

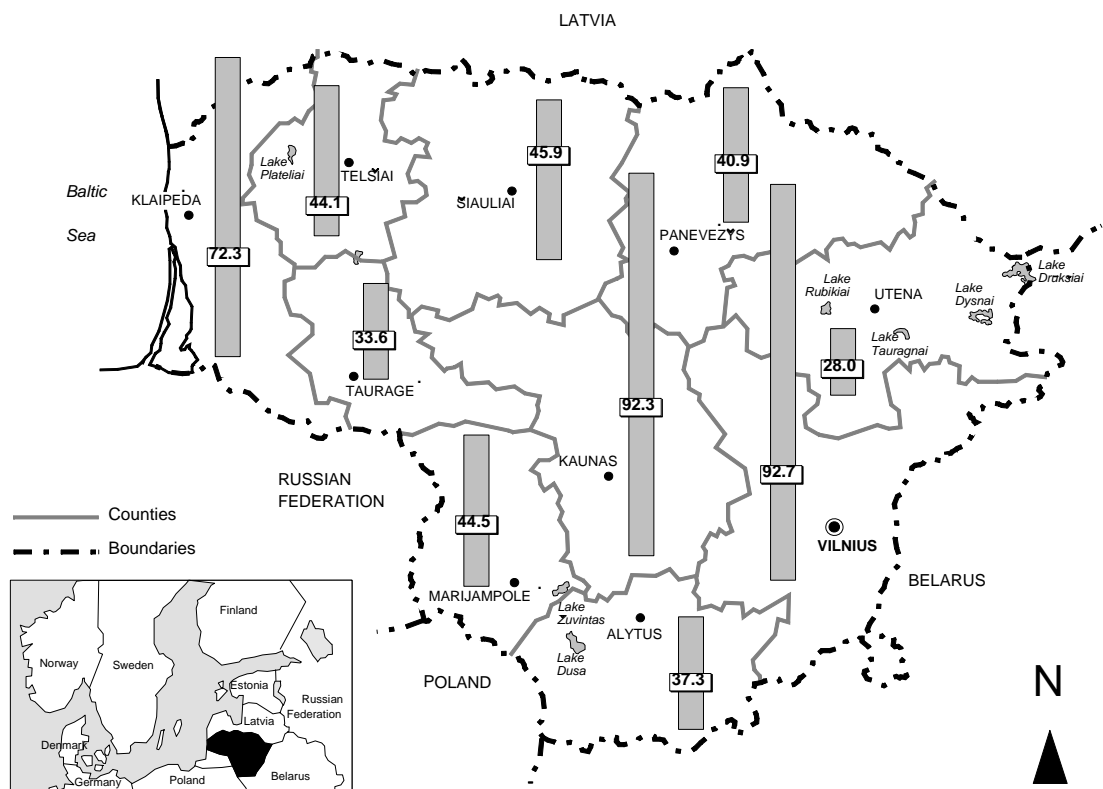
Chapter I

FRAMEWORK FOR THE HOUSING SECTOR

This chapter introduces the environment in which Lithuania's housing reform takes place. Apart from general information about the country, it briefly describes the legal and administrative arrangements, and social and economic developments that affect the housing sector. The first section provides an overview of macroeconomic policies, privatization and

economic performance. The second explores urban and rural developments with an emphasis on land restitution and administration, transport development, settlements network, and housing conditions. The third part focuses on housing reforms through national and municipal housing policy formulation. Finally, environmental and health issues are tackled.¹

Figure I. Population distribution and density by county, January 1999



Source: Department of Statistics, *Districts of Lithuania, Economic and Social Development*, (Vilnius, 1999).

Note: The boundaries shown on these maps do not imply official endorsement or acceptance by the United Nations.

¹ See also United Nations Economic Commission for Europe, *Environmental Performance Reviews: Lithuania* (United Nations publication, Sales No. E. 99.II.E.7), Introduction and chap. 10.

Government system

Lithuania has a three-level administrative system: the Government, an administration of counties (*apskritis*), and municipalities (*savivaldybes*). In 1995, the country re-established ten counties headed by Governors appointed by the Government. Each municipality has a council, elected for a period of two years by direct suffrage. The administrative territorial division of Lithuania includes 56 municipalities (44 districts and 12 cities). The counties are responsible for the implementation of State policies in: social welfare, health care, cultural heritage, environmental protection, spatial planning and land-use reform. The municipalities are responsible for the provision of basic education, primary medical treatment, social care, land-use planning, housing construction and maintenance, municipal services, and public security. In-depth analysis of institutional arrangements affecting the housing sector is provided in **chapter V**.

Local governments draft and approve their own budgets, which include the local sources of revenue (such as notary, real estate and some personal income tax). The councils have the right, within established limits and according to the procedure provided by the law, to establish local dues and to levy taxes and duties. The national budget, representing 23 per cent of GDP in 1998, consists of the State budget and municipal budgets. Parliament adopts the State budget (some 17 per cent of GDP in 1997) and municipal councils adopt municipal budgets (7 per cent of GDP in 1997) one month later. Municipal budgets receive State transfers, though ongoing tax reform aims at increasing independent sources of income for municipalities. The State budget includes allocations for State-supported programmes such as 'Bustas' (Dwelling), while municipal budgets have provisions related to municipal housing. For additional information on State and municipal support for housing, see **chapter III**.

Government reforms in 1998 reduced the number of ministries from 18 to 14, which led to the merger of the Ministry of Construction and Urban Development, responsible for housing policy, with the Ministry of Environment.

A. Social and economic transformation

Demographic trends

Some 40 per cent of the population lives in the five largest municipalities (Vilnius, Kaunas, Klaipeda, Šiauliai, and Panevezys). The average population density grew from 39.5 inhabitants per km² in 1950 to 56.8 in 1998², while the country's population increased by 48 per cent from 2.5 million to 3.7 million over the same period. There are three distinct clusters of counties with different population densities in **figure I**. At the lower end, Utena and Taurage counties have population density of 30 inhabitants per km². The highest densities tend to be in Vilnius, Kaunas and Klaipeda counties with values 3 times higher. The other five counties form a cluster with an average population density of 45 inhabitants per km².

Rapid urbanization has taken place in Lithuania in the past 30 years. The urban population has grown by a factor of almost 3.5 since 1950, while the rural population has decreased by 36 per cent (**table 1**). Migration to urban centres was dominant before 1990. Since 1993, despite the overall population decline, rural areas have gained new residents, which reversed the long-standing migration trends. Emigration from Lithuania has also increased, but less than expected given the domestic economic difficulties.

² This compares with 13.5 in Norway, 19.7 in Sweden, 15.2 in Finland, 8.6 in the Russian Federation, 32.2 in Estonia, 38.2 in Latvia, 49.2 in Belarus, 123.6 in Poland, 229.4 in Germany, and 122.6 in Denmark. (1996/1997 data taken from *Trends in Europe and North America, Statistical Yearbook of the Economic Commission for Europe 1998/1999, Geneva, 1999, p.66*).

Table 1. Migration, 1980-1998

	<i>thousand inhabitants</i>										
	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998
Net urban migration	29.6	24.6	14.4	-5.1	-29.2	-21.1	-8.9	-9.8	-10.0	-6.5	-1.8
Immigration	116.0	113.4	87.1	63.8	47.0	39.7	43.4	48.8	47.2	47.2	39.5
Emigration	86.4	88.8	72.7	68.9	76.2	60.8	52.3	58.6	57.2	53.7	41.3
Net rural migration	-20.7	-10.8	-2.8	-0.2	7.0	7.9	6.3	8.1	9.1	6.6	2.4
Immigration	59.1	65.0	45.8	38.5	37.7	32.1	31.7	37.0	36.6	34.5	25.9
Emigration	79.8	75.8	48.6	38.7	30.7	24.2	25.4	28.9	27.5	27.9	23.5
Net foreign migration	..	..	-8.8	-8.9	-22.2	-13.1	-2.6	-1.8	-0.9	0.1	0.6
Immigration	..	..	14.7	11.8	6.6	2.9	1.7	2.0	3.0	2.5	2.7
Emigration	..	..	23.6	20.7	28.9	16.0	4.2	3.8	3.9	2.5	2.1
Total migration	..	..	292.5	242.4	227.1	175.6	158.7	179.1	175.5	168.3	135.0
<i>as % of population</i>	..	..	<i>7.89</i>	<i>6.49</i>	<i>6.06</i>	<i>4.70</i>	<i>4.26</i>	<i>4.82</i>	<i>4.73</i>	<i>4.54</i>	<i>3.65</i>
Total population^{a/}	3,404.2	3,528.7	3,708.2	3,736.5	3,746.9	3,736.5	3,724.0	3,717.7	3,711.9	3,707.2	3,704.0
<i>% change</i>	..	<i>3.66</i>	<i>5.09</i>	<i>0.76</i>	<i>0.28</i>	<i>-0.28</i>	<i>-0.33</i>	<i>-0.17</i>	<i>-0.16</i>	<i>-0.13</i>	<i>-0.09</i>
Urban population	2,074.4	2,298.4	2,526.9	2,557.5	2,568.2	2,549.0	2,533.4	2,526.4	2,518.4	2,534.5	2,525.2
<i>% change</i>	..	<i>10.80</i>	<i>9.94</i>	<i>1.21</i>	<i>0.42</i>	<i>-0.75</i>	<i>-0.61</i>	<i>-0.28</i>	<i>-0.32</i>	<i>0.64</i>	<i>-0.37</i>
Rural population	1,329.8	1,230.3	1,181.3	1,179.0	1,178.7	1,187.5	1,190.6	1,191.3	1,193.5	1,172.7	1,178.8
<i>% change</i>	..	<i>-7.48</i>	<i>-3.98</i>	<i>-0.19</i>	<i>-0.03</i>	<i>0.75</i>	<i>0.26</i>	<i>0.06</i>	<i>0.18</i>	<i>-1.74</i>	<i>0.52</i>

Source: Department of Statistics, *Demographic Yearbooks* (Vilnius, 1994-1999).

^{a/} Data at the beginning of the year.

An indicator of potential demand for dwellings is the population growth rate. Currently, the country is experiencing a natural decrease in population (**tables 2 and 1**). The highest population increase was in 1970s, followed by a moderate

growth in 1980s. Since 1990, birth rates have declined, while death rates have increased. Birth rates fell particularly sharply in urban areas. Household structure has also changed.

Table 2. Demographic trends, 1960-1998

	<i>per thousand of</i>														
	1960	1965	1970	1975	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998
Natural increase	14.7	10.2	8.8	6.2	4.7	5.4	4.6	4.0	3.2	0.4	-1.1	-1.1	-1.1	-0.9	-1.0
Birth	18.1		17.7	15.7	15.2	16.5	15.3	15.0	14.3	12.7	11.4	11.1	10.5	10.2	10.0
Rural						15.6	16.3	15.9	15.8	14.1	12.7	12.2	12.1	12.0	11.8
Urban						16.9	14.8	14.6	13.6	12.1	10.8	10.5	9.8	9.4	9.1
Death	7.9		8.9	9.5	10.5	11.1	10.7	11.0	11.1	12.3	12.5	12.2	11.6	11.1	11.0
Rural	8.9		11.3	12.8	14.7	16.2	15.8	16.0	16.2	18.0	17.5	17.0	16.4	15.8	15.6
Urban	6.1		6.6	6.9	7.9	8.3	8.3	8.6	8.7	9.7	10.1	9.9	9.3	8.9	8.9

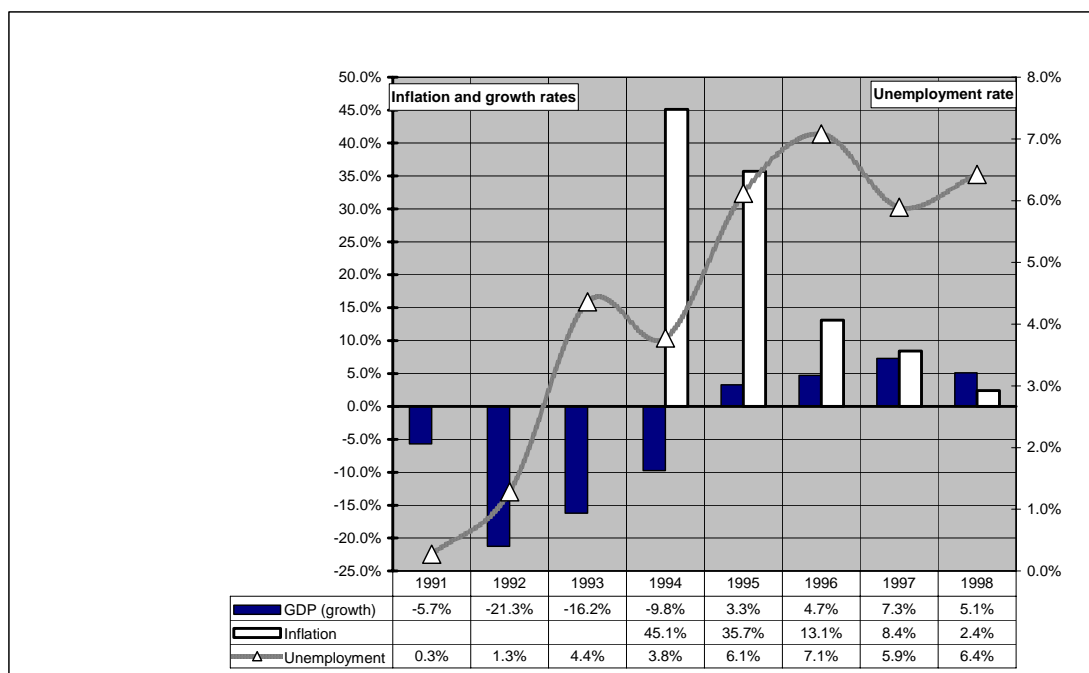
Source: Department of Statistics, *Statistical Yearbooks* (Vilnius, 1997-1999).

According to the 1989 population census, there were one million households in Lithuania. Households increased by 10,000 to 11,000 a year in the 1980s, while in 1992-1994 they declined by 10,000. The proportion of single-person households is growing and women account for two thirds of these households. While the divorce rate increased dramatically -- from 35.1 in 1990 to 60.5 per cent in 1997 for new marriages -- marriages decreased from 9.8 to 5.1 per thousand of population over the same period. Women outnumber men, particularly in the post-retirement age group. Experts estimated the number of households at 1.3 million in 1999.

Macroeconomic developments

The Lithuanian economy measured by *gross domestic product* (GDP) is some US\$ 10 billion. In 1998, GDP increased by 5.1 per cent (**fig. II**). The Central Bank expected GDP to grow by 3 per cent in 1999. However, GDP had already shrunk by 4.8 over the first part of the year. The current recession was preceded by economic growth in the range of 3.3 - 7.3 per cent in 1995-1997 due to prudent monetary and fiscal policies.

Figure II. GDP, inflation and unemployment



Source: Department of Statistics, *Economic and Social Development in Lithuania* (Vilnius 1998-1999), issues 12,1,2,3,4.

Until 1991, *industry* accounted for 44.4 per cent of GDP (**table 3**), followed by agriculture (16.4 per cent) and construction (5.4 per cent). During the first years of independence, Lithuania's industry suffered the steepest decline in the Baltic region, with production down by as much as 51.6

per cent in 1992. Due to restructuring industry grew by 5.4 per cent in 1997 and by 7 per cent in 1998. Services have increased their share in GDP, reflecting typical transformations to a market-oriented, service-based economy.

Table 3. Major sectors' share of total output, 1991-1998

	<i>% of GDP, current prices</i>							
	1991	1992	1993	1994	1995	1996	1997	1998 a/
Industry	44.4	37.5	34.2	27.0	26.1	25.8	25.2	23.6
Agriculture	16.4	13.8	14.2	10.7	11.7	12.2	11.7	10.1
Construction	5.4	3.9	5.1	7.2	7.1	7.1	7.7	7.9
Real estate and financial services	..	..	11.5	11.7	10.5	10.5	9.6	11.0
Services	b/	33.9	44.8	35.0	43.4	44.4	45.8	47.4

Source: UN/ECE, *Economic Survey of Europe*, issues: 1996-1997, 1998 No.1, and 1999 No.1.

a/ Preliminary data.

b/ Includes real estate and financial services for 1991 and 1992.

The *main manufacturing sectors* in Lithuania are food-processing, light industry, machine-building, metalworking, electronics, electrical appliances, chemicals, building materials, and energy industries. Manufacturing depends on imports of raw materials. Light industry's modern technology and qualified workforce have created a comparative advantage over other sectors. The electronics and electrical appliances industries have successfully accessed the European markets. The energy sector is undergoing privatization and structural changes.³ Lithuania is the largest electricity producer in the Baltic region, with 16.8 billion kWh generated in 1996 (Ministry of Economy data). The *construction industry*, mostly privatized, recovered in the mid-1990s with a 6.6 per cent growth in 1997. The construction sector contributed some 8 per cent to GDP in 1998 as indicated in **table 3**.

Inflation soared to triple digits in 1991-1993, as the economy felt the combined effects of price liberalization and wage increases aimed at compensating for inflation. In 1998, inflation fell for the fifth consecutive year (from 35.7 per cent in 1995 to 2.4 per cent in 1998⁴). June, August and September 1998 saw deflation rates of 0.5, 0.6 and 0.4 per cent in Lithuania. The current macroeconomic climate with low inflation rates was supposed to encourage investment in housing activities; however, other factors also affect the interest rates for commercial loans (see domestic financial and capital markets below). *Unemployment* reached 7.1 per cent in 1997, followed by a decline to 5.9 per cent. However, in December 1999, it stood at 10 per cent and is expected to be 8.4 per cent for the whole year. Those estimates are based on labour exchange numbers. The labour force survey estimates unemployment at 5.2 per cent above the labour exchange figure (the figure provided corresponds to the latest available survey data, i.e. second quarter of 1999 data).

Investment and financing

Foreign direct investment (FDI) amounted to US\$ 700 million in 1996, surged to US\$ 1.04 billion in 1997 and reached a record high of US\$ 1.625 billion in 1998. Sixty-two per cent of FDI capital is of EU origin. In 1996, two important bills were passed to promote foreign investment. Firstly, the land reform bill was enacted in July 1996. It allows foreign enterprises to buy land, so removing a major obstacle to Lithuania's accession to the EU. The second bill allowed foreign banks to operate through branch offices. This facilitates foreign investment operations and meets EU requirements for banking laws.

The economy is suffering a *shortage of capital* to finance investment. Access to international financial markets has improved considerably. Lithuania has an international credit rating of BBB from Standard and Poor's (September 1998) and a sub-investment Ba1 rating from Moody's. As a member of the European Bank for Reconstruction and Development, the International Monetary Fund and the World Bank, Lithuania receives loans for currency stabilization, structural reforms in banking, agriculture, energy and social security. The country also receives grants under the European Union's Phare programmes. Domestic financial and capital markets are critical to structural reforms and to financing economic growth. To fund investment enterprises turn either to the capital market or to commercial banks for loans. Much has been done to push the interest rates on loans down. However, they are still relatively high. In 1996, interest rates dropped to 16 per cent on loans in litai and to 14.73 per cent in hard currency. In 1997-98, the rates plummeted further to 11-13 per cent. Low inflation rates are responsible for these trends. In December 1999, the average commercial interest rate stood at 11.41 per cent on hard-currency loans and 12.98 per cent in litai. Interest rates on housing loans stood at 9.92 per cent on loans in litai and 11.11 per cent in foreign currency, which does not stimulate mortgage markets. The high margin between inflation and interest rates reflects various commercial risks.

³ Mazheikiai refinery (the only refinery in the Baltic countries) was under privatization in October 1999. Also, Butinge oil terminal and oil pipelines have been merged for privatization. The oil terminal started to operate in 1999, marking an important economic restructuring benchmark. Lithuania exports electricity to Belarus, Latvia, and the Kaliningrad region of the Russian Federation. Electricity exports to western Europe highlight EU integration efforts.

⁴ Inflation was 6.5 per cent in Estonia and 2.8 per cent in Latvia in 1998.

Sweeping measures were taken to reform the banking sector and to liberalize financial services following the banking crisis in 1995.⁵ In June 1996, a law introducing re-capitalization securities was enacted, a condition imposed by IMF in return for a loan to overcome the effects of the banking crisis. The confidence in banks was partially restored after the State increased mandatory bank deposit insurance from 4,000 to 25,000 litai in 1997. The capital market is functioning but volumes are not big; investment funds and private pension funds are just starting to operate. A large portion of stocks is traded directly, indicating poor stock market development and poor liquidity. Enterprises are finding it difficult to raise capital. The public still has not yet acquired a culture of following, understanding and using capital markets as a vehicle for diversified savings. The Government introduced saving bonds in 1999.

Economic policies and privatization

Economic reform was initiated as early as 1987 with the establishment of collective and personal enterprises, although the transition to a market economy started after independence, when the Law on the Initial Privatization of State Property was adopted in February 1991. Prices were liberalized in November that year, triggering inflationary pressures.

Lithuania introduced a national currency, the litas, and established a Currency Board in April 1994. Since then, the litas has been pegged to the United States dollar at an exchange rate of 4 to 1. Two shortcomings of the monetary policy emerged. Firstly, the country's financial dependency on international capital markets increased. Secondly, the strengthening dollar (and consequently litas) against the European currencies hit exports. Importing goods became more profitable than producing them domestically. Thus, incentives for savings and investment became weak. The fixed-rate exchange policy contributed to the slow restructuring.

One major priority in Lithuania's *fiscal policy* is to restructure the tax system, to minimize

budgetary arrears and to improve the tax administration. The Government strengthened the tax administration by establishing a Tax Police Department and re-organizing the State Tax Inspectorate. Lithuania currently has a personal income tax of 33 per cent and a corporate income tax of 29 per cent. Value-added tax (VAT) is levied at a rate of 18 per cent; excise taxes are applied to petrol, tobacco, alcohol and spirits. Trade taxes play a small role in the tax system, except those on agricultural produce. The tax system is not used to protect domestic industry or the housing sector. In 1999, the Government was struggling to balance the State budget as revenues fell short of projections. Fiscal policy was supplemented with austerity measures and phasing out various hidden subsidies. The 1994 budget earmarked 224 million litai for subsidies. Large amounts were allocated to compensate heating and gas enterprises for preferential tariffs granted to households.

The *Government's economic development strategy* aims at developing market institutions, upgrading the economy's infrastructure. It also aims to integrate Lithuania into the EU political and economic structures. It expects to trigger economic recovery by promoting exports and FDI. Attempts have been made to increase domestic demand. It was hoped that the purchasing power of the population would increase and Lithuanian consumers would buy more goods and services, which could no longer be exported. However, the unexpected recession affected private spending negatively. Unemployment surged, while social benefits were added on top of the fiscal obligations to compensate lost savings. Eventually, the new Government suspended compensation for lost savings to improve the fiscal deficit position.

As an integral part of Lithuania's economic reforms, the *privatization process* was launched in September 1991. The entire process can be divided into three major stages.⁶

The *first stage*, a mass privatisation through vouchers with some cash transactions, covered the period from September 1991 to July 1995. State-owned enterprises, land, agriculture companies and flats were offered in exchange for privatization vouchers (issued in dematerialized form by opening voucher accounts). Over 2.6 million voucher accounts were opened in the banks. Housing privatization accounted for 19 per cent of vouchers at this stage, while about 65 per cent were

⁵ In 1995, when the Central Bank imposed tighter control on compliance with the Law on Commercial Banks (January 1995), several major banks collapsed and the country faced a general banking crisis. In May 1996, of the 27 banks licensed in Lithuania, 16 were under suspension or facing bankruptcy proceedings. Today, Hermis and Vilnius banks, out of 11 banks operating, have significant credit resources on hand, while others came out weaker after the crisis.

⁶ The analysis in the section draws on information available at <http://www.vtf.lt>

exchanged for shares in State enterprises. The remaining vouchers were used for the acquisition of agricultural enterprises and land.⁷ All agricultural land not subject to the restitution claims was offered for privatization. Country-dwellers willing to take up farming had priority in the privatization of the land. Owners of single-family housing were given the same privileges in purchasing built-up residential land in both rural and urban areas. The mass privatization carried out in 1,160 State companies, formerly known as "kolkhozes", resulted in a transfer of 97 per cent of the agricultural assets into private hands. This phase of privatization included the sale of apartments to their tenants. The privatization vouchers were accepted as payment for 80 per cent of the price. Some 95 per cent of the formerly State-owned flats had become private by 1995.

The *second stage*, a privatization through cash sales, covered the period from July 1995 to 1997. Privatization under the 1995 Privatization Law excluded voucher privatization. The methods of privatization were public subscriptions of shares (for small and medium-sized enterprises), auctions (for small enterprises), public tenders (for medium-sized and large enterprises), and leases with an option to purchase. In 1996, 47 entities worth 3.2 million litas were privatized and 272 entities worth 80.9 million litas were privatized in 1997.

The *third stage*, a tender privatization, covers the period from 1998 to date. The Governmental Resolution of 11 February 1997 earmarked for privatization large State-controlled enterprises in the transport, energy and telecommunication sectors. The Privatization Law gave the State Property Fund (SPF) the tasks of holding, using, disposing, and privatizing State-owned property.⁸ In 1998, 344 enterprises were privatized, generating 2.3 billion litai. Among the biggest deals are Lithuanian Telecom, Hotel Lietuva and a third of

the oil industry. SPF expects privatization sales to amount to 1 billion litai in 1999.

B. Trends and challenges for urban and rural development

Land restitution and administration

The Government's land policy aims to:

- Accomplish the restitution of land and to implement land reform;
- Stimulate the development of a land market by upgrading the land registration system and creating a mortgage system;
- Levy a real property tax based on market values;
- Create a land information system which will serve both the State administration and the general public for the purposes of land use, physical planning and environmental monitoring;
- Revise the current institutional land administration set-up.

The restitution of ownership rights (or compensation) is at the centre of Lithuania's land reform. Some 2.5 to 3 million parcels have to be surveyed, privatized or leased. The three major types of land being privatized are:

- Agricultural and forest land in rural areas (more than 690,000 people have applied to have their ownership rights in agricultural land restored);
- Allotments of members of gardeners' associations (there are 218,500 such members, they cultivate a total of 21,100 ha); and
- Parcels with housing units and other buildings, mainly in urban areas (homeowners' associations cannot own land).

Land privatization has accelerated due to improvements in the cadastre and land registration systems. Still, the biggest challenge to real-estate registration is the legacy of separated property rights of land and buildings.

Environmental challenges

Air and water quality affects residents' quality of life. Over the past five years, Lithuania has invested in waste-water treatment, but much

⁷ About 93 per cent of investment vouchers valued at approximately 10.5 billion litai (US\$ 2.4 billion) were used in this privatization stage. The other 7 per cent (726 million litai) were deposited into private investment accounts to purchase apartments (not yet privatized), agricultural land (maximum 80 ha), land for private use, and plots in collective gardens.

⁸ SPF coordinates the privatization process. It organizes privatization of the largest State-controlled enterprises in industry and infrastructure. Privatization of these enterprises is carried out through competitive international tenders prepared and executed by international consultants. Specially appointed public tender commissions carry out international tenders for the privatization of strategic energy, transport and telecommunications enterprises. The commissions determine criteria to prepare privatization programmes reflecting governmental policy and the experience of other countries.

remains to be done to improve the water supply, as water quality still raises some health concerns.

Air pollution in urban areas also tends to be high, due to traffic and weak environmental control over industrial centres. The most important and increasing source of air pollution is transport (responsible for about 70 per cent of emissions). The increase in vehicle use and transport in general has a direct impact on the noise levels in homes and public buildings in urban areas (see below). The energy industry, oil processing, chemical production and the manufacturing of construction materials are the biggest industrial air polluters. The population living near such sources of pollution has been found to suffer diseases such as lung cancer, a high incidence of acute and chronic bronchitis, and pneumonia.

During the winter, the inhabitants of multi-flat houses complain about insufficient heating. Because of bad thermal insulation the temperature is often lower than 15° C. More than 30 per cent of the dwellings are partly damaged by microscopic fungi because dampness accumulates on the internal surfaces of walls, providing conditions for micro-organisms to grow on brick walls. This phenomenon is often found in multi-family houses. Those fungi excrete toxic substances and may cause irritation or asthma and other respiratory diseases, especially among small children.

Air quality is worse in renovated or newly constructed buildings with airtight windows. They rarely have adequate air circulation systems or the systems are often turned off to reduce the building's running costs.

The number of parasitosis cases is increasing. Soil contamination with the eggs of ascarids increased 2.4-fold, with the eggs of toxocarids 2.2-fold, toxocariasis morbidity 9-fold. The number of people infected with toxoplasmosis quadrupled between 1995 and 1997. The growth in parasitosis cases is linked with the increasing number of pets kept in dwellings. The law regulates animal guardianship and keeping, but its implementation is inadequately controlled.

Tobacco smoke is the main lung cancer risk factor and one of the main causes of heart and coronary diseases. Moreover, smoking might cause children's asthma. The Government has set

requirements for smoking areas but smoking is not sufficiently restricted in public places.

Noise comes from transport, the entertainment business, industry, security alarms, neighbours and other sources. Noise measurements in Vilnius have shown that the level of noise was high near streets with heavy traffic during peak hours (between 67-80 dBA and 43-57 dBA). Noise-proofing houses and public buildings did not ensure a decrease in noise to an acceptable level. Recently, noise from show business and entertainment centres has become very problematic, because it is not regulated by the Administrative Code of Law Violations and it is difficult to prevent. Noise produced by various sorts of equipment and its impact on life hygiene is a new problem. There are sorts of equipment that are not suitable for installing in occupied houses because of the high levels of noise produced during their operation. In addition, they often are installed without any measures for noise-proofing.

Population morbidity indicators are not taken into account in territorial planning. The causes of prevalent morbidity and mortality are not analysed in territorial planning, and the elimination of these causes is not foreseen in such plans. The urban infrastructure is developing slower than other elements of territorial planning. That is why local heating systems, water supply and sewerage are planned and built more frequently. However, regulation of ownership and responsibility for the use of infrastructure is not adequate (see **chapter IV**).

The quality of old houses and their environment are deteriorating little by little because of a lack of care and repair. Most dwellings built before 1993 are energy-inefficient. There are major energy losses and the costs of the energy used are increasing. To promote environmentally sound development, the Government is already carrying out an energy conservation programme in the building sector. Although Governmental Resolution No.704 determines which premises are not suitable for habitation, there is no resolution laying down how to help people living in houses that could harm their health or that lack basic amenities who are seeking to improve their living conditions.

The State's Public Health Centre is currently coordinating a national effort to produce a national environmental health action plan. This plan will be a very important policy implementation effort

towards ensuring the right of Lithuanians to a suitable dwelling.

Transport development

Its geographic situation makes Lithuania a bridge between western Europe and the Russian Federation. The country has important transit functions. The railway network (**fig. III**) extends over some 2,500 km, while the paved road network covers 35,800 km. The national road system needs considerable maintenance and investment. In early 1994, the Government approved the National Transport Development Programme up to the year 2010. The development policy for the State transport infrastructure seeks to:

- Integrate the national transport system into the west European transport network and transport service market, and maintain transport links with the Commonwealth of Independent States;
- Harmonize the legal basis for regulating transport activities with EU laws and regulations;
- Create an open transport service market and promote private investment in the sector; and
- Ensure the stability of the transport infrastructure, its reconstruction and development, through public investment.

The Via-Baltica (Warsaw-Kaunas-Šiauliai-Riga-Tallinn) will be based on existing roads through their gradual renovation, the construction of city bypasses, and the construction of bridges and additional lanes. It is estimated that by the year 2000, traffic flows will have doubled. The road network is developing in another direction (**fig. III**): Klaipėda-Kaunas-Vilnius-Minsk (Belarus). The plan is to renew the road surface in certain sections and to construct a bypass around Vilnius. Average traffic intensity has already reached 3,500 to 12,900 vehicles a day and is estimated to reach 5,000 to 18,000 vehicles a day by the year 2000.

Settlements network

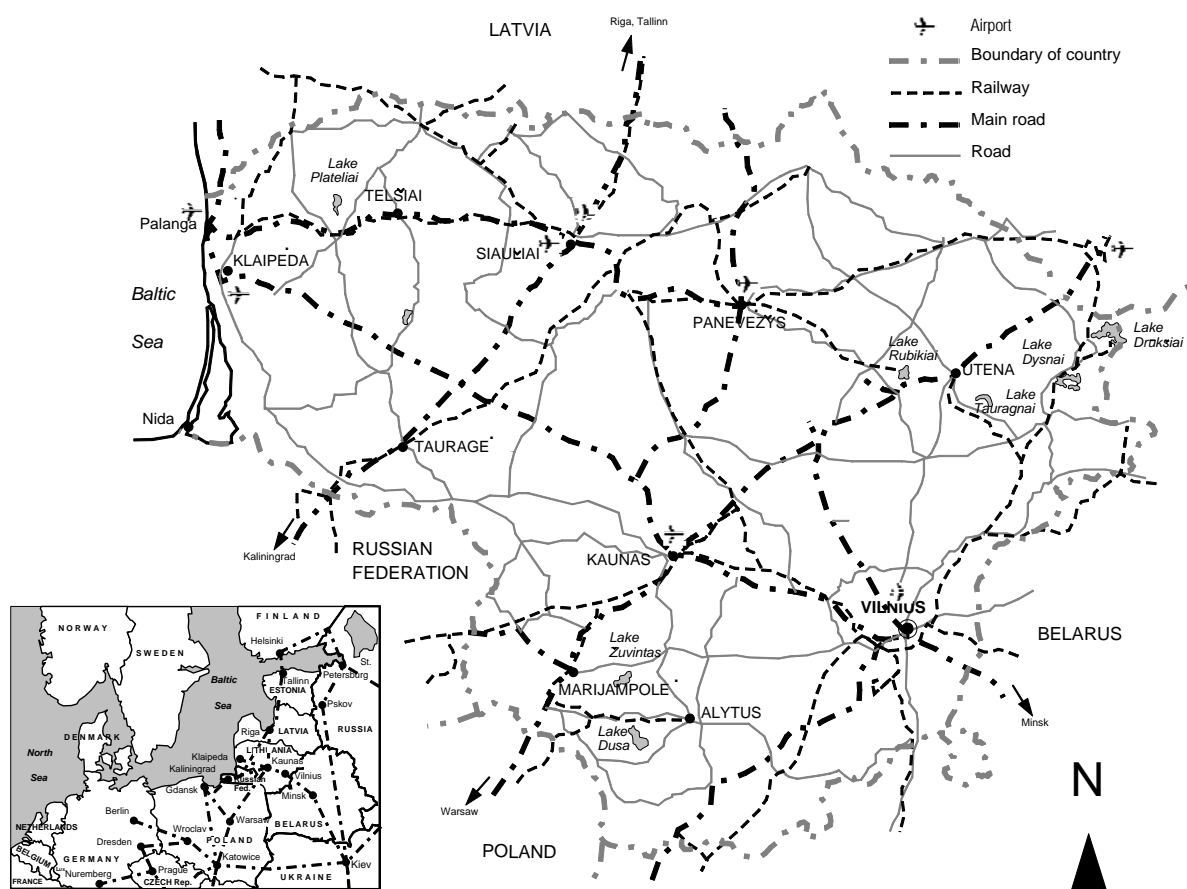
Before the Second World War, there were only two big cities, Vilnius (186,000 inhabitants) and Kaunas (154,000 inhabitants), and one

medium-sized town, Klaipėda (51,000 inhabitants), in what is now Lithuania. At present Vilnius and Kaunas each have a population of over 400,000; Klaipėda, Šiauliai and Panevezys each have more than 100,000 inhabitants. Other large urban centres are Alytus and Marijampole with more than 50,000 residents, while 13 towns fall into the medium-size category of 20,000 to 50,000 inhabitants. There are also 72 small towns and urban-type settlements in rural areas.

Lithuania has a *well-balanced network of human settlements*, which has resulted from the distribution of different functions among urban centres. Vilnius is the historical and cultural centre and the administrative capital. Klaipėda is the country's main port, while Kaunas is the educational, business and trading centre. In rural areas, the system of farmsteads (120,000) that existed before the Second World War was reorganized into collective farms. After 1990, many rural centres started to lose their economic and social importance. Job opportunities in rural areas are rare and some 70 per cent of all unemployed young people live in small rural centres. Consequently, living conditions in rural settlements have worsened considerably. Regional differentiation so far has been addressed by promoting small and medium-enterprise development. As far as housing provision is concerned, much lower growth rates in rural areas reflect the lack of demand and employment opportunities in these localities (see **table 4**). Housing stock characteristics are analysed in detail in **chapter II**.

National policies and objectives for spatial and regional development

In 1995, the former Ministry of Construction and Urban Development drafted a *new national comprehensive plan for the period up to the year 2010*. The document, currently under discussion, defines spatial development priorities, the conditions and instruments for territorial management, as well as actions to implement the plan. Spatial development policy, in more general terms, had already been outlined in the national action plan for 1996-2000 prepared for the United Nations Conference on Human Settlements (Habitat II) in 1996.

Figure III. Transport networks affecting Lithuania's settlements

Source: UN/ECE.

Note: The boundaries shown on these maps do not imply official endorsement or acceptance by the United Nations.

Table 4. Housing stock, 1990-1998

	<i>thousand dwellings, buildings</i>									
	1990	1991	1992	1993	1994	1995	1996	1997	1998	
Total dwellings	1,159	1,166	1,111	1,204	1,226	1,247	1,270	1,278	1,306	
Annual change in dwellings	14.1	6.5	(55.2)	93.3	22.0	20.8	23.1	8.0	28.2	
Growth rate (annual)		0.6%	-4.7%	8.4%	1.8%	1.7%	1.9%	0.6%	2.2%	
Newly completed buildings	22.1	15.3	12.7	8.2	6.9	5.6	5.6	5.6	4.2	
Urban	17.5	12.8	11.2	7.4	6.1	4.6	4.4	4.4	3.2	
Rural	4.6	2.5	1.5	0.8	0.8	1.0	1.2	1.1	1.0	

Source: Lithuania, Department of Statistics, *Statistical Yearbooks* (Vilnius, 1997-1999).

Note: Data on housing supply in 1993 shows a higher growth rate due to a new definition applied in housing statistics.

In regional policy, the Government's goal is to *minimize the growing regional disparities*. That these exist and are widening is illustrated in **figure IV** with **table 5**. Despite the methodological drawbacks, GDP per capita by region presents a rough picture of how regions are performing. When compared to the average, the data reflects a certain distribution around the average. The United Nations Development Programme (UNDP) developed a regional human development index⁹ for Lithuania. When calculating averages and

plotting deviations for both indicators on the graph, one can see that regions differ widely not only in economic development but also in terms of unemployment, morbidity, education, security, etc. In 1998 there was a shift towards a widening gap between the lowest and highest values as far as the average GDP per capita was concerned. The year 1999 was marked by a recession, which makes us expect that the economic situation will worsen further.

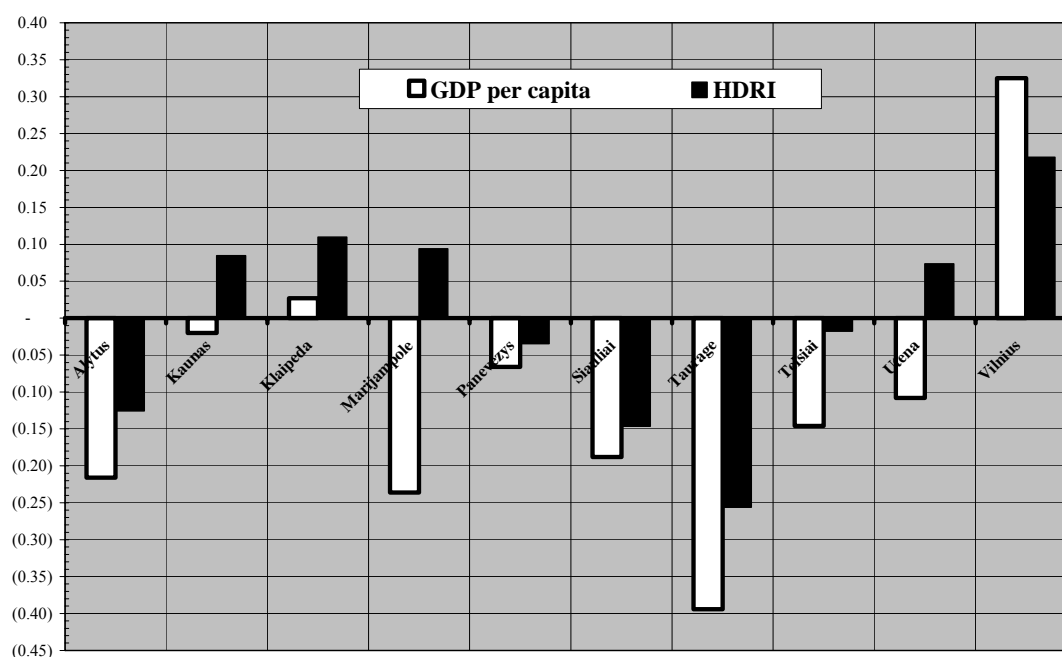
Table 5. GDP per capita and HDI by region, 1996-1998

Counties	GDP per capita (th litai)			Compared to average			RDHI	
	1996	1997	1998	1996	1997	1998	1997	1998
Total	8.5	10.3	11.6					
Alytus	7.2	8.7	9.1	0.85	0.84	0.78	0.35	0.36
Kaunas	8.2	10.3	11.4	0.96	0.99	0.98	0.64	0.57
Klaipeda	9.4	11.0	11.9	1.11	1.06	1.03	0.62	0.59
Marijampole	6.7	8.2	8.9	0.79	0.80	0.76	0.67	0.58
Panevezys	8.6	10.4	10.8	1.01	1.01	0.93	0.53	0.45
Siauliai	7.6	9.0	9.4	0.90	0.87	0.81	0.47	0.34
Taurage	6.3	6.7	7.0	0.74	0.65	0.61	0.28	0.23
Telsiai	7.7	9.1	9.9	0.91	0.88	0.85	0.57	0.47
Utena	8.0	9.3	10.3	0.94	0.90	0.89	0.57	0.56
Vilnius	10.0	12.6	15.4	1.18	1.21	1.33	0.59	0.70

Sources: Department of Statistics, Counties of Lithuania, Economic and Social Development (Vilnius, 1999). Ernst van Koesveld, Human Development Across Regions in Lithuania, UNDP (Vilnius, August 1999).

⁹ The regional human development index (RHDI) is similar to the human development index (HDI) as it also comprises GDP per capita, but it represents longevity and knowledge in another, more direct way. At the same time, the RHDI comes closer to the concept of human development and human security. Apart from the variables selected, the methodologies differ slightly (see Ernst van Koesveld, UNDP, 1999 or <http://www.undp.lt>). The selected variables are GDP per capita, unemployment rate, morbidity by active tuberculosis per 100,000 persons and crime rate per 10,000 inhabitants.

Figure IV. Regional disparities, 1997



Sources: Department of Statistics, *Counties of Lithuania. Economic and Social Development* (Vilnius, 1999). Ernst van Koesveld, *Human Development Across Regions in Lithuania*, UNDP (Vilnius, August 1999).

There is a broad consensus on the need for a regional policy and regional development with a multi-sectoral approach to solve problems. Human settlements and housing issues have a role to play here and cooperation and coordination of work between institutions is crucial. The ministry responsible for the coordination is the Ministry of Public Administration Reform and Local Authorities. However, the process of introducing regional development and formulating regional policy is still in its infancy. It lacks a clear legal structure (a regional development law is in preparation) and an organizational structure is yet to be established (council on regional development and national agency for regional development).

Lithuania has many old towns and well-preserved architectural and historic monuments. The goal of the Government is to prepare programmes to mobilize financial resources for renovation and modernization. In urban development, attention is given to the *conservation and rehabilitation of the historical and cultural heritage*. The Government intends to develop programmes and measures to preserve existing

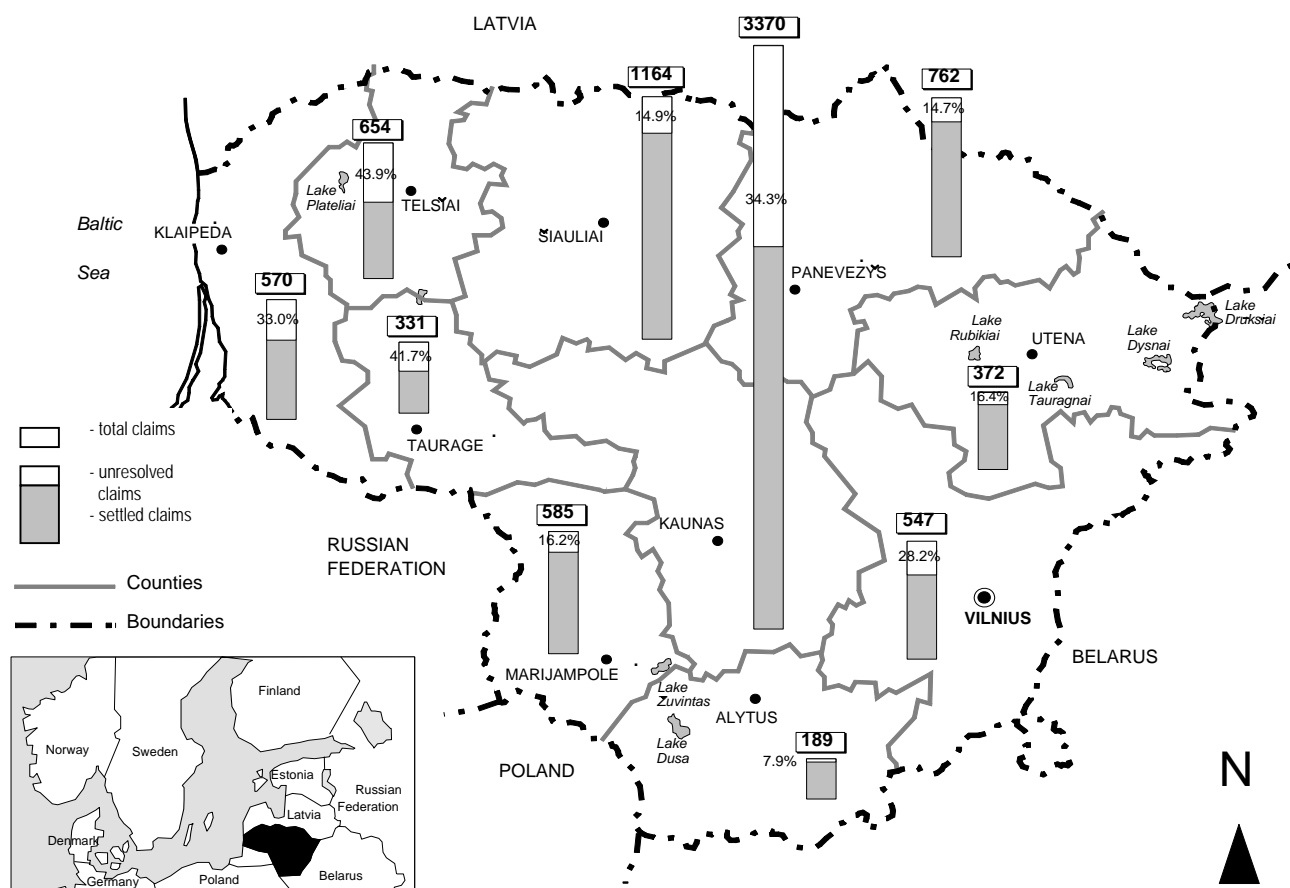
green areas, retain residential functions, and restrict traffic in old town centres. Special efforts have been successfully initiated in Vilnius, which was placed on the UNESCO list of World Heritage Sites in 1995.

C. Housing reforms

Restitution of property rights to dwellings

Privatization and restitution are considered the hallmark of the housing reform process. The Law on the Procedure and Terms of Restitution of Citizens' Property Rights to Existing Real Estate (June 1991) is the legal framework to compensate or return real estate to former owners. Since 1991, 8500 applications have been submitted for the restitution of property rights to dwellings. Property rights have been restored to 4600 (53 per cent) owners (see also **chapters II and IV**). Only 978 claimants (or one in five approved claims) have received compensation (payment in cash, forest, another dwelling, or a plot of land). In January 1999, about 28 per cent of applications were still to be resolved (see **fig. V**).

Figure V. Geographical distribution of claims for restitution, January 1999



Source: Department of Statistics, *Economic and Social Development in Lithuania*, issues 3/1998 and 2/1999.
Note: The boundaries on these maps do not imply official endorsement or acceptance by the United Nations.

National housing policies

The basis of a housing policy during the transition period was established in 1992, when Parliament approved the 'Bustas' governmental programme. The programme formulated the following principles:

- Gradually move from State housing provision to housing purchase;
- Shift away from uniform housing to individual choice, with the State remaining responsible for providing housing only to socially and economically vulnerable population groups;
- Create favourable conditions for the provision of long-term loans for housing construction;
- Promote housing construction by different types of developers: public, private, and housing associations;
- Create legal and economic conditions for the public housing stock privatization.

According to the 'Bustas' programme, the Government aimed to build 12,000-14,000 housing units annually. In practice, new construction has declined and is way below those targets. Mass privatization of public housing has eliminated the possibility to provide shelter to socially disadvantaged households (see **chapters II and III** for detailed discussion). Overall, the outcome has been rather controversial.

Currently, the Government's goals in housing are to:

- Encourage new construction where individuals finance their housing;
- Create conditions for financial markets to provide long-term financing;
- Differentiate State subsidies to support the most needy households;
- Earmark 2 per cent of the State budget for the 'Bustas' programme; and
- Encourage individuals, homeowners' associations and public enterprises to save

energy by renovating and insulating dwellings.

So far, most of the housing policy measures have focused on the development of effective instruments to make long-term housing loans available to the majority of the population. Such a universal approach requires a stronger banking sector, as well as mortgage institutions. The purchasing power of the population, in the housing markets of large urban centres in particular, remains limited and needs to be increased. This objective appears to be quite complex and can be achieved only in the long term. At present, long-term loans for housing construction and renovation are subsidized by the State and allocated to households who are homeless or have less than 10m² per person or who are eligible for social benefits. Some 100,000 households are eligible for State support and are officially registered with local municipalities (see **chapter IV**). Experts recognize that the State is not able to respond to the volume of applications. Therefore, a new edition of the Law on the Provision of Dwellings for Citizens (1992) is before Parliament. The Ministry of the Environment has drafted a housing policy strategy to assist the debate in Parliament. The Government has passed Resolution 794 to appropriate funds for municipal housing for 1999-2000 (see **chapter IV** for details).

Another major problem in the housing sector is associated with the dramatic increase in heating and hot water charges, which has created a considerable burden on households and led to wide dissatisfaction with Government policies. According to the Housing Credit Foundation (HCF), the average household spends about 14 per cent of its income on energy. In response, the Government has established two instruments. First, starting from May 1997, homeowners and homeowners' associations have been able to obtain the necessary technical assistance and loans for the preparation and implementation of energy efficiency projects from HCF.¹⁰ Secondly, subsidy and support schemes for heating and hot water have been introduced. Low-income households are eligible for heating and hot water subsidies if their

heating and hot water bills exceed 25 and 5 per cent of their income respectively. The Social and Labour Ministry estimates that approximately 30 per cent of urban households are eligible for these subsidies.

Municipal housing policy initiatives

The 'Bustas' programme was the first national reaction to the political determination of the State to withdraw from housing supply. While one of the objectives of the 'Bustas' programme was to facilitate housing privatization, it failed to restrict the conversion of residential into commercial properties and to define maintenance responsibilities for common ownership areas. Currently common areas of ownership are maintained in most cases by the municipal housing maintenance enterprises. Municipalities are concerned with these problems, but have failed to address the issue in a systematic manner.

A municipal housing policy has been developed only for the city of Vilnius. It has four strategic directions: to maintain and improve the existing housing stock, to help people who cannot afford adequate housing, to provide support to meet new housing demand, and a new definition of housing roles and responsibilities. Each direction has its own goals. To maintain and improve the existing housing stock, for example, the municipality aims to privatize its housing maintenance enterprises, to support homeowners' associations to maintain city housing, to carry out housing renovation and energy saving programmes, to set and enforce minimum housing standards, and health and safety regulations. Its Action Plan envisaged two phases: phase 1 for 1998-1999 and phase 2 for 2000-2005. The policy document recognizes that the State, homeowners' associations, individual owners, tenants and private-sector actors must be involved in solving housing problems in Vilnius. A housing division with 20 staff members in the city administration and a sub-committee on housing issues being established by the Council indicate a commitment to institutionalize and implement these objectives.

¹⁰ Five advisory centres are established. Eight schools, 38 homeowners' associations and 20 individual homeowners carried out energy efficiency projects via the Energy Efficiency and Housing Pilot Project. The Project started in 1996 with a World Bank loan (US\$ 10 million) and the assistance of two Netherlands ministries (Ministry of Housing and Urban Development and Ministry of Economics).