

# **Enabling Transition through a Sustainable Housing Market-ETHOS**

## *Extract from Project Document*

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The ETHOS programme will provide direct assistance to the central government and local government bodies to carry out activities and to formulate a series of programmes which will enable the development of a genuine housing market. It will establish the basic institutional, administrative, juridical, financial, human resources and technical requirements which will allow the consolidation of a housing and construction sectors compatible with a market economy. It will strengthen ongoing efforts of the Moldovan government to accomplish a smooth transition to a market economy to generate economic growth and to achieve sustainable development processes.

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## **1. INTRODUCTION**

Moldova is a small land locked country with an area of 33,700 km<sup>2</sup> and a population of 4.4 million inhabitants composed of diverse ethnic backgrounds from which more than half are Moldovans (including ethnic Romanians), 13.8 % are Ukrainians and 13 % Russians. Other significant ethnic groups are the Gagauz, Jews and Bulgarians. After Armenia, it is the second smallest country of the Former Soviet Union (FSU).

After periods of annexations by the Ottoman Empire, the Russian Empire, Romania and the USSR interspersed with intervals of autonomy within different territorial borders, Moldova declared its independence on August 27, 1991. This was followed by political tensions which caused an armed conflict concerning the status of the Transnistria region. Independence showed the vulnerability of the Moldovan economy. The breakdown of the inter FSU trade demonstrated the total dependence on this trade and its entire dependency on imported energy.

Moldova is going through a comprehensive process of economic and political transformations. The government is pursuing reforms that lead to a democratic state based on a market economy which it hopes can generate sustainable economic growth. The road has not been smooth and the process of adjustment has high social costs. The GDP fell by nearly 50%. Real wages have fallen, social safety nets collapsed, unemployment increased drastically and the population is experiencing a severe deterioration in living standards.

Despite the difficulties, the country has some comparative advantages on which it can base its efforts at nation building and sustainable development. The land is extremely fertile and suitable for extensive agriculture. 75 % of the country has a very fertile soil (called chernozem) bringing the contribution of Agriculture to nearly 50 % of the Net Material Product. Furthermore, the agro-industry is very developed and produces half of the total industrial output. Adult literacy rate is 96 % and the country retains a relatively highly developed level of infrastructure and technology.

As an independent nation, Moldova has made clear progresses within a short period of time. Elections have taken place, a new parliament, new mayors and municipal councils were directly elected and have taken office. Discussions about the political, administrative and financial autonomy of local authorities are presently occurring in order to define clear lines and divisions of competence and responsibilities among the different levels of the government. A law regulating the political and administrative division of the country has just been approved by the Parliament.

The Moldovan government is sponsoring profound changes within the entire public administration apparatus. A new constitution has been approved by the parliament, a privatization programme has been launched, a new currency "leu" was introduced and a series of regulations are being implemented. Over the whole constitutional ground new fundamental economic and labour policies and laws need to be developed from scratch. The same applies the sectoral policies. Attention is being given to problems in the energy sector, public transportation and municipal services where the lack of a clear institutional framework, the absence of a basic regulatory environment and lack of market oriented management procedures represent serious bottlenecks for the transition to a market economy.

The Moldovan government has made impressive steps within its short period of existence as an independent state, resolving internal conflicts in a very mature way and carrying out a comprehensive process of reform and structural adjustment which tackles privatization, economic stabilization, fiscal discipline, democratization, free elections, free press and human rights. This effort earned the respect and recognition of the international donor community. The first World Bank sponsored Consultative Group Meeting on Moldova, held in October 1993 by the representatives of Western Countries, concluded that the reform programmes carried out by Moldova are a positive example for the entire region and therefore it should receive support.

The TACIS Coordination Unit in Moldova monitors donor sponsored activities in Moldova. The summary reveals that initial foreign assistance has been concentrated on economic restructuring, monetary & fiscal policies and support to the central bank. Parallel to the provision of credit and policy advice, the IMF provided assistance in order to improve the technical capacity of the economic policy making institutions. In total the IMF provided US\$ 155 million in 1993-94 in the forms of CCFF, STF and SBA.

The European Union (EU) has provided credit and financial assistance to Moldova which exceeds ECU 70 million. It concentrates on balance of payment support, import of some basic inputs supply like wheat, medical drugs and babyfood. The TACIS programme has completed its 1991 budget and is now working under the 1992 and 1993 budgets in various projects. It is working with the Ministry of Privatisation and State Property Administration in seven different activities: database development, public relations campaign, technical assistance (TA) to enterprises prior to privatisation, legal support, TA and training to brokers and listed companies, bottom-up privatisation and local and overseas training. One project supports the Business Centre Company in developing several possibilities to start working on concrete projects and business plans through direct TA and short-term workshops. It intends to strengthen local consultants' capability to prepare and assess business plans.

Another TACIS project assists the National Bank of Moldova (NBM) in the development of safe and efficient Clearing and Settlement Systems for domestic payments. Food and Agriculture receives specific assistance to develop appropriate breeding techniques for pigs which covers slaughtering and meat processing studies as well. Export of wine and tobacco is also covered. In the energy sector, the TACIS works together with the World Bank's Energy and Environment Project and with the EBRD's Energy Project. It provides specific sector advice, commercialization of the Moldova Energy Company, a power station demonstration project, commercialization of gas industry and the establishment of a national energy efficiency office. There is a special emphasis of TACIS for human resource development and institution building through training of trainer programmes in management, public administration and policy making. A port project is now top national priority for the Moldovan government which implies the construction of a petroleum reception facility and the development of a general purpose port. TACIS finances the appraisal and feasibility study of this project. A joint stock company was established for this purpose between the State Fuel Agency (GPO) and Greek partners. It will be financed by share holders, EBRD loan and commercial banks' loans.

The World Bank provided a drought recovery loan in 1993 which amounts US\$ 26 million and a rehabilitation loan increased by grants from the Netherlands and the USA to support the Government's reform programme. The objective of this loan is to finance imports of essential production inputs and health care supplies; to support foreign exchange markets; and to allow the private sector access to foreign

exchange. It provides technical assistance and balance of payments support. An energy and environment loan has been designed, focusing on capital preservation in the power sector and improving the efficiency of Moldova's petroleum, gas and power subsectors. An appraisal mission covering the energy sector took place in the end of 1994.

The bank sponsored several agricultural sector review missions and an investment identification mission took place in mid 1994. A US\$86 million project is proposed to embrace export promotion, primary production and sector institution building and for which a Japanese grant has been offered. A Structural Adjustment Loan of US\$60 million was signed in Nov/94 which will emphasize macro-economic management, privatisation, financial discipline, credit, competitive environment, social sector and labour market reform.

The US government is providing technical assistance that concentrates on the transition to market economy, the transition to democracy and social safety nets. The fiscal sector receives assistance in fiscal and legislative analysis and intends to consolidate a Fiscal and Policy Analysis Units. Projects of privatisation and support to capital markets receive an extensive support from the USAID. It intends to develop the procedural and regulatory structure for the privatization process, information system and audit and control procedures and provide training to build up a local capacity in these spheres. The USAID is evaluating the energy sector and plans to provide technical assistance in 95. In terms of the Environment, US\$2,5 million is available to support activities that will cover the evaluation of environmental health risk; strengthen policies, laws and institutions; assess agricultural sector impact on environment; and assess the impact of poor water quality on human health.

The Netherlands has provided a total grant assistance that amounts already US\$10.5 million. The main focus areas of assistance are: democratisation and human rights; and institutional development in the fields of local government, agriculture and energy efficiency.

In the beginning of 1993 the UNDP opened its office in Moldova and launched a country programme that intends to support the government in the formulation projects appropriate for donor funding. In addition, it supports a series of small projects like "Strengthening National Capacity for External Resources Management" and NATCAP for Moldova (US\$900,000) that strengthens the management of external resources at the Ministry of Economy (jointly funded by the Netherlands and UNDP); the Technical Assistance to the Parliament and to the Judiciary (US\$127,00); the National Junior Professional Officer for Local Capacity Building (US\$44,800); and the UNISTAR/TOKTEN/UNV/TCDC Programmes (US\$148,000).

The Social Sector Programme has been finalized and will be presented in the next consultative meeting on Moldova. The GOD (Governance and Democracy) programme has been formulated and presented to donors for funding in 1994. It provides assistance to Parliament, the legal sector, local government and the Academy of Public Administration with a view to create an institutional framework conducive for the establishment of a democratic society and a market economy.

The present programme document is the result of a mission that took place in Nov-Dec 1994 within the scope of the reform programme for municipal services and housing. An analysis of the housing and construction sectors was made and a series of discussions were carried out with the government which resulted in the programme document that follows. The ETHOS programme, "Enabling Transition through a Sustainable Housing Market" provides assistance to the central government and local government bodies in order to create favourable conditions for the development and consolidation of a genuine housing market. The development of a policy and regulatory framework and the implementation of the recommended action plans are considered indispensable if macro-economic reform is to be accomplished.

## **2. THE CONTEXT AND THE SCOPE OF THE PROBLEM**

As in most of the Former Soviet Union (FSU), housing production in Moldova has been characterized by an excessively dominant and centralizing role of the State. The design, planning, finance, building, delivery, management and maintenance of a significant part of the housing stock was carried out by different types of state enterprises. The future residents of the housing projects were considered as recipient of a social benefit. They had neither a relationship with the process of production nor a financial commitment with the implicit costs of production except in the cases of building cooperatives and individual initiatives.

Multi-storey apartment buildings of different sizes were the most usual outcome of state sponsored housing projects throughout the country. The projects were directly financed by the state budget as a result of a request for funding made by local authorities in which they specified their needs and priorities according to the specifications contained in their development plans. Housing policy was quantity oriented, a fact that influenced the technology choices towards mass production.

The housing supply was centrally determined by budgetary allocation while the demand was defined by a housing queue list that contained the names of the inhabitants in need of a housing unit. This list was kept and carefully updated by local authorities. Those who did not have a house for their own family or were living in conditions below the minimum standard of 6 m<sup>2</sup> of living space per person (excluding WC, kitchen, corridors) were entitled to subscribe and be placed in the queue. It is reported that people had to wait for more than 10 years before they would receive a residential unit.

Housing was usually produced through three different modalities: the high-rise and multi-family housing projects were carried out through (1) state building enterprises and (2) building cooperatives while low rise individual housing was implemented through (3) individual initiatives. Until 1989, the latter was common in the villages and communes where private home ownership was the dominant mode of tenure. The cooperatives were stimulated by the state, their formation was mediated by the local authorities and were comprised of those who had the financial means to pay the required down payment equal to 30 % of the total cost of the housing unit. The remaining 70% was paid in instalments over a period varying from 10 to 25 years after which the inhabitant would become the owner of the flat. These two modalities explain why a major part of the housing stock was already privately owned even before independence. It is also worth mentioning that the private sector accounted for nearly 70 % of the total housing completed in 1991.

### **Housing Provision**

Annual housing production was commendable for a small economy, but never sufficient to cope with the demand (see Table I). During the 80s, Moldova experienced a continuous growth in housing provision with the state being responsible for nearly 50 % of all residential units produced in the country, though it is important to point out that individual initiatives were responsible for practically one third of the total housing provision throughout the decade. Individual housing provision exceeds the total amount of state housing provision in terms of the total m<sup>2</sup> of construction, except in the years 1980 and 1987, although the total number of houses individually produced are numerically inferior than the total number of units built by the state. Individual houses have traditionally been 10 m by 10 m of covered area and are substantially bigger than the flats commonly produced by state initiatives (from 40 m<sup>2</sup> to 90 m<sup>2</sup>), explaining the disparity between the total m<sup>2</sup> of construction produced and the resulting number of residential units (see Table II)

Table 1: Annual Housing Construction Output in the Republic of Moldova  
(in 1,000 m<sup>2</sup>)

	1980	1985	1986	1987	1988	1989	1990	1991
State Enterprises	734	733	761	992	829	750	669	547
Social Organizations	12	10	9	3	19	8	13	8
Cooperatives	99	161	176	195	220	129	113	99
Individual Housing (villages)	611	735	780	823	836	834	735	572
Cooperative Farmers (Colhoz)	70	60	77	98	74	36	64	21
Total (excluding individual housing)	915	964	1023	1288	1142	923	859	675
<b>TOTAL</b>	<b>1526</b>	<b>1699</b>	<b>1803</b>	<b>2111</b>	<b>1978</b>	<b>1757</b>	<b>1594</b>	<b>1247</b>
Annual Growth in relation to 1980 (in percentage %)	100	111.3	118.1	138.0	129.6	115.1	104.6	81.7
Variation in Relation to 1980 (in percentage %)	-	11.3	18.1	38	29.6	15.1	4.6	-22.7
Annual Growth Rate (%)	-	10.1	6.1	17.0	-6.3	-11.1	-9.2	-21.7

Source: Moldovan Authorities, 1994.

Table 2: Total Number of Housing Units Constructed in the Republic of Moldova  
(in number of units)

Year	1980	1985	1990	1991
State Enterprises	15,300 55.6 %	14,700 52.31 %	11,900 50.21 %	9,200 51.68 %
Social Organizations	200 0.72 %	200 0.71 %	200 0.84 %	100 0.56 %
Cooperatives	2,000 7.27 %	2,900 10.32 %	1,900 8.01 %	1,600 8.98 %
Individual Housing (in villages)	8,500 30.9	9,200 32.74 %	8,800 37.13 %	6,600 37.07 %
Cooperative Farmers (colhoz)	1,500 5.45 %	1,100 3.91 %	900 3.79 %	300 1.68 %
Total	27,500 100 %	28,100 100 %	23,700 100 %	17,800 100 %

Source: Moldovan Authorities, 1994.

The figures presented in these two tables show that housing production suffered a drastic decline from 1988 onwards, with all modalities reaching 1980 levels of production. The decline coincides with the implementation of the "perestroika" policy and independence in 1991. During the FSU, the annual construction output was more than 1 million m<sup>2</sup> or more than 20,000 residential units, but, according to governmental sources, it was no more than 100,000 m<sup>2</sup> in 1994, representing a decrease of 90 % in housing production. The collapse of the FSU, the high rates of inflation, economic uncertainties, the financial difficulties of the emerging national state and the disruption of the existing credit system practically paralysed the housing and construction sectors. Associated with stagnation in other sectors, this situation has brought serious social and economic consequences for the country and constitutes a real political threat to the process of transition to a market economy.

Unemployment, the decrease in the morale and motivation of the labour force, structural losses of production units, losses derived from abandoned buildings (see below), the increase of housing shortage and its collateral effects are contributing to popular unrest and a certain feeling of nostalgia for the "good old days" for part of the population.

The situation found in three major cities of Moldova illustrates the actual process of decline in the sector. In the city of **Balti**, for example, 37,000 m<sup>2</sup> of housing construction was delivered to the inhabitants in 1993, the equivalent to 750 flats but in 1994, only 15,000 m<sup>2</sup> or less than 50 % was delivered. In **Chisinau**, in the period between 1985-90, an average of 9,000 flats were distributed annually to the population but in 1993, only 2,017 flats were distributed from which only 400 were built by the State. The rest were built by enterprises and cooperatives. Enterprises such as the Tractor Plant and the Alfa Factory (television sets) are some of the very few who are financially capable to finance housing for their employees. 15 % of the units built by them are allocated to the housing queue of the PRIMARIA (local authority) in exchange for the costs of land and the use of resources and infrastructure services. These units are then distributed to those inhabitants whose names are registered in the queue. But in 1994, only 1,000 flats were distributed in the capital city. In the city of **Orhei**, the municipality delivered an average of 280-300 flats per year during the period 1986-91 but from 1991 to Nov/94, construction virtually ceased.

Housing cooperatives were attractive channels for individuals to produce housing for themselves in a shorter time than the state could deliver but it was the members of unfinished cooperatives who most suffered after independence. In the all major urban centres, there are several incomplete buildings erected by cooperatives. The increase in construction costs, the critical situation of the building enterprises and the high interest rates charged by the banking system do not offer any feasible alternative to allow the completion of these buildings as yet for those who invested their modest savings in the cooperative ventures. As reported by the IMF, abandoned construction represents significant losses in the NMP-Net Material Product. In 1990, it was 21,000 Lei but in 1993, it reached 331,000 Lei representing an increase of 93 %.

### **Unemployment and Decline of Building Activities**

The material losses might not be so impressive numerically speaking, but the social losses derived from difficulties faced by the housing and construction sectors are becoming a very critical problem for the government. On one side there is an unresolved housing shortage and on the other increasing unemployment. The construction sector has been traditionally the fourth major source of employment in Moldova after Agriculture, Industry and Education & Culture. Data provided by the Moldovan authorities shows that from 1988 to 1992, the construction sector averaged to 7.5 % of total employment. In 1990, the sector was employing 172,000 which represented 8.3 % of the total employment in that year and when it is added to Housing & Municipal Services, it goes up to 218,000 or 10.5 % of the total employment. In 1992, there is an increase in employment in the housing and municipal services sector but a visible decrease in the construction sector, down to 140,000 or 19 % less in relation to the 1990 figures.

For 1994, there is not an accurate data but considering that most of the building enterprises and the building material plants are operating only 30 to 40 % of their normal capacity it is likely that the actual unemployment has increased to very dramatic figures. Small building enterprises have little work and the

large ones are restructuring in order to keep their units operational. Some are working on a shorter working week, or working less hours a day or even combining these two options before deciding to lay off underemployed personnel. In **Orhei** for example, a city that used to have an active building construction sector, only 30 % of the work force of building enterprises is actually engaged in the building process. The local authority was not able to honour contracts and jobs already executed were not paid for resulting in a debt of 1.07 million Lei only in the building sector. Several construction sites are paralysed, including cooperative buildings, and inter-enterprise arrears are bringing building enterprises to a state of insolvency.

In **Chisinău**, one of the country's pre-fabricated reinforced concrete component production plants (Usina I) is operating 60 % below its normal capacity, some personnel were laid off and the salary of the remaining employees has been decreased to a minimum level. Furthermore, several state enterprises have a debt with the plant that amounts 2,54 million Lei. The plant is being creative and applying innovative management and marketing approaches to cope with the present difficulties but is very uncertain about its future. It has a plan to modernize its production lines and equipment but does not have access to credit and has no guarantee to have work in the future. In addition, present production costs (heavily influenced by energy costs) are such that its products are not competitive either in the internal market or in the markets of the neighbouring countries like Ukraine and Rumania.

The same situation is faced by the building company Monolit, a conglomerate of 8 companies, one of the pioneers in the building sector and considered as the most successful building company in Moldova. It was the first state enterprise to be privatized in the construction sector. The company is only operating at 35-40 % of seventies levels. Out of its 1500 workers, 40 % of them or 600 employees are simply not engaged in the work and are receiving a minimum wage of 50 Lei (less than US\$10) in order to allow them to cope with this period of transition. It expects to have two large contracts signed in 1995 (financed by external funds) but if these are not realized it is likely that these workers will be dismissed.

This example illustrates the general situation in the sector. Experienced builders and workers are migrating to Ukraine and Russia where they find work and their skills are very much appreciated. The same is happening with highly skilled architecture and engineering professionals. According to the Union of Architects, a recently created NGO of more than 300 professionals with more than 5 years of experience, there used to be a lot of work for everyone during the FSU period since the State invested a lot of financial resources in the housing and construction sectors. They gained experience and acquired a good reputation within the FSU, but unfortunately a great majority is now unemployed and concentrated in Chisinău. The Union reports that the most experienced professionals left Moldova during the last 3 years.

### **The Construction Process and the Decline of the Building Sector**

The construction methods and technologies employed in housing production utilizes raw materials extracted in the country. Except for iron and timber, Moldova has been very fortunate in terms of natural resources for building material production. Cement, limestone, gypsum, asbest pipes, slate, ceramic bricks, tiles for internal and external walls and concrete components have been widely produced in the country and exported to other republics during the FSU period. The housing stock is mainly composed by buildings constructed with (1) bricks and blocks of limestones, (2) reinforced concrete elements and pre-fab components and (3) concrete elements formed in-situ, called locally a 'monolithic system'. The latter was Moldova innovation which was successfully exported to other republics of the FSU. In the villages, one also finds houses built with adobe blocks. Some years ago a sizeable earthquake proved that the buildings produced in Moldova are stable and have a good structural quality. Since the country lies within a seismic area, the production units take care with quality control measures.

Building material production was growing continuously from 1975 to 1990. However, in 1991 there was a big drop in the production output of all products, most of them falling to 1975 levels, except for cement and fibre cement pipes. Domestic building material production can satisfy the country's needs but according to INMACOM only 40% of the existing capacity is operational. This is a consequence of the decline of housing production; the economic stagnation and decrease of investments in the industrial sector; and

drastic increase of energy and transportation costs. In the case of the production of cement, the cost of energy amounts to 60 % of production costs. That brings the profitability for this product to only 10%.

INMACOM is a conglomerate that comprises 44 enterprises of which 12 have been privatized as stock societies and the others are listed to be privatized in the very near future. Among these enterprises there are 2 cement plants, 10 plants for production of reinforced pre-fabricated concrete elements and 17 enterprises specialized in ground and underground investigation for granite, sand, lime, natural stone, etc. The conglomerate is responsible for 70 % of all building material production in Moldova, retaining the monopoly of the production of bricks and limestone blocks.

There are many imperfections in the construction industry which need to be addressed during the process of reform. The monopoly of INMACON in the sector is not compatible with a market economy where competition and diversity in production are needed to serve the various needs and financial possibilities of the clients. The present standardization of the pre-fabricated concrete components responds to the needs of large scale multi-storey building but is not flexible enough to respond to individual housing and other different housing typology. A technical and economic feasibility analysis could reveal whether these standards and components are suitable and sustainable. The construction sector needs to go through a comprehensive process of modernization. This process already started albeit tentatively. The stagnation of the sector is not good for the economy and for employment. Data provided by the Moldovan authorities and IMF reveal the drastic decline in the sector which is coincident with the general decline in the Net Material Product (see Table 3).

### The Housing Need

The State Department of Architecture and Construction estimates in Nov/94 a shortage of 200,000 units for the whole country. It means that there are more than 500,000 people in need of a house, representing 11 % of the total population. In **Balti** (170,000 inhab.), the official list has almost 11,000 names, in **Chisinau** (660,000 inhab.) it has 70,000, while in the municipality of **Orhei** (40,000 inhab.) there are 3,090 families registered. These lists record not only those who are looking for a flat produced by the state or by cooperatives but also those requesting individual plots. While these lists overstate effective demand as many families will have no means to pay the real costs of housing, they do indicate a perceived need and, indeed may understate this since many people is not applying anymore due to the long waiting period and endeavour to find other means to obtain access to housing.

Table 3: Constant Net Material Product 1987-1992 in the Republic of Moldova  
in 1993 thousand lei

	1989	1990	1991	1992	1993
Total Net Material Product	8,416	8,292	6,801	4,845	4,656
Construction	773 9.2 %	810 9.8 %	838 12.3 %	686 14.1 %	404 8.7 %
Annual Rate of Growth NMP	8.8 %	-1.5 %	- 18 %	-28.8 %	-3.9
Annual Rate of Growth Construction	19.7 %	4.8 %	3.5 %	-18.2 %	-41.1 %

Moldovan Authorities and the IMF, 1994.

## **The Deterioration of the Existing Housing Stock**

On the one hand there is an acute need to build new housing units and on the other the existing housing stock needs to go through an urgent process of renovation and repair works. According to the National Bureau of Technical Inventory (BTI), 48 % of the total housing stock in Moldova was in a deteriorating condition in 1990, which means that almost 50 % of the total stock already needed urgent repairs and maintenance works in that year. The situation is becoming critical in a significant number of cases since the government does not have the financial resources to carry out the necessary works in the stock which is its responsibility. The absence of programmes/credit facilities to enable the occupiers to take on this responsibility and their very low incomes make the situation even more acute. The need of repair is increasing every year and a significant number of buildings are reaching grave stage of maintenance.

In case of state owned buildings, the Ministry of Municipal Services and Housing states that 350,000 m<sup>2</sup> of living space (equivalent to 6,000 residential units) need urgent capital repair and about 2 million m<sup>2</sup> (equivalent to 35,000 units) need routine repairs. If one uses the rate of 10 lei/m<sup>2</sup> utilized by one of the Municipal Units for Housing Exploitation & Maintenance (SEL) of Chisinău for budgeting their maintenance works, these figures can be financially translated into 3.5 million Lei (US\$ 825,000) and 20 million Lei (US\$ 4.7 million) respectively. This is an amount that the Government simply does not have at its disposal.

In the major urban centres, the situation is apparent when one visits a range of neighbourhoods. Not only the old stock but a great part of the postwar high rise buildings need crucial repairs of various types. The communal spaces, like the entrances of the blocks, are in terrible state. There is hardly any building with light bulbs, the walls are falling apart, the staircases are often dilapidated, the great majority of the mail boxes situated in the entrance halls are destroyed, facades are cracking exposing reinforcing which rusts and causes the concrete cover to spall, some buildings have leaking roofs and serious structural problems. According to some residents of Botanica, a large expansion-suburb of Chisinău, it was common to have collective resident actions to clean, repair and maintain the communal spaces organized by Party but unfortunately this practice was not replaced by any other mechanism and very little maintenance is presently done by the organizations responsible for these tasks.

## **Policy and Institutional Inconsistency**

The maintenance of the state sponsored housing stock is under the responsibility of a municipal "unit" called Unit for Housing Exploitation & Maintenance (SEL) which is subordinated to both the Local Authority and the Ministry of Municipal Services and Housing (MMSH). Each local authority has a number of SELs who have a certain area of the town under their jurisdiction with comprising a number of residential units and non residential spaces. The state transfers resources to the budget of the local authority on a yearly basis according to an annual repair programme prepared by the SELs. The SELs are in fact the real managers of the state housing stock. These organizations are responsible for carrying out a periodic inventory of the condition of the stock and for recommend repair works which will be done by themselves or by building contractors. SELs are also responsible for leasing and renting the residential and non residential units. Chisinău, for example, has 48 of them.

The major responsibility of the MMSH is to supply the population of cities and towns of Moldova with the basic municipal services. It has under its authority 175 different enterprises dealing with municipal services from which 153 are "double subordinated" to the local administrations. The MMSH is also responsible for the management of the housing stock produced by the State which excludes those produced by cooperatives and individuals. It is responsible for the formulation of legislation, norms and regulations to guide the functioning of companies and units of municipal services in the entire republic. These companies are responsible for water supply, drainage, sewerage, heating, urban transport, street lighting, etc.

During the FSU period, housing provision was centrally planned and implemented through two ministries: the Ministry of Construction and the Ministry of Building Materials. The latter was basically responsible for the quarriers of limestone, sand and raw materials necessary for the production of reinforced concrete

elements, pre-fabricated components and cement. The former was solely involved with the process of planning and construction. After independence, these ministries were merged into the State Department of Architecture and Construction (SDAC) which has a normative and legislative role within the broad field of construction: public works, building, physical planning, housing and infrastructure. Formerly these issues were all established in Moscow and adopted locally through executive organizations. Actually, the executive tasks are assumed by the MMSH and the PRIMARIAs (local authorities).

It is obvious that there are overlapping responsibilities among the SELs, MMSH and SDAC. A lot of complementary tasks involving different phases of the housing delivery process are scattered around different organizations and policy formulation is diluted among them. The institutional restructuring of the government has not been able to solve this inconsistency, as a result, the government continues to lack policy instruments and tools to manage the process of urban development. In addition, the existing institutions and their respective staff have little experience with policy formulation, preparation of policy reports, legislation and regulations. A general complaint of the staff of SDAC is that the old system was given up without having another one to replace it. This illustrates very clearly the absence of frameworks and guidelines to orient their professional input in the process of restructuring the housing sector. Besides the demand for a legislative basis, there is an urgent need to establish a regulatory framework through which the institutional functioning of governmental bodies are specified and the relationships between the beneficiaries of public policies and the state, their roles, obligations and responsibilities, can be (re)defined. This definition is envisaged within the process of municipal autonomy presently being discussed in the parliament. It is also addressed by the UNDP's Governance and Democracy programme. The reform of the housing sector must cover the roles and responsibilities of the local authorities and reinforce ongoing institutional strengthening efforts.

An integrated approach is essential. In order to solve the technical, institutional and financial problems it is imperative to have a gradual strategy to change management styles, working methods, performance criteria, the behaviour of the professional staff of governmental bodies and the general attitude of the final beneficiaries.

This intricate institutional framework and the present budgetary constraints of the government are making the management of the housing stock under state control a complex and laborious task. The system of charging for consumption of basic public utilities by the inhabitants of the state owned flats complicates the task further. The Moldovan government inherited a centrally-based and socially-oriented supply system of public utilities. This means that, except for the electricity supply, all services (the cold and hot water supply, gas and heating networks) do not have meters to measure individual consumption by the occupants of flats. This implies that defaulters can not be penalized for these services without affecting a whole group of households living around a given service duct and sometimes even in a whole building. Installing individual meters might change the consumption patterns and rationalize the management of the systems, but it is very complex technically. It demands a lot of change of pipe layout, breaking down of walls and very costly repairs which neither the state nor the inhabitants are in the position to pay for at this moment.

The inhabitants are now confronted with higher prices of the utility services but continue to pay very subsidized prices for living in a state owned flat. In the composition of the invoice issued by the MMSH, the cost of housing is kept at low levels in comparison with the other utility services. Data provided by the government reveals that, in November/1994, a household composed of 3 persons and living in 2 bedroom apartment of 40 m<sup>2</sup> was paying a total of 39 Lei/month (the invoice is composed of 12 items: housing, water & sewerage, garbage collection, gas, hot water, heating, animal keeping, TV antenna, radio and other services). A household composed of 4 persons living in a 3 bedroom apartment of 60m<sup>2</sup> was paying approximately 56 Lei/month in November 1994. Considering that, in this year, the average monthly wage equalled 82.4 lei (US\$19.5), it becomes clear that a significant part of the population lives in poverty and commits a large percentage of their income to current housing expenditures. Urban poverty is now a visible phenomenon in the urban centres of Moldova.

## **The Privatization of the Housing Stock**

In order to alleviate the burden of maintenance of the housing stock and to stimulate home ownership, the government launched a programme of privatization of the housing stock. A little more than one third of the state owned housing stock has been already privatized. The privatisation law established the principle that every occupant of a flat built by the State may become its owner. The formula for establishing the cost to the occupant is complex and dependent on the time of occupancy, space occupied per person, etc. It results in a substantial subsidy to many purchasers.

Data provided by the MMSH establishes that 38 % of the total state owned housing stock in the country (14.1 million m<sup>2</sup> of living space) has been privatized at a cost of 61.4 million Lei (US\$14.4 million) including 33,508 apartments in Chisinău (27%), a total of 1.8 million m<sup>2</sup> of living space at a cost of 30.2 million lei. The municipality of Chisinău provides a different figure: 30 % of the 150,000 flats owned are already privatized. In 1993, 287.7 thousand m<sup>2</sup> of living space was privatized, the equivalent to 5,750 flats. In Balti, out of 20,000 state-owned flats, 7,100 or 35.5 % have been privatized to November 1994.

It is not possible to assess the impact of privatization in the incipient housing market but the municipality of Chisinău records an average of 50 flats being sold per month. However, since home ownership implies an extra burden in terms of property tax, it is likely that those inhabitants who are hit hard by economic restructuring will not be motivated to become owners. Besides the increase in housing expenditure, privatization implies that all maintenance and repair works are assumed by the new owners as well.

This is another critical issue. The ongoing privatization of the state-owned housing units is individually oriented and is not addressing the problem of maintenance and management of the communal spaces and structural components of the buildings. It does not provide a guideline or arrangements for resolving problems of a collective nature e.g roof leaking, entrance hall safety measures, facade repairs, inspection of structural elements, etc. that affect all residents of a building independently of their ownership status. The only aspect mentioned in the law is that after 60 % of the flats in a building is privatized, a sort of condominium organization must be established in order to take over these tasks.

The withdrawal of the state from maintenance tasks implies a need for its replacement by a sustainable form of management in which both the local authorities and the inhabitants will play a role. This needs to be gradually introduced, supported by new policies and programmes in order to build up a solid relationship between the various actors involved in housing and municipal services. Decades and even generations of top-down state provision have severely inhibited individuals' initiative converting them into passive recipients of orders, products, goods and services. One needs to bare in mind that it will take time change attitudes towards a more active role in development process.

## **Privately Sponsored Housing and Unsustainable Development**

There is a visible growth in privately sponsored construction activities, specially in the peripheral villages surrounding the largest urban centres like Balti, Chisinău and Orhei, providing clear evidences, that a certain part of the population is being able to mobilize resources to build sizable private houses (120 to 180 m<sup>2</sup> of covered area). The building process varies. Some build the whole house through contractors while others contract free-lance builders who build foundations, walls and roof and the rest is done by the owner. There are also cases where the owner builds together with family members, relatives and friends through a gradual process. Many houses take a very long period to be completed since the pace of the building process is limited by available financial resources.

This phenomenon is a consequence of the FSU directive no. 100/1988 which was adopted in Moldova in the same year. According to this directive, individual and juridical persons are allowed to build private houses in plots of 300 to 900 m<sup>2</sup>. For residential purposes, plots are allocated free of charge and the inhabitant has a maximum of 2 years to start building. He has no ownership title of the plot, but just a right to use and occupy the land. After the decision became public, the requests for private individual housing increased rapidly, but the local authorities were not capable of responding. All master plans and urban

development plans were formulated based on high rise housing. These plans have not been revised to provide the integrated and organized framework essential to meet this new demand and different housing typology. Existing legal restrictions related to urban plot sizes, densities, etc. and the lack of a professional staff in the municipalities to undertake this task are serious bottlenecks.

During the FSU period, the urban development plans e.g. master plans, expansion plans, etc. were centrally formulated and adopted locally by local government staff who acted more as implementators and managers of the plans. The recent initiative follows the same pattern since it was the SDAC who formulated a series of land sub-division schemes throughout the country which are potentially unsustainable. Plot dimensions used in the schemes result in very high costs of infrastructure and public utilities which are normally financed by state budget. Large parcels of land are consumed in this process and plots are allocated to a small privileged group who receives it free of charge.

The Moldovan technical staff have a high level of professional skills and are capable of assuming the required tasks, but they bring a legacy from their education. They were trained and educated under the model of central planning, central provision and the social welfare state. Efficiency and productivity were usually measured by the capacity to deliver a quantity of goods and services which often disregarded rationality, finance and economic/environmental sustainability. These attitudes were consolidated through decades of isolation from "western" methods of business management and can not be changed from one day to the next.

In fact, there is an urgent need to review the plans that were adopted for the towns; assess the urban planning parameters utilized in the country; define urban standards, regulations, land subdivision criteria; and formulate a whole set of legislation to guide urban development. Above all, it is necessary to expose the technical staff to models, procedures and systems used in market economies which take into account economic feasibility and financial sustainability.

### **Private Initiatives in Codru, Chisinău**

The case of Codru exemplifies this latest phenomenon of private individual housing development. It is a flourishing suburb situated in the outskirts of Chisinău-totally built and sponsored by private initiatives. A land subdivision scheme was formulated by the former central urban planning unit containing 3,000 plots for individual houses. The first plot was nominally allocated in 1989 and soon after it was demarcated, independently of having building permits or not, the allottees started to build individual family houses using concrete blocks, pre-fabricated reinforced concrete panels, ceramic bricks, limestones blocks and covering them with corrugated zinc sheets or fibre cement sheets. The site is in fact a typical incremental land development scheme common in Third World Cities. Basic infrastructure services were gradually provided although at the time of writing a major part of the settlement was not yet served with water and electricity. Many households have solved the problem of water supply through individual wells. A great number of the houses have provided sanitation facility through pit latrines.

This dynamic and astonishing suburb is just one of the many areas which are under process of development in the villages situated in the outskirts of Chisinău and other major urban centres. It shows clearly that there are resources being mobilized in the form of contracted labour and different types of building materials, resulting in very personalized architecture and housing environments. It shows the potential of an informal housing market that works for a small percentage of the population able to solve its housing problem on an individual basis.

This is however a minority group of society. A major part of the population is not capable to solve their housing problem in this way. State provision practically collapsed and with the ever increasing demand, it is already possible to identify market imperfections which make access to housing much more difficult. The cost of rent in the private sector is fluctuating between 60 and 70 USD/month for an one bedroom flat and rooms are rented for 45 lei/month in the capital city. Foreigners are already paying US\$500,00/month rent for a 2 bedroom apartment in Chisinău without having any guarantees or legal protection through enforceable contracts. Local tenants are also subject to landlord impositions since there is not yet any

regulation in respect of rental housing. Subletting of rooms and spaces is becoming common in the cities and is resulting in overcrowding. Extended families are living under one roof since housing opportunities and financial resources are scarce. There is no credit system and there is no organization to define the required regulatory and policy frameworks. A great part of the population still expects that state provision will resolve their housing needs.

The dominant role of the State is not compatible with a market economy and therefore new policies and strategies should be formulated and implemented in order to allow the market to work in the housing and construction sectors. It is necessary to develop a multisectoral programme and create a juridical, legislative, economic, financial and administrative basis which can foster the participation of individuals and other actors in the solution of the housing problem with the minimal participation of the state.

Centralised state mechanisms need to be replaced by other forms and mechanisms that will help the inhabitants to help themselves. That requires financial resources, mobilization of the beneficiaries, a development strategy and an institutional setting which can provide the necessary framework for all the actors involved e.g. local governments, building contractors, private developers, building cooperatives, small entrepreneurs, etc.

The government is in severe financial difficulties and has almost no means to carry out its most essential programmes. The latest natural disasters e.g. hurricane, drought, etc. has worsened the financial situation. During this early transition period, priorities are given to economic restructuring and it is necessary to assist the government in the formulation of important sectoral policies from which sustainable programmes can be derived. Programmes which can support the present effort to achieve economic growth and to consolidate the essential political and institutional structures of the state are needed. The withdrawal of the government from the housing sector does not eliminate the need for it to play a facilitating role especially in terms of social housing however. To establish this role the international donor community should provide the essential support to the Moldova institutions.