

CONCLUSIONS AND RECOMMENDATIONS

The long-term development of the Lithuania's housing sector will depend on the further restructuring of its legal, financial and institutional frameworks. Growth and investment in housing can be maintained if the sector becomes sufficiently competitive and attractive. Accelerating the restructuring of the housing sector along market principles is linked to the stabilization of the economy, but also depends on the commitment of the Lithuanian Government to further reforms. Possibilities include the liberalization of public sector rents; competition in the maintenance and management of housing, the establishment of housing allowances and other financial incentives to ensure cost recovery of housing services and more explicit regulation of owner-occupied multi-family buildings.

1. Housing reform

Lithuania has become a 'nation of homeowners' due to the mass privatization of public housing. Restitution and land reforms have also been carried out. Housing markets have replaced the previous uniformity of State- controlled house prices. A number of private actors and institutions have become an integral part of the new market system. New types of housing organizations and intermediaries have developed.

The macroeconomic environment of housing seems to be favourable with economic growth, low inflation, and a low budget deficit. Within this context, current housing policy needs to be integrated with policies for the economic development of the country, as well as with social and spatial policies. Two inter-sectoral links are particularly important for the housing sector. *On the demand side*, the impact of household income on the operation of the housing market requires economic and social policies that allow access to adequate housing for low- and middle-income households. Despite overall economic recovery, household savings and purchasing power remain limited. In addition, financial instruments for housing are poorly developed. Small capital markets and the lack of adequate mortgage arrangements further restrict housing demand. *On the supply side*, new policies need to encourage competition in the provision of new housing and in the delivery of housing services. Housing sub-markets (for construction materials, maintenance and management, housing finance) are relatively small, and ensuring healthy competition is important in terms of consumer choice, as well as in competitive pricing.

Housing reforms need to be considered a political priority. Current efforts to revise and update the Law on the Provision of Dwellings for Citizens might be an excellent opportunity to follow up with a national housing strategy and action plan facilitating access to affordable housing. In the post-privatization phase particular emphasis needs to be placed on policies and measures that will encourage the maintenance and renewal of the existing housing stock. The lack of appropriate institutional structures to deal with those issues requires the urgent attention of central and local government authorities. The regional administration, as a new institutional structure, needs to acquire a stronger political mandate to coordinate efficiently the activities of different municipalities. This might achieve better use of regional natural, human and economic resources, and ultimately eliminate existing regional disparities.

Box 1: Housing policy recommendations

1.1 *Housing policy should become a priority. A reviewed national policy should have the following objectives:*

- *To increase the availability and affordability of housing;*
- *To ensure the efficient use and maintenance of the existing housing stock;*
- *To mobilize funds for housing investment;*
- *To increase the share of social housing.*

1.2 *The national housing policy needs to be implemented through a series of actions/programmes/initiatives organized and administered under a national housing strategy. Particularly important elements of the housing strategy should be:*

- *A strategy to involve governmental structures, non-governmental organizations and the private sector in a comprehensive solution to housing problems;*
- *A post-privatization strategy dealing with maintenance and renewal of multi-family housing;*
- *An enabling policy increasing the supply of new housing in the largest cities to counteract housing shortages and to ensure adequate tenure choices;*

Box 1: Housing policy recommendations

• *A more efficient and transparent housing subsidy system that targets the needy and abolishes the general 'waiting lists'.*

1.3 *The implementation of a national housing strategy could be assisted through the development of municipal housing policies/programmes. At the local level these policy frameworks should define local priorities and approaches and encourage the diversified supply of housing suited to local housing needs (see box 2).*

1.4 *At the operational level, the national housing strategy should focus on the design and implementation of appropriate financial and legal instruments to put policies into practice (see specific recommendations in boxes 3 and 4). The process of institutional capacity building is instrumental for the success of these reform efforts and needs to be supported through a series of initiatives at the national, regional and municipal level (see recommendations on institutional structures in box 5).*

2. Existing housing stock and new housing construction

By the end of 1998 Lithuania's housing stock consisted of 1,306,061 housing units, with an average of 353 units per 1000 inhabitants. Today several indices suggest that urban areas are still experiencing serious housing shortages. This shortage was quantified in 1992 in the 'Bustas' programme at 136,000 dwellings. An evaluation of housing standards in rural and urban areas indicates significant differences. While rural housing mainly requires a massive improvement in public technical infrastructure, urban housing is more in need of quantitative and spatial improvements. Data on the age structure of the housing stock show that nearly three quarters of dwellings in Lithuania were built between 1961 and 1996. Some 80 per cent of these dwellings are situated in high-rise prefabricated buildings with common characteristics, such as: low energy efficiency, neglected maintenance and repair work, and relatively poor technical quality of buildings and technical infrastructure. *The future improvement of housing conditions depends to a great extent on the maintenance and modernization of the existing housing stock.* At the moment there is no systematic and comprehensive analysis of its physical and technical condition and the assessment of investment needed to deal with the maintenance backlog.

Rapid privatization in the 1990s changed the tenure structure dramatically. Today Lithuania's owner-occupied sector has a share of 96 per cent. A very small public rental housing sector provides limited opportunities for responding to social housing needs. The operation of the housing market has resulted in a rapid differentiation in house prices on a regional and local basis. Data indicate that the limited housing supply nearly tripled prices in central Vilnius locations between 1993 and 1999, while in the suburbs this increase was only twofold. Prices in Kaunas grew approximately two and a half times, while in Klaipeda due to rapid economic growth prices quadrupled. *New housing construction has declined steadily in the 1990s.* The number of new dwellings per 1,000 inhabitants declined to 1.5 in 1997, which is less than 14 per cent of the housing output during the 1980s. On the other hand, the average floor area of new housing has increased by almost 70 per cent, largely due to a surge in individual housing construction. Individual developers and associations/ cooperatives account for 90 per cent of the newly built housing in the late 1990s.

Lithuania has a relatively high volume of homes per 1,000 residents compared to most other countries in transition. Nevertheless, economic growth and growth in household spending power, the need to replace outworn stock and to address current housing market disequilibria (e.g. family overcrowding in small units), all point to some urgency in increasing new housing output. The current housing development process does not appear to work smoothly, other than in the high-end of the market. It is urgent to develop municipal housing policies that will enable access to housing for lower and middle-income households. New forms of support and a broader variety of tenure choices are necessary for a more efficient housing system.

Box 2: Existing housing stock and new construction – recommendations

Policies on maintenance and renewal

2.1 *One of the highest priorities should be to prevent the further decay and inefficient use of the existing housing stock. Municipalities should take greater responsibility for the organization of maintenance and the renewal of multi-family housing. A comprehensive approach to the problems requires the following major initiatives:*

Box 2: Existing housing stock and new construction – recommendations

- *The preparation of municipal strategies for housing renewal and improvement;*
- *Action plans and a time frame for the modernization of housing and infrastructure;*
- *Pilot programmes for priority areas;*
- *The development of public/private partnerships to implement housing renewal and improvement strategies;*
- *The establishment of earmarked funds for the maintenance of the building stock, particularly in the historical parts of the towns;*
- *The preparation of simple-to-apply, practical guidelines on energy efficiency;*
- *Methods to increase public awareness and participation in renewal activities.*

Policies on new construction

2.2 Municipal land policies need to ensure a steady supply of land for housing in general and for social housing in particular.

2.3 The process of land disposal for commercial and municipal housing projects through tenders should be simplified by clarifying the role of the State, county and municipality in decision-making and by making the whole procedure more transparent.

2.4 The framework of municipal housing policies should include strategic plans for upgrading and expanding the infrastructure. They should be supported by capital investment programmes and extrabudgetary sources (see box 3 for further details).

2.5 Measures for the completion of housing started in 1991/1992 should be taken; one possibility would be to grant construction subsidies possibly subdivide and convert these properties into social rented housing.

3. Financial framework

The Lithuanian Government has taken some significant steps to create a financial framework that will enable its housing sector to operate on market principles. The final goal proclaimed by the Government was to increase the affordability of housing for every household. Financial reforms focused on the transition from a highly centralized and subsidized system of housing finance to a system driven by private initiative and the real cost of providing housing services to consumers. However, there is still no clearly developed systematic policy on the reform of financial mechanisms. Separate, but not complementary, measures introduced by the Government have failed to achieve the expected result.

The Government initiated the transformation of the housing financial framework through the radical restructuring of housing investments. Public investments in housing was cut significantly. Instead, private households have become the main investors using their personal savings. Adequate conditions have not been developed to increase the number of institutional investors and to re-channel their capital into housing. There are no specific financial instruments to encourage private (both individual and institutional) savings in housing. *Attempts to improve the overall investment climate in the housing sector include efforts to develop a system of housing construction finance together with the introduction of mortgage systems.*

A characteristic of housing construction activity during the transition has been the cash-driven construction process with a small share of credit capital. It is possible that good entrepreneurs leave the housing sector for more promising lines of business offering a faster return on capital. It might well be the case that inefficiencies in the construction process due to the lack of development finance, small-scale operations and inadequate equipment also add a premium to the already - high construction costs. Ultimately, these constraints affect the quantity and the quality of new housing supply and make it even less affordable. Other significant constraints in the provision of new housing relate to the lack of funds for technical infrastructure. No significant financial measures have been introduced to enable municipalities to carry out infrastructure development. Strategic plans for the reform of municipal housing finance are non-existent. The dependence of municipalities on central government transfers does not allow them to fulfil their functions in the housing sector.

The mortgage market still needs to be developed, although the initial infrastructure is in place. The Government is directly involved in retail mortgage activity: using proceeds from State and self-government funds for construction, it offers highly subsidized mortgage products. *Commercial mortgage lending is emerging but is very limited mortgage.* Recent Government efforts have aimed at encouraging private mortgage lending through the government-guaranteed mortgage insurance system and proposals for secondary mortgage market development. The final structure and rules for operation and the impact on the budget are still unclear. It has been suggested that these arrangements might replace the existing governmentally subsidized mortgage system.

A system of direct State support in the housing sector was developed at the start of the transition to compensate for the elimination of subsidies and to make housing more affordable to certain groups of households. *It has not been changed since the early 1990s and remains poorly targeted and ineffective.* Despite the legal provisions related to housing subsidies, it is generally recognized that financial support is inadequate to solve the problem of the 100,000 households on the municipal waiting lists. The whole procedure for applying for State support is long and cumbersome. About 50 per cent of the families queue for 6-10 years. In 1997 only about 2,000 out of 104,300 households reportedly qualified. Currently, subsidies are distributed universally and household income is not taken into account. The system of 'soft credits' does not allow subsequent adjustment to the loan. There is no mechanism to reduce State support income level increases, which might be the case for some young families. Recent Government statements indicate the intention to differentiate State subsidies taking into account household's incomes and property.

Within the new market reality, access to housing is particularly problematic for new households and tenure choice is very limited. Only few households are able to rent or purchase new housing at market prices. House-price-to-income ratio in Vilnius was 8.2 in 1998, indicating serious market distortions. *Affordability is the most significant constraint for the efficient operation of the housing market.* Overall the lack of a systematic approach to the reform of the financial framework is a major barrier to further housing sector development. It is important to emphasize that the financial framework must promote the economic and efficient use of physical and financial resources, equity between households and between housing sectors/tenures and transparency of cash flow through the housing system. Specifically, reforms of the Lithuanian housing finance system should seek: (i) to reduce the direct role of the State, (ii) to provide sustainable, market-based finance, (iii) to integrate the housing finance system into national and international capital markets, and (iv) to channel more household savings into housing investment, while also attracting extrabudgetary resources.

Box 3. Financial framework – recommendations

Housing finance

3.1 *Commercial lending should become the prevailing form of fund mobilization for construction. Possible directions for improvement include, but are not limited to:*

- *Increasing the supply of construction loans through the improvement of the existing infrastructure for construction lending, including the development of a country-wide real estate market information system, and an independent system of licensed appraisers;*
- *Increasing effective demand through training programmes for inexperienced borrowers (commercial developers, municipal enterprises, households) and education, including proper construction project business plan development, market analysis and the evaluation of possible sources of loan repayment.*

3.2 *Special attention should be paid to new fund raising instruments. The appropriateness of developing housing-related securities such as housing certificates and governmentally supported saving programmes should be considered.*

3.3 *The Government should use the limited budget investments to attract institutional investors in housing, such as private insurance companies, pension funds, investment companies and credit unions. To achieve that goal it is necessary to introduce a variety of investment instruments and to create additional tax incentives.*

3.4 *The Government should focus on expanding the volume of commercial mortgage lending and the variety of mortgage instruments. The following mortgage market refinements should be considered:*

- *The development of banking standards related to mortgage lending necessary for the secondary market development;*

Box 3. Financial framework – recommendations

- *The development of title insurance;*
- *A review of double registration (land and mortgage systems) once fully operational;*
- *The development of fuller information systems on real estate markets, valuations and individuals' credit histories;*
- *The development of a private commercial mortgage insurance market.*

3.5 *Recently introduced State mortgage insurance arrangements need to be kept under close and regular review and should be supplemented by a significant or complete reduction in the direct subsidizing of mortgage interest rates.*

3.6 *To increase the affordability of mortgage products, the possibility of exploiting «cash-poor, equity-rich» circumstances should be explored. Existing equity (such as old flats) can be used to underwrite the credit risk, as well as to introduce new types of mortgage products such as “bridge loans” for the reconstruction of existing housing.*

State housing support

3.7 *The Government should review the system of housing support programmes including not only direct support for households acquiring housing, but also direct and indirect (including tax benefits) utility and rental subsidies. The expenditures (direct and indirect) should be explicitly defined in the budget.*

3.8 *The general approach should be to completely stop subsidizing producers of housing services and to turn to the direct support of households, reducing significantly the number of households eligible for State support. Housing subsidies should be income-tested, based on the monitoring of household income from all sources including equity (see box 4 for specific recommendations).*

Land and infrastructure provision: financial issues

3.9 *The introduction of a differentiated land property tax based on the market value of land should be considered. The objective should be to facilitate the recycling of land in urban areas with high development pressure.*

3.10 *The opportunities for a discrete use of market land value as a supply-side subsidy should be taken into consideration. The disposal of urban land plots at less-than-best-price as a condition for providing some affordable housing on- or off-site can be a mechanism for delivering non-profit or social housing or commercial housing for future sale with proceeds going to the State or municipality.*

3.11 *Financial arrangements related to the provision of infrastructure need to be reviewed in order to overcome the shortage of funds for new development and improvement. Options to mobilize extrabudgetary sources include:*

- *A review of tariffs for urban services to reflect real production costs and to ensure cost recovery;*
- *Raising funds for infrastructure development projects through municipal bonds;*
- *Introducing development charges/fees that account for a share of infrastructure development cost.*

4. Legal framework

Lithuania has made considerable progress towards the establishment of a legal framework for a market-based housing sector. Efforts to enable the efficient operation of the market, as well as to encourage private investment in housing, are reflected in the newly adopted laws and regulations. Early reforms have centred on legislation enabling the operation of real estate markets, such as privatization and restitution of housing, lease and ownership of land. The creation of market mechanisms has led to a new definition and protection of property rights in housing, facilities for transferring property rights, the registration of property title and mortgages, the establishment of financing mechanisms, access to reliable information, professional services, etc.

Despite these changes, the legal framework remains rather vague on the regulation of rights and responsibilities in privatized multi-family buildings, particularly as far as the mechanisms and instruments for

financing and organization of repair and maintenance are concerned. The Law on Homeowners' Associations was an important step towards clarifying and developing property rights, but failed to enforce a workable system in most of the privatized buildings. New owners are unwilling to join homeowners' associations and are unable to bear the full costs of maintenance and capital improvements. Problems are associated with the lack of a legal entity to deal with management and day-to-day operations, with unresolved questions related to ownership of common areas and land, and with the mixed public/private ownership of housing units. The municipal maintenance companies undertake repairs and manage the privatized buildings. As long as the municipal maintenance companies exist in their present form, it will be difficult for other actors to enter the house maintenance and management business. Once privatized, some of the municipal maintenance companies might continue to provide services on a cost-recovery basis. Overall the lack of a clear legal framework for multi-family housing ownership will undoubtedly lead to a further degradation in the quality of the stock. The law needs to be amended to ensure that former tenants assume full responsibility for costs related to their residential property.

Despite changes in financing arrangements for maintenance and renovation (e.g. adjustment of tariffs for services), measures were insufficient to generate adequate revenue. Municipal enterprises play a significant role in the organization and pricing of these activities, and bank lending in this area is insignificant. The costs of energy and utilities seem to cause affordability problems not only to low-, but also to medium-income groups. It is estimated that 30-40 per cent of the households in Vilnius would have difficulties in sustaining their homeownership status, if adequate maintenance was carried out. Meanwhile in the public rental sector, rents account for 1.5 per cent of the average household income. Maintenance fees charged to tenants amount to less than 25 per cent of the actual cost. These low fees contribute to the lack of turnover and investment in public housing. Meanwhile anecdotal evidence suggests that tenants in the private sector spend more than 50 per cent of their income on housing, particularly in larger cities with a significant, by Lithuanian standards, private rental stock. This 'uncharted territory' requires attention and more efficient legislation. *A systematic financial policy in the area of management, maintenance and renovation of private and public housing is long overdue. It might be advisable to introduce a tenure-neutral system of housing allowances that will increase the availability of rental housing and make the sector more transparent.* Practice in other central and east European countries indicates that housing allowances enable the regulation of the sector and eliminate massive tax evasion by private landlords. In the public sector, housing allowances will allow increases in rent revenues up to a certain fraction of the replacement costs. This will enable a more efficient operation and maintenance of the stock.

New legislation on leasehold arrangements is beneficial for the supply of urban land for new housing development. These rights, protected by the Constitution, offer a viable alternative to full ownership for public and private investors. They establish clear stipulations on land use and act as an effective zoning instrument. In addition, leasehold provisions generate stable revenue for the State through ground rates related to land values. Finally, leasehold allows developers to direct funds to building production without freezing their scarce capital in land costs. Other measures that might increase the supply of land for housing development relate to municipal land-use plans. An important requirement of the Law on Territorial Planning must be that local governments evaluate the land and housing market situation and formulate their strategies for these areas before the drafting and approval of a master plan. This should ensure that land-use plans become more realistic and not purely normative, as was the practice in the former system. Currently, the lack of comprehensive and reliable information on vacant building lots, unclear ownership status, precise zoning and building requirements are frequently cited problems. Real estate firms provide only partial information on land and house prices, and no institution offers a full database on housing market activity. It should be noted that the development of efficient urban land markets served by planners and real estate professionals is a way to eliminate distortions and inefficiencies in the existing land-use patterns and to overcome shortages of developable land for new housing.

Land taxes are of critical importance, because many of the users who were granted property rights during Soviet times and/or through the Restitution Act were quite often not the best users. Land taxes need to be based on market values. At the moment properties in very attractive locations are reportedly under-taxed and properties in less attractive locations are over-taxed. This system creates distortions and exacerbates misallocation in residential land-use patterns. Furthermore, the existing income tax system does not encourage investment in the purchase or renovation of housing. *Tax incentives might generate a significant pool of private resources for:*

- The purchase or construction of owner-occupied dwellings;
- Building alteration or extension for residential purposes;
- The renovation or modernization of a residential building/dwelling.

Examples of tax deductions include: interest on mortgages up to a certain amount, the allowable amount spent on energy improvement, renovation, capital repair, etc. amortized over a certain period of time. These deductions could introduce more transparency in the renovation/construction business, and encourage taxpayers to invest in new construction and renovation. As the economy stabilizes and interest rates decrease, such investment will gain momentum. The Lithuanian Government might wish to prioritize and phase out some tax deductions (e.g. on mortgage interest for housing purchase), while maintaining others in an effort to attract capital to renovation of multi-family housing and/or private rental housing.

Value-added tax on housing development and improvement is a significant burden, if the funds are not from the State budget. Legislation needs to level the playing field and introduce similar incentives to private investors, homeowners and homeowners' associations. The introduction of a zero VAT rate on housing construction and renovation would also contribute to the expansion of the housing stock and in turn decrease the price of dwellings.

Box 4. Legal framework – recommendations

Regulations on owner-occupied housing

4.1 *The Law on Homeowners' Associations should be reviewed. It needs to be enacted as a framework for the efficient management of owner-occupied multi-family buildings. Particular issues to be addressed are:*

- *The establishment of homeowners' associations needs to be compulsory where 50 per cent or more of the flats have been privatized;*
- *The ownership of multi-family buildings and the land occupied by the building (leasehold or freehold) should be legally regulated as a necessary prerequisite for mortgage lending and the use of land as a collateral;*
- *Owners' maintenance responsibilities, liabilities and rights to carry out modification in their unit should be explicitly defined;*
- *Sanctions against owners not fulfilling their legal and/or contractual obligations, including court procedures, should be specified;*
- *The necessary mechanisms and instruments to organize repair, maintenance and to implement energy-efficiency measures need to be clarified;*
- *Special provisions need to be included for multi-family units without homeowners' associations.*

4.2 *Existing contracts between owners of privatized flats and the municipality need to be reviewed along the following lines:*

- *The management and maintenance functions need to be clearly separated;*
- *The municipality might use its legal power to appoint a manager, but maintenance and repair services can be contracted out;*
- *Charges for such services should be regulated by the municipal board, but paid for by the owners;*
- *Municipal management obligations should be phased out with the establishment of a homeowners' association as a legal entity;*
- *Subsidies for energy improvement, capital repair, the expansion and refurbishment of residential premises need be conditional upon the establishment of homeowners' associations;*
- *In the case of ongoing privatization, sale should be conditional upon acceptance of legally enforceable, realistic obligations for the future repair and upkeep of the housing unit, including proportional responsibility for the common space.*

4.3 *Legislation on mortgages for owner-occupied housing needs to incorporate special regulations for foreclosures/ bankruptcy to protect the security of lenders.*

Regulations on rental housing

4.4 *The Civil Code regulating private rental housing should be amended to include the following provisions:*

- *Rental contracts, landlord/tenant agreements, need to be mandatory;*
- *Excessive tenant protection should be urgently reviewed with a view to striking a balance between the rights of tenants and the right of owners;*

Box 4. Legal framework – recommendations

- *Tenants in clear breach of general legal requirements, e.g. payment of rent, misuse of the property or vandalism, should be liable in accordance with the tenancy agreement;*
- *Tenants need to be protected against unjustified rent increases, harassment by the landlord and violation of their occupancy rights.*

4.5 *Existing legislation regulating municipal rents needs to be revised along the following lines:*

- *Rents in the public sector need to be differentiated according to location and quality of housing;*
- *Rent levels in municipal housing should at least cover operating costs -- management, maintenance and insurance costs.*

4.6 *The Government needs to consider the development of new legislation that will introduce means-tested housing allowances both in the private and in the public rental sector.*

Tax regulations

4.7 *A residential property tax system needs to be introduced. Taxes need to be based on market value to eliminate tax inequities.*

4.8 *The laws on taxation should be reviewed to introduce incentives making private investment in the housing sector financially attractive. Options include:*

- *Tax-deductible interest on mortgages up to a certain amount;*
- *Tax-deductible amounts spent on energy improvement, renovation, and capital repair amortized over a certain period of time;*
- *Income tax benefits for first-time buyers.*

4.9 *The existing law on value-added tax needs to be amended to eliminate tax privileges for private investors using 'soft credits' or State grants for housing construction and renovation. Alternatively, the Government may wish to consider tax exemption for housing construction and renovation that is universally applicable for private and public investors.*

4.10 *The Government might consider granting homeowners' associations in multi-family housing the status of non-profit entities for tax purposes. This might encourage the formation and the operation of a critical element in the institutional structure of Lithuanian housing.*

5. Institutional framework

Establishing adequate institutional structures in the housing sector is particularly important. It requires a clear definition of the roles and responsibilities of the major participants, if progress is to continue at a satisfactory rate. Efficient and effective institutional structures are not an expression of bureaucratic traditions. They are, on the contrary, an absolute necessity to address the major social and economic problems and opportunities in the housing sector.

Political responsibility for housing should be more clearly visible in Parliament. A clear concentration on major housing policy issues within one parliamentary committee would reflect appropriate political priority, and would increase political efficiency on housing matters. Similarly, *ministerial responsibility* for housing should be strengthened. In particular, the limited institutional capacity of the Housing Policy Division within the Ministry of the Environment is a bottleneck in the institutional transformation of Lithuanian housing. *The new regional administration* in Lithuania should be given a stronger political mandate to play a key role in the coordination of housing and other municipal activities within each region. The present regional administration needs to acquire a clear mandate for coordination and advice on municipal housing policies.

The municipal level lacks political and administrative structures with clear responsibility for housing issues. Apart from Vilnius, Lithuania's municipalities have not implemented the systematic structural changes needed for the efficient functioning of a market-oriented housing sector. Vilnius has established political and administrative structures within the municipality and has developed a practical, result-oriented municipal housing policy. This example could be spread to other municipalities. The Healthy City of Kaunas Programme and housing renewal schemes in Telsiai municipality are other *examples of good practice*.

The private sector is an integral part of the Lithuanian housing system. The construction and building materials industry have been completely privatized. A variety of organizations and institutions have emerged in the 1990s, representing the interests of producers and consumers of housing. A number of real-estate agencies have established a solid presence in buoyant urban markets. Financial institutions managed to survive the banking crisis and are positioned to assist the operation of the market. Despite these positive trends, there is an institutional vacuum related to the regulation of the housing system. The transformation of national legal and financial frameworks has been somewhat slow and less supportive of institutional changes. Residual structures, a legacy of the Soviet housing system, continue to exist (such as municipal maintenance companies). In some cases State companies, recast as private entities, do not compete effectively in the housing market. Furthermore, the organization of private owners in multi-flat housing is considered a major challenge to the further development of Lithuanian housing. Institutionalizing homeowners' associations requires urgent national and municipal actions.

Box 5. Institutional framework – recommendations

National institutions

5.1 Overall political responsibility for housing should be placed clearly within one of the existing parliamentary committees.

5.2 The Ministry of the Environment should be given a clear mandate for housing issues, defining its responsibility for overall national housing policies and strategies with a particular focus on issues related to infrastructure provision, rent policies and subsidies.

5.3 The institutional capacity for housing issues within the Ministry of the Environment should be strengthened.

5.4 The Ministry of the Environment should, as part of the responsibility for a national housing policy, be required to evaluate the existing legal regulations and eliminate gaps and inconsistencies with respect to rights and responsibilities within the housing sector.

Regional institutions

5.5 County administrations should be given clear responsibility for coordinating municipal policies, programmes and projects in the housing sector. On these issues there should be close cooperation between county administrations and the Ministry of the Environment.

5.6 Cooperation between the county governor and municipal authorities on housing and development issues can be strengthened through the establishment of a council cooperating on a voluntary basis.

Municipal institutions

5.7 To concentrate political responsibility and authority in the housing sector, cities and larger municipalities should establish a housing committee or sub-committee within the municipal council. The committee should in particular advise the council and prepare programmes for investment in land and infrastructure for new housing construction and priority programmes for the renovation of the existing housing stock.

5.8 To concentrate administrative authority and responsibility for housing, a department or division should be established within the municipal administrative structure with the following main responsibilities:

- To coordinate administrative tasks in the housing sector;
- To collect and present comprehensive information on housing problems within the municipality;
- To monitor, analyse and report on the performance of municipally owned companies operating in the housing sector.

5.9 The present system of municipally owned housing maintenance enterprises should be restructured as quickly as possible and prices for services deregulated. During a transition period an operational service should be available with fees determined by the municipal council. Parallel to the liberalization of prices, an independent regulatory institution should be established to provide independent capital needs

Box 5. Institutional framework – recommendations

assessment on maintenance, repair and improvement services for homeowners' associations to avoid excessive price speculation.

Homeowners' associations

5.10 *The Government should, in cooperation with municipalities, institute a programme of information and operational support for homeowners' associations. This could take the form of regional information centres operated by national or regional umbrella organizations for homeowners' associations, and the dissemination of handbooks on the creation and operation of homeowners' associations. Efforts should focus on:*

- *Strengthening the management capabilities of homeowners' associations;*
- *The appointment of administrators for privatized multi-family buildings without homeowners' associations.*

5.11 *Energy-efficiency programmes in owner-occupied housing, which are managed by the Housing Credit Foundation, need to be further supported to broaden their outreach to other homeowners' associations across Lithuania.*

6. PRIORITY OF RECOMMENDATIONS

The Lithuanian Government needs to adopt a wider range of strategic approaches to ensuring successful housing reform. It is important to undertake systematic action leading to simultaneous changes in the financial, legal and institutional frameworks for housing. It should be clear that market mechanisms are not the right solution for every housing problem, but the market needs to operate efficiently and effectively to respond to household needs and preferences. Comprehensive reforms, including more efficient forms of State regulation - legal, tax and financial incentives in particular, are required to balance existing market imperfections and to enable competition in the market place.

Learning to use new approaches to achieving housing policy goals will be a gradual process. It needs to build on the strengths of the existing housing system, while overcoming the limitations of current financial, regulatory and institutional frameworks. Change needs to be systematically pursued to ensure better performance, flexibility and accountability of different agents and institutions. While the challenges facing Lithuania are difficult to resolve at any level of government, innovative partnerships and coalitions with local communities, individuals and businesses offer the opportunity of achieving long-term solutions to housing problems. By building upon collaborative approaches, leadership and innovation, the Government needs to ensure that policy intervention is applied to the right problem, in the right way, at the right time. The housing profile has outlined a number of strategies, approaches and tools that, if carefully tailored to different challenges, could result in a more efficient operation of the housing system, fewer subsidies and greater opportunities for the economically disadvantaged. Within that context, the sequence and the scope of housing reform efforts are critical. According to the international team, the following recommendations need to receive priority:

Box 6. Priorities

1. *Develop and implement a national housing policy through a series of actions/programmes/initiatives organized and administered under a national housing strategy (1.2).*
2. *Strengthen the institutional capacity and the mandate of the Ministry of the Environment, defining its responsibility for overall national housing policy and strategy (5.2 and 5.3).*
3. *Prevent the further decay and inefficient use of the existing housing stock, particularly with respect to maintenance and renewal of multi-family housing (2.1).*
4. *Improve the regulatory framework for owner-occupied multi-family buildings (4.1).*
5. *Expand the volume of commercial mortgage lending, creating a variety of mortgage instruments (3.4).*

Box 6. Priorities

6. *Introduce tax incentives to make private investment in the housing sector financially attractive (4.8).*
7. *Overcome the shortage of funds for infrastructure development and improvement by mobilizing extrabudgetary sources (3.11).*
8. *Develop municipal land policies to ensure a steady supply of land for housing in general and for social housing in particular (2.2).*
9. *Deregulate municipal rents and introduce means-tested housing allowances in both the private and public rental sector (4.5 and 4.6).*