

CONCLUSIONS AND RECOMMENDATIONS

1. Political priority for housing

This Country Profile on housing in Bulgaria illustrates the complex problems facing the housing sector in the countries in transition. It also sheds light on this sector's considerable unused potential to accelerate and improve the transition process.

Moving from a centrally-planned economy, where housing was an under-priced, centrally provided commodity, to a market system, where scarcity of resources is reflected through price signals, has resulted in special problems. New structures and processes need to be put in place in order to organize and control the process of decentralized decision-making.

Housing has lost much of its political priority during Bulgaria's transition. Although this political downgrading is understandable in the light of new competing priorities and the complexity of the problems and solutions in this sector, the consequences are serious.

The opportunity to use the housing sector as a tool to accelerate economic and social development is lost without due political regard to the importance and possibilities of housing as an integral part of transition policy.

The expert team holds the view that a carefully structured national housing strategy would release available, unused resources in the Bulgarian economy. The use of these resources would not significantly increase inflationary pressures. On the contrary, they would in the team's view contribute to accelerated economic growth by:

- Increasing economic activity in the building and construction sectors;
- Increasing the employment opportunities in the construction, craft and service sectors;
- Reducing the consumption of resources, particularly energy;
- Removing housing as a bottleneck for expansion, particularly in the urban areas.

It is the team's view that the relevant political priority given to housing through a national housing strategy would be a major step towards satisfying the social expectations of the Bulgarian people.

It is therefore recommended that the Government of Bulgaria reappraise and upgrade the role of the housing sector within the national transition policy. The preparation of a national housing strategy would define this political priority by clarifying central goals and specific strategies and actions.

2. The institutional framework and delegation of responsibility for housing

A reasonable degree of consistency and stability is needed to secure a satisfactory development in the housing sector. This requirement is particularly relevant to the institutional framework responsible for housing, and to the division of responsibility through this framework.

Bulgaria suffers, together with most countries in transition, from two central weaknesses in this respect:

- (i) The Government has, during the transition period, effectively withdrawn from most practical and economic responsibilities for housing;
- (ii) No delegation of authority or creation of institutions has been carried out at lower levels during the

transition. On the contrary, the Government has retained extremely centralised decision making and regulation powers for all major aspects of housing.

One result of this paradox of housing policies is very weak, or non-existent political and administrative structures for the formulation and execution of housing policy at local government level. This weakness of the institutional framework is even felt in the capital, Sofia.

This lack of formal structures and real responsibility for housing at local government level could un-

dermine the further development of housing in Bulgaria. The housing policy freedoms granted to local governments are today reduced to allocating to households on a State regulated waiting list, vacant public housing units, according to State-regulated criteria, and at State-regulated rents.

Although present central government institutions and processes in the housing sector seem adequate for the tasks ahead, the establishment of frameworks, flexibility and responsibility for housing at local government level are essential.

It is therefore recommended that the national housing strategy should build on the principle of shared authority and responsibility for housing between central and local governments. New political and administrative structures are urgently required at local government level to adequately take care of, and exploit, such delegated powers.

3. The legal framework

During the transition period, the Bulgarian Government has given priority to major commercial law reforms based on the need for general economic reform.

Whilst economic issues, restitution and privatization have received adequate legal attention during the transition, this has not been the case for the housing sector. The transition period has not seen any major housing sector legislation enacted, nor have such bills passed Parliament. The lack of political focus on the legal requirements of the housing sector reflect its general lack of political priority.

The existence of a functioning legal framework is a prerequisite for a functioning market-oriented housing sector with a social policy component. Bulgaria does not have such a framework at present.

Certain cornerstones of the legal system must be in place for the housing sector to function:

(i) Constitutional rights of citizens and foreigners to own and inherit property, freedom of contract and the right to privacy;

(ii) Division of authority and responsibility between different government levels (central/local);

(iii) Law on real estate, including a comprehensive system for land registration. This would gradually allow for a relaxation of the present restriction on the sale and purchase of real estate, particularly for local authorities and foreigners;

(iv) Law on rental housing, providing tenant protection, and relaxing rent controls in public sector housing;

(v) Law on condominium ownership (multidwelling housing stock), regulating ownership, management, financing, etc;

(vi) Law on cooperative ownership;

(vii) Law on housing, finance and credits;

(viii) Law on housing subsidies.

At present Bulgaria has only fragments of the above legal structure. Because of the lack of legal tools, the Council of Ministers uses the constitutional

regulations of article 114, which provide for sub-legislative normative acts of the Council, thus substi-

tuting legislation approved by Parliament.

It is therefore recommended that the Bulgarian Government should start preparing for the rapid introduction of the legal instruments required for the housing sector.

4. The economic framework

Key economic indicators illustrate the fact that during the transition period the Bulgarian housing sector has contributed to slowing down the recovery of the economy. Investment in housing as a share of total investment in Bulgaria is considerably lower than in other countries in transition.

A major contributing factor to this decline is the collapse of private-sector investment in housing. In Bulgaria, individual housing construction and private ownership have traditionally been more important than in other countries in transition.

The main cause of a reduction in private-sector investment in housing is the low level of household

income compared to the high level of construction costs and house prices during the transition.

The lack of a functioning system of mortgage loans is making matters worse for private households and other investors in housing. The present level of inflation puts the available system of housing credits beyond the reach of the vast majority of Bulgarian households. This has a direct impact on investment in the construction of new housing.

High inflation and the lack of political priority given to the special economic requirements of the housing sector are, therefore, major factors preventing this sector from contributing to a sustainable process of economic recovery in Bulgaria.

It is therefore recommended that Bulgarian economic policy should incorporate housing as an important contributor to sustained growth. It is further recommended that the present system of mortgage credits should be improved to make it accessible to more Bulgarian households.

Although most indicators on the affordability of housing in Bulgaria have worsened significantly during the transition, average household expenditure on housing does not exceed 10-15 per cent of household income. Although expenditure on food now consumes about 50 per cent of average household income, the expenditure on housing by Bulgarian households is still low compared to western European countries.

In particular the rent levels in public-sector housing constitute only 1-2 per cent of average household income. This extremely low, centrally-controlled rent does not serve any meaningful social objective. By

preventing urgently needed maintenance and repair, it also threatens the future usefulness of some of this housing stock.

The present rent policy in Bulgarian public housing is regarded as a general indirect housing subsidy which is both socially and economically inefficient.

The absence of a clearly defined housing allowance system is probably the single most important factor preventing a more constructive and socially just rental policy in Bulgarian housing.

It is therefore recommended that the present strict regulation on rent in Bulgarian public housing should be relaxed and differentiated. A necessary basis for such change is the parallel introduction of a national housing allowance system.

5. Housing supply and quality of existing housing

Statistical data indicate that the housing supply, measured in dwellings per 1,000 population, is acceptable even by western European standards.

The existing dwelling stock is also new, of reasonably high standard, and with acceptable amenities. The statistical information does, however, tend to cover up the large and rapidly increasing need for major repair and renovation in even the most modern stock. If further deterioration and eventual loss of the

dwelling stock are to be avoided, the highest priority should be given to measures to make investment for repair and renovation available. Such investments can become available only through a combination of rent increases, subsidised public funds (State and local authorities), and acceptable mortgage credit instruments.

Furthermore, it is strongly recommended that modernization programmes should include measures to cut the waste of energy in major parts of the housing stock.

It is therefore recommended that the Government should take the necessary steps and initiatives to create investment possibilities for the repair and renovation of the existing dwelling stock.

Especially energy-efficiency related investments in large housing estates, including an improvement of the district heating system itself and a new design for small and medium-scale co-generation units, may be the strategic variable which can leverage additional investments in related fields.

A critical factor for new housing construction and prices of new dwellings is the public availability of land for housing purposes. Available data indicate that even the capital city Sofia has an extremely lim-

ited amount of land available for new dwellings. This factor can become a decisive bottleneck, slowing down new construction.

It is therefore recommended that, as part of the national housing strategy, the Government should encourage local authorities to increase their land reserves designated for new housing development.

6. Homelessness and social need for housing

The need for social dwellings has undoubtedly increased markedly during the transition period. At present about 88 per cent of the population has a registered income below the calculated Minimum Social Standard, and about 67 per cent has a registered income below the Minimum Living Standard. This dramatic reduction in living standards coincides with the collapse in the construction of new public-sector dwellings.

Local authorities are legally obliged to maintain and update waiting - lists for public-sector dwellings according to specific government-regulated criteria.

The Government considerably tightened the eligibility criteria for public social housing in 1994. As a result, the officially accepted number of people on the waiting-list for social housing plummeted. This reduction contradicted the development of living standards during the same period.

The present policy of not explicitly recognizing the existence of homelessness and the unsatisfactory official registration of the need for social housing run

contrary to the acceptance that a dwelling is an important component of the quality of life.

It is therefore recommended that the Government should give priority to assessing homelessness and the need for social housing more accurately. There is also an urgent need to clarify policies on these problems and to develop practical tools to resolve them.

7. The country profile graph- Summary presentation

The figure below shows the country profile graph on housing for Bulgaria as of 1995/96.

It should be underlined that the graph is the considered subjective summary of the expert team's view at the conclusion of this study. It presents the overall

state of the housing sector in Bulgaria, and the range of challenges ahead.

Apart from the existing supply and quality of dwellings, these challenges need urgent consideration and action. It is the view of the expert team that such action will prove beneficial to, and accelerate, the process of transition in Bulgaria.