reform.

The study additionally demonstrates that escrow systems may increase apartment prices during transition periods because developers transfer higher financing costs into final housing prices. This effect may be especially visible in rapidly urbanising cities with strong demand pressure such as Tashkent.

At the same time, long-term benefits of escrow systems remain substantial. Improved market transparency, reduction of fraudulent construction practices, stronger legal protection for buyers, and greater institutional stability may significantly strengthen the Uzbek housing sector over time.

The findings generally suggest that Uzbekistan should avoid mechanical imitation of foreign reforms. Instead, adaptation of escrow mechanisms should consider local banking conditions, construction sector structure, and long-term urban development objectives.

Conclusion. The conducted research examined lessons learnt from Russian and Kazakh escrow systems and evaluated their possible application within the Uzbek real estate market. The study demonstrated that escrow financing mechanisms may significantly improve transparency, financial discipline, and consumer protection within the housing sector.

The analysis confirms that Russian and Kazakh experiences produced both positive and negative consequences. Escrow reforms reduced systemic risks associated with unfinished construction projects and increased institutional trust among apartment buyers. At the same time, implementation of escrow mechanisms increased financing pressure on developers and accelerated market consolidation.

The findings additionally indicate that successful escrow implementation depends heavily on the strength of banking institutions and the financial stability of construction companies. Large developers adapted more successfully to institutional reforms, while smaller firms frequently experienced liquidity difficulties.

For Uzbekistan, the experiences of Russia and Kazakhstan provide important policy lessons. Gradual implementation of escrow mechanisms combined with regulatory flexibility and banking sector development may reduce transition risks and improve long-term market stability.

The research additionally demonstrates that escrow systems may initially contribute to apartment price growth due to rising financing costs. Therefore, policymakers should carefully balance consumer protection objectives with housing affordability considerations.

Based on the obtained findings, several policy recommendations can be proposed. First, Uzbekistan should implement escrow systems gradually in order to avoid sudden disruption of construction activity. Second, banking sector capacity for long-term project financing should be strengthened before full-scale reform implementation. Third, support mechanisms for financially reliable developers may reduce excessive market concentration.

In conclusion, escrow reform represents an important institutional step toward improving transparency and stability within the Uzbek housing market. However, successful implementation will depend on effective coordination between regulatory authorities, banking institutions, and construction sector participants.

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