

# Chapter V

## INSTITUTIONAL FRAMEWORK

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### Introduction

Transformation of the housing sector from a centralized to a market-oriented system requires specific conditions to be successful. One condition is the existence of well-structured institutions operating efficiently within and between the public and private sectors. If the necessary institutions are not in place, the transformation of the housing sector will slow down, and may even stop. In North American and west European countries the establishment of such institutions has taken a long time. Even in these countries, however, one can find large differences in the structure of these institutions, and in the distribution of responsibilities between them. In all these countries, however, the existence of such institutional structures is seen as vital for the formulation and implementation of housing policy at all levels.

In Lithuania, as in all the countries in transition, establishing adequate institutional systems in the housing sector is of particular importance. There is a lack of experience throughout the public and private sectors on how to establish and operate a well functioning housing sector. Solutions to housing needs require fast identification of problems, bottlenecks and opportunities, as well as a clear definition of the authority and responsibility of the main participants. Satisfactory institutional structures are therefore not an expression of bureaucratic traditions. They can be perceived as an example of a dynamic and forward-looking approach to addressing major social and economic problems and opportunities within the housing sector.

#### A. National institutions

The Constitution defines Lithuania as an independent democratic republic. It defines and limits the power of the State, as this power belongs to the Seimas (Parliament), the President of the Republic, the Government and the courts.

#### *Parliamentary institutions*

According to Parliamentary Statute, the Seimas has a number of committees with responsibility for specific fields of policy.<sup>50</sup> Responsibility for housing is today split between four separate committees (**fig. XI**):

*The Committee on Health, Social Affairs and Labour* has a responsibility to prepare draft laws and legal acts regulating employment, labour relations, social care and the provision of living space, and to provide recommendations related to these draft laws and legal acts to Parliament.

*The Committee of Budget and Finance* and *the Committee of Economics* have no explicit responsibility for housing, but have a fundamental impact on the housing sector, as they are responsible for financing housing programmes.

*The Committee of Public Administrative Reform and Local Authority of Affairs* has an indirect impact on the housing sector due to its important role in structuring and implementing the ongoing administrative reforms in the public sector.

#### *Governmental institutions*

The Government of Lithuania consists of a prime minister and 14 ministers appointed and dismissed by the President, with the approval of the Seimas. The ministerial structure was reorganised in 1998. Before this reorganization the main responsibility for formulating and implementing housing policy lay with the Ministry of Construction and Urban Development. As part of the reorganization of 1998 this Ministry was dissolved and major parts of its housing responsibility were transferred to the new *Ministry of the Environment*. However, defacto responsibility for housing in Lithuania is today distributed among a number of ministries, reflecting the distribution of housing responsibilities between the parliamentary committees (**fig. XI**):

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<sup>50</sup> Responsibility for central housing issues such as privatization and the restitution of the housing stock is placed within the Seimas committee structure.

The Ministry of the Environment:

- Proposes legislation on housing;
- Proposes State strategies and programmes on housing;
- Participates in and adjusts draft legal acts prepared by other ministries, government bodies, county governors, etc., related to housing.

The Ministry of Public Administration Reforms and Local Authorities formulates and regulates State and local authority policy on housing and the provision of municipal services (including specific services to the housing stock).

The Ministry of Finance is responsible for:

- Financial State programme supporting housing;
- Funding municipal housing programmes;
- Obtaining and administering international loans for the housing sector;
- Promoting organizational structures among private owners of multi-family buildings and estates.

The Ministry of Economics is responsible for economic State programmes related to housing.

The present fragmented responsibility for national housing at the political level, and the similar fragmentation at the executive level between various ministries, prevents proposals for a coherent national housing policy. The lack of such an overall policy also leads to uncoordinated and therefore probably inefficient use of available policy tools within the legal, financial and economic fields. Moreover, the organizational structure with specific responsibilities for housing in the new Ministry of the Environment, which is

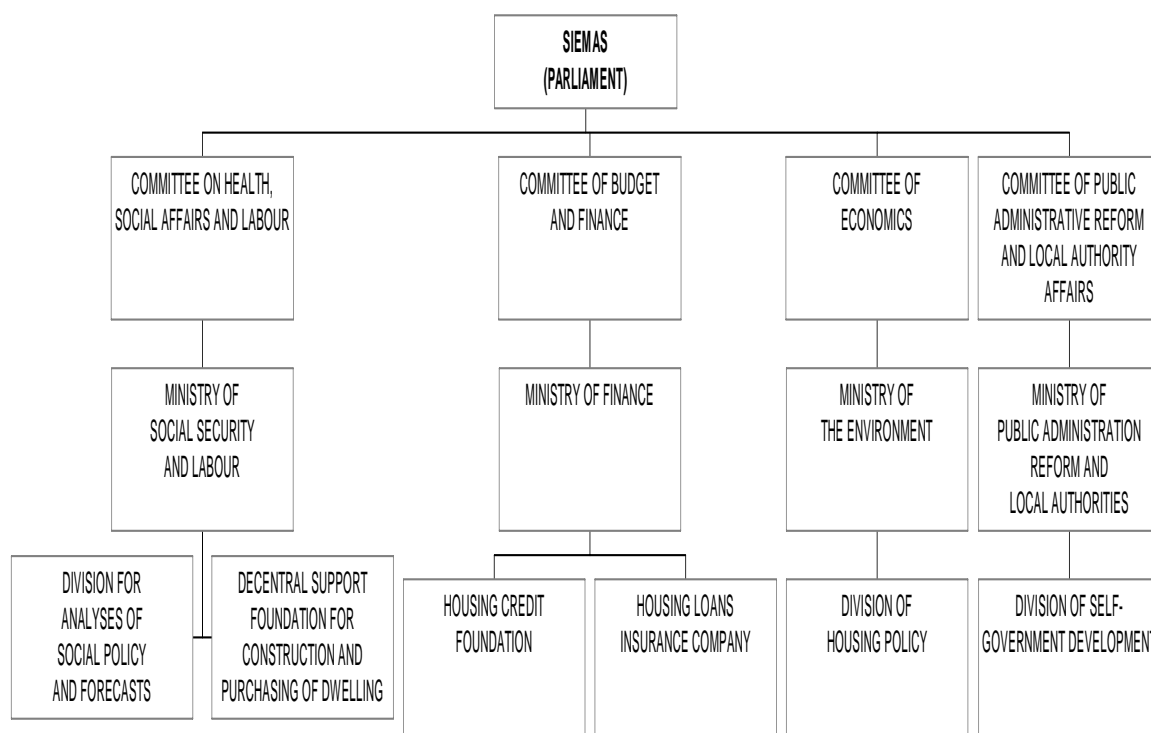
the Government's centre for housing policy, has a limited capacity. The Housing Policy Division within the Ministry has a staff of four professionals.

## **B. Regional institutions**

The local authority reform of 1994 divided the country into 10 counties. This is the highest territorial administrative unit. A county is not an independent, self-governed unit. The administration of counties is organized by the Government according to the Law on the Territorial Administrative Units of the Republic of Lithuania and Their Boundaries (1999) and other relevant laws. The major role of the county administration is to act as an executive, coordinating branch of the Government in the implementation of State policies. The Government appoints county governors. Their tasks, defined in article 5 of the Law on the Territorial Administrative Units, are:

- To implement State policies and programmes;
- To coordinate the activities of government institutions at county level;
- To coordinate local authorities in their implementation of regional programmes;
- To propose county development plans, strategies and programmes.

The county governor has, according to article 8 of the Law, considerable responsibility and powers with respect to land-use planning, urban development and special programmes, such as housing, at the county level. He or she has specific responsibilities for the organization and participation in the development of general and special planning documents for the county, as well as for the provision of recommendations for the preparation of general and special national plans and programmes.

**Figure XI: Governmental institutional structures responsible for housing at the national level**

The Government's administrative system at county level therefore does not replicate the fragmented responsibility for housing issues that characterizes the national institutional structure. Although housing is not specifically mentioned as a responsibility of the county governor, his and her general responsibility for proposing and implementing State policy and programmes clearly also covers housing. The county governor's would therefore be a suitable and powerful State function to encourage and coordinate local authorities in drafting local housing programmes. Such local programmes could, by screening and coordination at county level, form a solid base for the drafting of national housing programmes.

### C. Municipal institutional structures

The Law on Local Self-Government (1994) states that municipalities are entitled to carry out activities and initiatives, and take decisions permitted under the Constitution and other laws and regulations. Problems considered important to the municipal constituency and which do not fall within the competence of State institutions are also the responsibility of the municipality. Articles 4, 5, 6, 10 and 12 of the Law on Local Self-Government define the institutional structure of a local authority as follows:

*Elected representative institutions:*

- The Municipal Council
- Committees, commissions and other appropriate bodies.

*Executive institutions:*

- The Mayor
- The Executive Board (not compulsory)
- The administration
- Chief executives of districts ("Seniunijos")

The Law grants specific power and responsibility for housing issues to the Council (art. 15) and the Board (art. 18).

The Council:

- Forms committees and approves their recommendations;
- Establishes prices and rates for services rendered to residents by municipal enterprises: electricity, central heating, gas and hot and cold water;
- Approves plans and programmes for the development of the municipality.

The Board:

- Executes the decisions of the Council;
- Analyses and prepares proposals for general long-term development programmes covering social, cultural, economic, investment and other areas;
- Organizes the construction and use of residential premises;
- Organizes the renting and sale of municipal housing property according to the law, maintains and supervises lists of inhabitants waiting for State housing support.

The rights of municipalities are therefore extensive. Within these rights there seems to be no significant restrictions on the way local authorities handle the housing sector. First, the law obliges municipalities to define and act on problem areas of importance to their residents (e.g. housing). Second, municipalities can independently decide on the structural way in which they address housing politically (committee structure), and choose the administrative instruments (administrative structure). Third, municipalities are free to cooperate with the private and non-governmental sectors.

Two significant operational factors, however, limit municipalities' freedom to act in the housing sector -- the setting of rental fees for housing and the privatization of the housing stock. Both are today decided at State level -- rent levels are determined by governmental decree, and privatization policy is decided by Parliament. The setting of fees for rental housing has important social and economic consequences for tenants, the municipality and the State. The ability to exercise some flexibility is, however, considered to be an important part of efficient municipal housing policy. Although privatization of housing in Lithuania must be considered, in practical terms, to be completed, the privatization law is still in force. In theory the remaining municipally owned rental housing could still be privatized, provided that the application is submitted before the deadline. Such privatization would have serious consequences for the provision of social rental housing. It can be argued that the privatization of municipal housing stock has gone too far already and has resulted in a

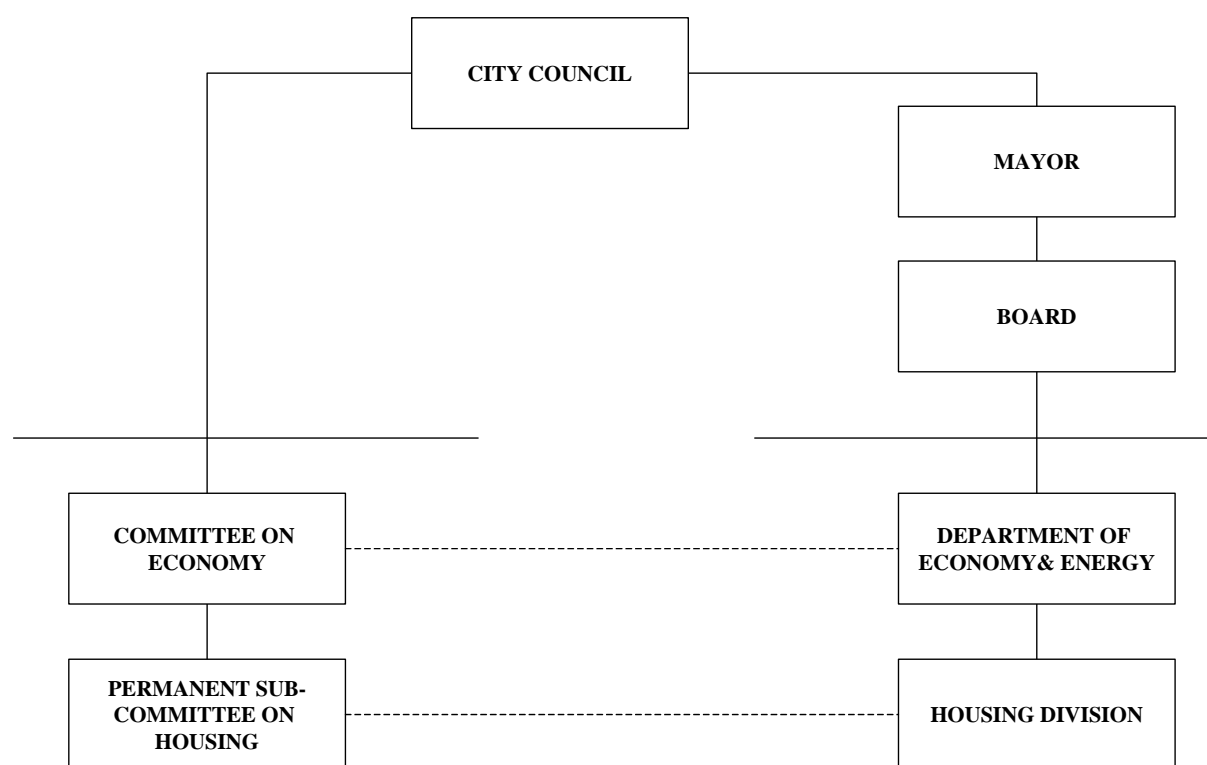
share of public rental housing which is too low to meet the needs. It is therefore considered important to maintain the number of municipally owned housing units and to consider alternatives for its growth.

It should also be noted that the Government is in the process of privatizing State-owned property. A considerable part of this property has been administered and maintained by the municipalities, and in many cases constitutes an important element in their long-term strategy for land-use development. Such properties, currently transferred to the State Property Fund for privatization, might be essential for the strategic economic development and well-being of the municipality. The policy needs to be reviewed.

#### *Municipal political institutions*

Apart from the capital, Vilnius, no Lithuanian municipality today has a permanent committee or sub-committee with specific overall responsibility for housing. Such responsibility is normally distributed among a number of committees. As a consequence of this fragmentation, the Council is ultimately responsible for housing. Yet, as the Council is not presented with an integrated policy approach to the whole field of housing, its ability to effectively carry out its responsibility is very limited. A major bottleneck for the accelerated development of the housing sector is the lack of political priority given to housing at the municipal level. This is reflected in the weak political/ administrative institutions responsible for housing at the municipal level.

Vilnius represents a significant, new and positive trend in upgrading housing issues at the municipal level. In 1998, the city established a permanent sub-committee with overall responsibility for proposing housing programmes for Vilnius and implementing the Council's decisions on such programmes. The City Council, as part of a fundamental revision of housing policy, passed a resolution on a city housing programme. As a basis for the implementation of this programme, the city gradually changed both its political and administrative institutions for housing (see **fig. XII**).

**Figure XII: The city of Vilnius - political and administrative responsibility for housing****POLITICAL***Municipal administrative institutions*

Municipalities do not have specific administrative units with overall responsibility for housing. The exception is the capital, Vilnius. The lack of specific and clear administrative responsibility for housing issues is a fundamental problem. The present administrative structure prevents the development of comprehensive analyses of local housing issues at the municipal level that will facilitate political debate and decision-making related to housing progress.

Larger towns have neighbourhoods or districts (*Seniunijos*) with local administrations, led by a *chief executive*. He/she is appointed by the mayor and is responsible to the Board. The chief

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executive has particular powers and interests in connection with neighbourhood housing issues. A particular feature of municipal housing institutions in Lithuania is the existence of municipal housing maintenance enterprises. Such enterprises are remnants of the former Soviet period. They were specifically established for the maintenance and the repair of the municipal building stock and public areas. Their main functions are: (a) the administration of multi-family houses; (b) the maintenance and repair of housing stock; and (c) the cleaning of public areas and maintenance and repair of public buildings. They function as municipally owned monopolies within municipal districts. In Lithuania's major cities the situation today is presented in **table 26**.

**Table 26: Municipal housing maintenance enterprises in major cities**

City	Number of enterprises
Vilnius	22
Kaunas	3
Klaipeda	12
Siauliai	5
Panevezys	2
Alytus	1

In theory, the housing maintenance enterprises are subordinate to the municipal administration. In practice, they report to the Department of Economy and Energy. Often the chief executive of the district has real responsibility and power to direct their operations. *The present combination of privately owned housing and Soviet-type monopolistic institutions is considered to be a major problem for the establishment of housing management institutions both within municipalities and within the private and non-governmental sectors.* In particular, these enterprises restrict institution-building in privatized multi-flat housing and prevent the emergence of private-sector services. Currently the housing maintenance enterprises are subject to restructuring and privatization. Vilnius, for example, is preparing privatization and restructuring plans as part of its housing programme. Klaipeda is also working on privatization options, while Alytus privatized its largest housing maintenance enterprise as early as 1994.

#### D. Private-sector institutions

##### *The construction and building industry*

The construction and building industry has undergone major changes as a consequence of the Government's programme of "voucher privatization". State-owned construction

companies, numbering 474 and employing 113,000 people at the end of December 1991, were reduced to 40, employing some 6,000 people in 1998 (**table 27**). In 1998, 98 per cent of the construction companies were private. These privately owned entities accounted for 94 per cent of the value of construction contracts, and employed 95 per cent of construction sector employees in that year. It has to be mentioned that many construction companies had contracts outside the country, particularly in the period of Russian army relocation in 1993-1995. For example, those contracts were 18 per cent of within-country volume in 1995, but foreign construction dropped constantly, coinciding with financial crises in the region, to 3 per cent in 1998. Even then, 80 per cent of those construction works were carried out in the Russian Federation.

At first the average number of employees in private construction companies increased to meet demand for foreign construction and fill niches in the domestic market. Then it (**table 27**) decreased, indicating productivity and efficiency efforts. The public construction companies are bigger on average, but they too are undergoing downsizing. Overall, Lithuania has a private construction sector able to function in a competitive manner in the face of the major challenges presented by the maintenance and repair of existing housing, as well as new housing construction.

**Table 27. Construction companies, 1991-1998**

	1991	1992	1993	1994	1995	1996 a/	1997 a/	1998
Number of enterprises, as of 31 December								
Total	1286	1074	1259	1628	1879	1982	2031	2136
State-owned construction companies	474	313	189	133	42	52	40	40
Share (per cent)	36.9	29.1	15.0	8.2	2.2	2.6	2.0	1.9
Privately owned construction companies	812	761	1070	1495	1837	1930	1991	2096
Share (per cent)	63.1	70.9	85.0	91.8	97.8	97.4	98.0	98.1
Average annual number of employees, thousand								
Total	174.4	169.4	126.8	110.9	114.7	119.1	118.7	118.2
State-owned construction companies	161.8	98.1	39.1	17.3	10.2	11.8	9.8	5.7
Share (per cent)	92.8	57.9	30.8	15.6	8.9	9.9	8.3	4.8
Privately owned construction companies	12.6	71.3	87.7	93.6	104.5	107.3	108.9	112.5
Share (per cent)	7.2	42.1	69.2	84.4	91.1	90.1	91.7	95.2
Volume of work done on the territory of Lithuania (current prices), mil. <sup>b/</sup>								
Total	3621	27497	809	1502	1866	2023	2619	3389
State-owned construction companies	3470	17298	248	251	181.7	242.3	153.8	212.4
Share (per cent)	95.8	62.9	30.7	16.7	9.7	12.0	5.9	6.3
Privately owned construction companies	151	10199	561	1251	1684	1781	2465	3177
Share (per cent)	4.2	37.1	69.3	83.3	90.3	88.0	94.1	93.7
Ratios:								
Number of employees in private firms	15.5	93.7	82.0	62.6	56.9	55.6	54.7	53.7
Number of employees in State firms	341.4	313.4	206.9	130.1	242.9	226.9	245.0	142.5

**Source:** Department of Statistics, Statistical Yearbooks of Lithuania 1997 and 1999.

a/ In 1997 enterprises are distributed into sectors by share of authorized capital that belongs to the State (up to 51%).

b/ Prices for 1991 are provided in roubles, for 1992 in talonas and for 1993-1997 in litai. Also in 1991, the average number of employees' figure is an expert estimate.

The data show that the private sector dominates the market. It has enormous potential as it functions in a strenuous financial environment (see **chapters I and III** for interest rates on commercial loans). It is essential that other actors and institutions should also be able to function competitively.

The parallel increase in private-sector construction and building companies has also led to institutional organizations within this sector of the economy. The main professional and organizational structures are listed in **table 28**.

### *The private service sector*

The traditional professions within the building and construction sectors have already established national organizations: the Association of Lithuanian Engineers and the Association of Lithuanian Architects. Within the property transaction and valuation sector there is an emerging professional service, also organized at national level. Two organizations are thought to play a significant role: the Association of Lithuanian Property Surveyors and the Association of Real-estate Companies. Due to the existence of municipal housing maintenance enterprises, private sector management in housing is limited and geographically concentrated in Vilnius, Kaunas, Klaipeda and Alytus.

**Table 28: Private sector interests: major professional and organizational structures**

<b>Organizational structure</b>	<b>Members</b>
Association of Lithuanian Builders (Lietuvos Statybininku Asociacija)	93 <sup>a/</sup>
Association of Building Industry (Statybos Industrijos Asociacija)	37
Association for Sitica materials	7
Association of roofers	50
Association of producers of windows and doors	22
Association of Vilnius construction and repair companies	30
Association of Lithuanian Engineering	..
Association of Lithuanian Architects	..
Association of Lithuanian Property Surveyors	160
Association of Real-estate Companies	17
Association of Medium and Small Real-estate Agencies	18

<sup>a/</sup> Includes most large construction companies.

### *Financial institutions*

The Lithuanian banking sector contains 12 commercial banks organized in the National Association of Lithuanian Banks. In addition, three foreign banks have branches in Lithuania: the Polish Kredyt Bank, the French Société Générale and the German Norddeutsche Landesbank Girozentrale; and another four foreign banks have representative offices in the country. Lithuania also has 33 credit unions, mostly based on commercial and professional interest groups. (see also **chapter III**.)

### *Private owners and tenants*

Both private and public sector tenants do not seem to be represented through national institutional structures. Housing cooperatives have a tradition in Lithuania as one of the alternative tenure forms during the Soviet period. In the post-privatization phase, however, cooperatives were legally required to register as homeowners' associations. It would be worth while considering whether cooperative ownership could re-emerge and gain political support and credibility in the market-oriented housing sector of Lithuania.

The private ownership of multi-flat housing is legally regulated as 'Bendrijos' and can be managed through homeowners' associations. As discussed in **chapters III** and **IV**, establishing such associations is proving difficult. The lack of practical experience with private ownership over the past 50 years, combined with the existence of municipal housing maintenance enterprises, is considered to be a major barrier to the creation of

these important private sector-housing institutions.<sup>51</sup> A growing consensus seems to be emerging on the need to accelerate the institutionalization of homeowners' associations. The problem needs to be addressed by an integrated programme of legal changes, economic incentives, institutional changes and practical assistance and advice.

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<sup>51</sup> The Lithuanian Government, in cooperation with the World Bank, has established a programme for encouraging and assisting homeowners' associations through its pilot project on energy efficiency in the building stock.