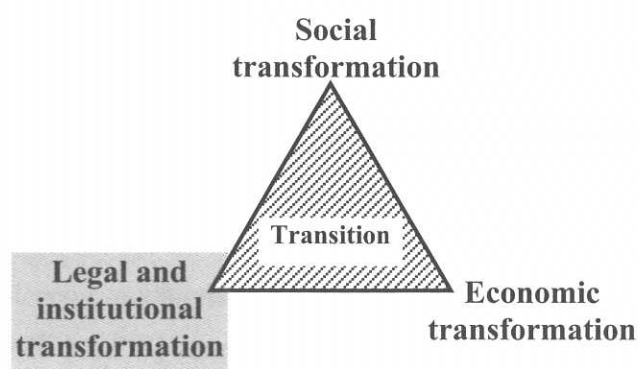


Chapter III

INSTITUTIONAL FRAMEWORK

An important development in the past decade has been the increased recognition of the role that institutions have in formulating appropriate policies, and in effectively implementing and monitoring them. At the same time the institutional framework of Armenia's housing sector has undergone substantial changes. The transition policies since the early 1990s have had a strong impact on the institutional set-up of the housing sector.

Figure VII. Elements of transition¹



Institutional reforms are among the principal and most difficult tasks that countries in transition have to accomplish. These reforms require time and investment in human resources as well as experience in structuring institutions in a new environment. As a result of transition policies, many actors directly or indirectly involved in Armenia's housing sector are either newly established or their functions and responsibilities have been overhauled since the early 1990s.

This chapter gives an overview of the different governmental institutions and other organizations that are active in Armenia's housing sector either nationally or locally. It analyses their respective roles and their interrelations.

A. Housing responsibilities and decisions at the national level

Armenia's Constitution defines it as a sovereign, democratic State, based on social justice and the rule of law. In accordance with the Constitution, Armenia's President is elected by the citizens for a five-year term of office.

The Parliament

The National Assembly is the legislative power in Armenia. It has 131 deputies. Within the scope of authority defined by the Constitution, the National Assembly adopts laws and decisions. Laws and resolutions of the National Assembly are passed by a majority vote of the deputies present at a given sitting, provided more than half the total number of deputies participate in the vote.

¹ D. Andoni, *National housing policy and its impact on the poor in Albania* (2000).

In conformity with article 73 of the Constitution, the National Assembly has six standing committees. Two are of particular importance to the housing sector: the Standing Committee on Financial Credit, Budgetary and Economic Affairs, which proposes the yearly budget allocations for the housing sector, and the Committee on Social Affairs, Health Care and Environment, which holds consultations on new draft laws on housing before they are passed to the National Assembly for decision. This Committee also holds consultations concerning all other laws that directly or indirectly affect the housing sector such as laws concerned with vulnerable groups or environmental protection.

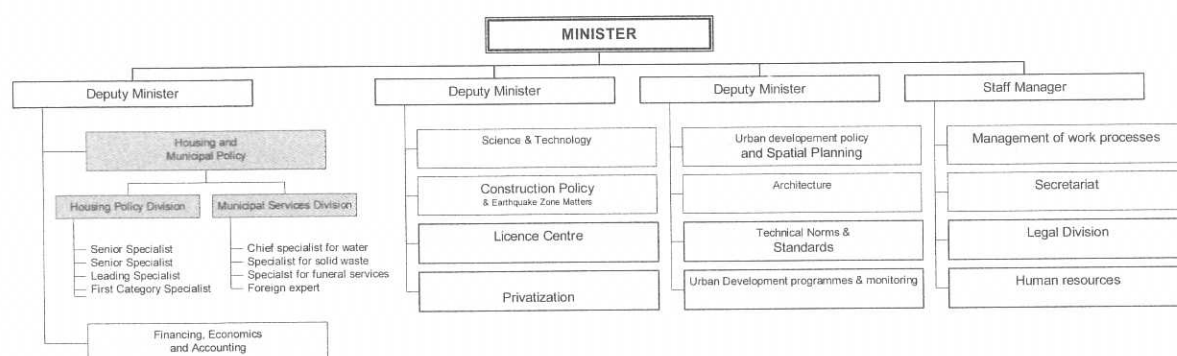
Ministry of Urban Development

Government housing policy is primarily developed and implemented by the Ministry of Urban Development. Certain aspects of the implementation of programmes are handled locally, by the *marzes* and municipalities. The Ministry of Urban Development was established in 1995 to replace the previous Ministry of Construction, the Departments for Architecture and Urban Development, and the ARMGEODESY company, as well as certain parts of the Ministry of Municipal Services.

The Ministry's housing priorities are:

- (a) Providing housing to citizens who lost their homes because of the earthquake, war, etc. and to those who are living in emergency shelters;
- (b) Developing an effective system for housing management;
- (c) Improving the legislation on rental housing and the housing allowance system.

Figure VIII. Organization chart of the Ministry of Urban Development



Of the above departments, the following are particularly relevant to housing:

- **Department for Housing and Municipal Policy**

This Department is responsible for the formulation and implementation of housing policy and policy concerned with municipal infrastructure including water supply, sewerage networks and water-treatment plants. It has two sections: one for housing policy and one for municipal services.

Housing policy section

The main objectives of this section are:

1. Establishing a uniform housing policy and implementing it;
2. Developing strategic directions for the housing sector;
3. Developing mechanisms to put housing policies into practice and to monitor their implementation;
4. Solving housing management problems;
5. Promoting the development of effective mechanisms to stimulate the housing market;
6. Providing input into the process of budget allocations for the housing sector;
7. Analysing the implementation of the State's housing projects and suggesting improvements;
8. Developing a tax and credit policy for the housing sector;
9. Developing mechanisms to stimulate the establishment of condominium associations and advisory services;
10. Developing normative documents such as rules and regulations with regard to maintenance, repairs and housing services, and monitoring their implementation;
11. Cooperating with international organizations on housing issues.

The section works together with the Urban Institute (United States of America), the Armenian Scientific Research Institute of Architecture and Construction, the Urban Planning Scientific Research Institute, the National Association of Condominium Owners (NACO) and the World Bank.

Municipal services section

Municipal services are mainly the responsibility of local governments. The municipal services section is responsible for setting the framework conditions for the municipal services sector. This includes in particular drawing up appropriate legal and technical norms. Municipal services cover: heating, solid waste collection, water supply and sewerage, management of urban green spaces, funeral services and the maintenance of cemeteries.

The municipal services section works together with a variety of institutions, in particular the Ministry of Environmental Protection, the National Water Committee and the Water Resources Management Agency, the heating management section of the Ministry of Finance and Economy, the World Bank, the Ministry of Territorial Administration, Erevan municipality, and *marz* authorities.

- **Department for Urban Development Policy and Spatial Planning**

This Department is responsible for housing construction policy, territorial planning, urban land, and urban development norms. Its objectives are to develop strategies for urban

development and prepare the corresponding laws, to coordinate the preparation of master plans for each municipality and monitor their implementation, and to assist municipalities in the organization of engineering and infrastructure works.

The Department employs 12 people, of whom 4 are in the foreign relations section and the other 8 work in either the spatial planning section or the engineering and cadastre section. The major document prepared by this Department is the document on Armenia's settlements which identifies the natural resources and the existing infrastructure and outlines the regions' development priorities.

The main institutions that this Department works with are the Ministry of Agriculture and the Commission for Land Privatization.

- The **Architecture Division** is responsible for setting design standards and for policies aimed at making buildings more energy-efficient.
- The **Science and Technology Division** is responsible for scientific research carried out in all areas within the Ministry's responsibility.
- The **Technical Norms and Standards Division** is responsible for the development of norms for the construction industry.

Ministry of Finance and Economy

The Ministry of Finance and Economy prepares the budget allocations according to the Government's priorities. Its project coordination unit is responsible for coordinating foreign assistance to the Government (grants and loans).

State Real Property Cadastre Committee

The State Cadastre Committee, established in 1996, has the status of a ministry. Its responsibilities include the creation of a unified land registration system. It is also responsible for the preparation of the Land Code and of regulations on land use and land tenure. The State Cadastre Committee is responsible for the valuation of real estate. However, large discrepancies between the cadastral and market value of property have frequently been reported. (For more details, see chap. V.)

Ministry of Justice

This Ministry comments on the legal acts on housing prepared by the Ministry of Urban Development. It is also responsible for the preparation of legal acts that set the framework for the functioning of housing finance institutions such as those dealing with mortgage finance or foreclosure. The Ministry of Justice has been working closely with the Ministry of Urban Development, especially in the preparation of the Law on Condominiums.

Public institutions

There are a number of scientific research and planning institutions that carry out activities for the Ministry of Urban Development. The most important are:

1. The State Scientific Research and Design Institute for Urban Development, Geodesy and Cartography (established in October 1998);
2. Stock companies in which the Ministry of Urban Development holds shares:
 - i. ARMPROJECT Institute: housing design, engineering and infrastructure projects;
 - ii. Institute of Seismically Resistant Construction: reinforcement and modernization of buildings;
 - iii. COMMUNPROJECT Institute: design of housing and municipal buildings, maintenance and modernization of the housing stock;
 - iv. PROMPROJECT Institute: design of industrial buildings;
 - v. ENGPROJECT Institute: survey of engineering standards/ conditions and protection of residential locations from hazardous natural phenomena.

B. Housing at the regional and local level

Local decision-making processes are one of the foundations of a democratic regime.² The level of autonomy of local governments depends largely on their functions as well as their endowment with, or capacities to generate, financial resources (fiscal decentralization). In most developed countries, local governments have played an important role in housing development, mainly through zoning and planning, but also by providing and managing social housing. In countries in transition, for historical reasons the main responsibilities for housing lie with the central government. The decentralization of housing responsibilities has started in Armenia. The question is what degree of decentralization is appropriate for the different areas of housing.³ To what extent is it economically, financially and managerially feasible for the Armenian Government to decentralize housing management? There are currently a number of factors that limit the effectiveness of decentralization, for instance:

- i. The lack of a clear and visible division of responsibilities;
- ii. The fragmented nature of local governments;
- iii. Capacity problems;
- iv. Financial problems and weakness of local governments.⁴

Several legal acts provide the basis for the organization and functioning of local governments, starting with the 1995 Constitution, the 1995 Law on the Administrative and Territorial Division of Armenia, the 1996 Law on Local Government Elections and the 1996 Law on Local Self-government (revised in 2002).

The powers and responsibilities of the local governments are prescribed in the Constitution, while concept, goals, principles, as well as the relations between the central

² European Charter of Local Self-Government, Strasbourg, 15.X.1985.

³ N. Flynn and F. Strehl, "Changing management practices", *Journal of International Development*, 1999.

⁴ UNDP, GTZ, SC, MoTACI: Concept paper: Local governance programme (August 2002).

government and local self-government bodies (see below) are stipulated in the Law on Local Self-government. Armenia is administratively divided into 10 provinces (*marzes*) and the capital city of Erevan, which is also accorded the status of a *marz*. The Government appoints and removes the governors of the *marzes*. The governors implement the central Government's regional policy and coordinate the activities of the regional executive bodies. The *marzes* are subdivided into 930 so-called communities or municipalities, of which 12 are urban municipalities within Erevan, 47 are urban municipalities in the other regions and 871 are rural municipalities. All are accorded the status of “local self-government bodies.”

Figure IX. Armenia's *marzes*



Interaction between the central Government and these local bodies takes place at the *marz* level. *Marzes* are responsible for infrastructure, such as road construction and utilities, and social services, such as education. In these areas close cooperation with the local self-government bodies is required. In the area of housing, *marzes* are responsible for:

- i. Overseeing the regulation of housing construction;
- ii. Administering the purchase of homes through the State budget for people who receive State support;
- iii. Overseeing the housing stock's maintenance in the districts outside the administrative borders of municipalities;

- iv. Taking measures regarding unauthorized construction in the districts outside the administrative borders of municipalities;
- v. Supervising the housing-related activities of the municipalities.

The responsibilities of the local self-government bodies are mainly determined by the Law on Local Self-government. Within the housing sector these include:

- i. Urban planning and land-use planning including the granting of building permits (see below);
- ii. Management and maintenance of the non-privatized residential and non-residential buildings that were transferred to them by the central Government;
- iii. Management of municipal services;
- iv. Setting the (recommended) fee for housing maintenance;
- v. Support to property management, including assistance to condominium associations for their foundation and supervision of their activities.

The representatives of these bodies are elected by the local residents. Their performance strongly depends on their ability to generate local funds and the fiscal autonomy provided for in the Constitution and the Law on Decentralization. The local bodies' revenue is made up of: (i) their own revenues; and (ii) State subsidies and subventions.⁵ Income from local taxes constitute roughly 34% of total revenues. Subsidies and other State transfers constitute 44%. The remainder comes from non-tax revenues such as rent payments and local fees. The bulk of local tax revenue come from the land tax and the property tax; together they amount to almost 30% of all revenues.

An assessment of the local self-government bodies' capacities has shown that they are poorly equipped, both financially and in terms of human resources, to fulfil their responsibilities within the housing sector. This is mainly owing to their scarce tax revenues, the lack of information as well as the lack of coordination between local and central level programmes and policies. Central housing policies and programmes rarely assign a clear role to the local bodies. Some improvement has taken place with the revision of the Law on Local Self-Government in 2002.

Applying for a building permit

1. The applicant writes to the head of the municipality, describing the project. The municipal administration informs the applicant about the conditions that have to be complied with.
2. The applicant entrusts the project to a licensed architect.
3. The project receives approval from the Architecture Division.
4. Finally, the project is approved by the municipality.

⁵ Loc. cit.

A governmental commission is established for the approval of large-scale projects. Processing an application for a building permit takes between 20 and 30 days, which is a relative short time compared to other countries in transition.

Source: Urban Development Department in the Ministry of Urban Development

C. Community organizations

Community participation is important for three reasons. First, it generally leads to better results in project delivery because the preferences of the beneficiaries are better taken into account. Second, it leads to better acceptance of the project results by its beneficiaries. Third, it improves the efficiency and effectiveness of the investment. By increasing the community's sense of ownership over a particular project, the target group's willingness to contribute in material or financial terms generally increases as well.⁶

Non-governmental and community-based organizations

It is commonly recognized that, for community participation to be effective, communities need intermediaries to mobilize and solicit participation. Non-governmental organization (NGOs) and community-based organizations (CBOs) have increasingly assumed this role. In addition, NGOs have rendered technical assistance and financial support to communities.

During the Soviet era the concept of NGOs was unknown. However since independence, the establishment of NGOs in various sectors has made steady progress. For example, in 1994 the Armenian Assembly of America created the Non Governmental Organization Centre (NGOC) to help Armenians and their fledgling non-governmental organizations to shape positive social, political and economic transformation in their country. Funded by the United States Agency for International Development (USAID), it continues to play a unique role in rebuilding Armenia and empowering its citizens. Various international organizations provide grants for NGOs for capacity building, training, partnership development, small grants programmes, media outreach, electronic communications, technical assistance, information and research, and awareness campaigns. Non-governmental organizations are seen by donors as essential agents of change in creating and strengthening civil societies by serving vulnerable population groups and advocating citizens' rights.

Non-profit organizations have flourished during the transition. The high number of foreign agencies and institutions that usually require an intermediary to work with has certainly had an enabling impact on these institutions. However, despite the assistance that NGOs have received from international donors, they frequently lack the resources to implement coherent, long-term projects.

⁶ F. Cleaver, "Paradoxes of participation: Questioning participatory approaches to development", *Journal of International Development*, 1999.

Condominium associations

Condominium associations are a particular form of community-based organization as they aim at promoting community participation in the management of common property in multi-apartment buildings. The aims of condominium associations in Armenia typically are:

- i. To manage the common property in multi-apartment buildings in accordance with the legal procedures;
- ii. To represent and advocate the common interests of owners in multi-apartment buildings vis-à-vis the local self-government bodies and other agencies;
- iii. To act on behalf of the owners by, for example, signing contracts with utility providers.

In its decision No. 295 of 30 May 1995, the Government instructed the local self-government bodies to support the formation of condominiums to improve the management of the common property in multi-unit buildings. Although the Law on Condominiums, enacted in 1996 and amended in 1998, clearly foresaw condominiums as a voluntary option for housing management, their establishment has in many cases been a top-down process. Consequently, many residents are now members of condominiums which they did not help to set up.⁷

In 1997, the National Association of Condominium Owners (NACO) was established. Its aim is to protect the rights of the owners of multi-unit buildings, to train these owners and the representatives of individual condominium associations in building management and to increase their awareness of the applicable laws. Of the 602 registered condominium associations 400 are members of NACO. The main counterparts of NACO are the Ministry of Urban Development, utility companies, the Ministry of Territorial Administration, NGOs and international organizations.

D. Private sector organizations and public enterprises

Private builders

Given the State's withdrawal from almost all aspects of housing, and in particular housing production, it was hoped that the private sector would play an increasing role in the provision of housing. However, although in relative terms private production of housing has increased -- private investment in new housing constitutes 70% of total investment -- in absolute terms this is still insufficient to meet the demand.

There are many small and relatively volatile companies in the building industry. Most are newly established or are privatized parts of former State-owned enterprises (see chap. II). The Union of Armenian Builders provides a number of services to these enterprises. Its main activities are:

- (a) Providing information on construction;
- (b) Providing information on norms, standards and legal issues;

⁷ Urban Institute, 2001.

- (c) Publishing a professional magazine;
- (d) Posting information relevant to the construction sector on its web site.

Private landowners

Among the main actors in housing development are the landowners. While rural land in Armenia was largely privatized to farmers, most urban land is owned by the State. Private landowners in urban areas are therefore rare. Public land is sold by auction.

Currently a reform which aims to transfer urban land from the central Government to the local self-government bodies is under way (see chap. IV). This reform is administered by a special commission which was established within the State Cadastre Committee and cooperates closely with the Ministry of Agriculture, the Ministry of Urban Development, the Ministry of Environmental Protection, the Ministry of Culture, and the Ministry of Territorial Administration.

Financial institutions

Armenia's housing finance market is its infancy. Banks have almost no experience with mortgage lending. Although an acceptable legal framework for mortgage financing exists, there is very little formal, private sector lending in this area (see chap. V).

Utility providers

The quality of utility services is unsatisfactory and few customers pay their bills. This is now a vicious circle with low levels of payment leading to a low quality and quantity of services and vice versa. During the Soviet regime utility charges did not cover costs; utility costs were heavily subsidized. Consumers are therefore often unaware of the real costs of the services that they receive, as they have never had to pay for these costs. Collection rates are particularly low for those services that are not metered individually (see chap. II).

Water companies. Water is supplied by two public enterprises: (i) the Erevan Water Company covers 38 municipalities and Erevan itself; and (ii) the Armenia Water Company covers the remainder of the country. This sector also faces the above-mentioned problems of arrears and charges that do not cover their costs. Although water prices increased by nearly 100% between 1995 and 1999, they are still too low to cover maintenance, operating costs and capital investments. The rate is currently 56 drams/m³. It was set in 1999 and has not changed since then. Collection rates are around 41%. Most households have not paid their water bills for 14 months.⁸ All debts of families to the water companies from before 2000 have been cancelled, while those from 2000 to 2002 were restructured. Those debts are also cancelled if the family concerned files an application and installs a meter. After the installation of a meter, water consumption tends to drop by a factor of 3 on average.

Heating. In Armenia winters are frequently harsh, so heating is crucial. But the sector suffers from the same symptoms as water supply. The area served by district heating systems decreased by 70% between 1990 and 1999. Most people use gas, electricity or wood for heating (see chap. II).

⁸ Urban Institute, 2001.

Energy. Energy comes mainly from fossil fuels (48.92%), hydropower stations (26.44%) and nuclear power stations (24.64%). Since 1995, the Government has implemented several reforms in the electricity market, including raising prices, metering consumption and introducing new social benefits to help the poorest. However, these were not able to create a healthy electricity sector: collection rates fell by 9%, arrears quadrupled and the percentage of households in arrears rose as well.⁹ Wood consumption increased.

The aim of current municipal service sector reforms is to improve the quality and quantity of the services. Privatization, as part of the reforms, requires an increase in charges to at least cost-recovery levels. An increase in charges may, however, increase the number of families that cannot afford to pay their utility bills. Policies to help poor families with these bills should therefore accompany the reforms in the utility sector (see chap. V).

E. Foreign institutions involved in the housing sector and their projects

A considerable number of international and foreign organizations are involved in Armenia's housing sector. However, it has to be stressed that their main focus is on the recovery of the earthquake zone.

Cooperation among these organizations exists but could be enhanced. Cooperation among donors in the housing area can ensure that their individual efforts are part of an overall strategy for the housing sector and that the benefits that result from their work are complemented by efforts in other, related, areas. For example, significant synergies can be achieved when the reinforcement of an apartment building is combined with new pavements, trees, kerbs, lighting and all other components of a complete public space. A holistic approach to improving people's living conditions is important (see conclusions and recommendations).

⁹ Urban Institute, 2001.