

CONCLUSIONS AND RECOMMENDATIONS

Introduction

Since the independence of the Republic of Moldova in August 1991 much progress has been made in addressing housing problems. The economy has been relaunched and the new Government is beginning to tackle problems with determination. The institutional and legal reforms applied helped bring the framework for a rational housing market within reach. There is a powerful tradition of self-help construction, which provides a solution to many households' individual problems, and energy savings can be used to tackle maintenance backlogs.

However, the Republic of Moldova faces a housing crisis. Since independence, virtually all housing has been privatized, new housing construction has slumped and housing maintenance has become minimal and haphazard. The benefits of a free housing market are at present available only to the exceptionally wealthy, and there is no social housing safety net to speak of. The housing sector has no financial resources.

Yet priority has so far been given to other sectors. Dominating the national agenda is the need to maintain energy imports with an economy that has slipped into last place in the European league table. At household level, paying utility bills is a constant struggle when the average family income is only \$33 per month.

However, there are many hopeful signs that housing problems in the Republic of Moldova can be overcome.

A stable and productive economy is the Government's key objective, and a healthy housing market is essential for reaching that objective:

- Managing domestic energy consumption is crucial and that can only be achieved in conjunction with improvements to the fabric and the management of individual houses.
- The well-being of a community and its productivity are closely tied to its housing conditions.
- Personal investment in housing has a significant multiplier effect on the economy.

The question is how can a sharp improvement in housing conditions be achieved from this relatively low base position?

The body of this report is organized around the conventional UNECE profile structure consisting of five elements, each one analysed by an independent international expert:

1. The framework for the housing transition;
2. The existing housing stock and new housing construction;
3. The institutional framework;
4. The legal framework;
5. The financial framework.

However, housing is a highly integrated business. For example, the problems of housing maintenance can be resolved only when certain financial and legal constraints are removed. The housing market will flourish only with a subtle mix of policy, institutional, legal and financial measures. So in this introductory chapter the recommendations are summarized and repackaged to demonstrate how they address four key housing issues in the Republic of Moldova, which are:

1. Housing policy: local implementation strategies underpinned by a determined and clear national enabling policy are essential to achieve decent housing in the Republic of Moldova.
2. The existing housing stock: how can the current decline be halted and housing regenerated to provide decent homes in the long term?
3. The housing market: how can the emerging market be developed into a vibrant sector which satisfies housing demand and contributes significantly to economic growth?

4. Social housing: there is an emerging need to develop a social housing safety net for those who have difficulties in finding a home in the free market on their own, irrespective of housing tenure, and including rural communities.

The final section of this chapter identifies priorities for initial action from among all the report's recommendations in the light of the country's wider economic preoccupations.

A. Framework for policy development and implementation

The Republic of Moldova has a well thought-out housing and real-estate market strategy adopted in 1998, but has been remiss in implementing it. Whilst economic realities have certainly inhibited progress, housing has failed to achieve the profile it requires either at national or at local level. At the same time, however, the Government has very properly embraced the “enabling approach” and succeeded in carrying through a programme of legislative reform. Yet at local level much more must be done to promote the enthusiastic implementation strategies needed for any effective improvement. In particular, local authorities need financial and technical resources to meet the challenges of housing policy and provision.

Two other important gaps in public housing policy have been identified. Firstly, housing policies require a sound, up-to-date platform of data if they are to be focused effectively and achieve real improvements in housing conditions. Whilst much information is available, there is a lack of consistency and a limited mechanism for updating it.

Secondly, although some survey work has been undertaken to assess household views about housing, consumerism is a relatively weak strand in Moldovan housing policy. Clearly if we are to create long-term sustainable housing, we need to make sure that the people who will live there have a central role in policy deliberations.

To achieve all of these things and bring about improved housing conditions in the Republic of Moldova, it is essential that housing be given a more prominent position on the political agenda and in parliament. A stronger Housing Division is essential if these recommendations are to be effectively implemented.

Recommendations

1. *Set up a national housing agency with the key role of translating government housing policy into action. Its main functions are set out in the box below.*
2. *Raise the profile of housing within the Government by:*
 - (i) *Strengthening the Housing Division within the Ministry of Environment, Construction and Territorial Development;*
 - (ii) *Establishing a governmental advisory board of representatives of major housing stakeholders to make recommendations to the Government and parliament on housing issues;*
 - (iii) *Preparing proposals for helping local authorities develop their strategic housing roles;*
 - (iv) *Preparing proposals for establishing mechanisms for incorporating residents' views into national and local housing strategies.*
3. *A sound housing data platform should be built up by:*
 - (i) *Defining a realistic standard for “adequate” housing, which will cover space, amenity, construction and repair, management, energy efficiency and affordability;*
 - (ii) *Undertaking sample surveys to help in the development of housing policies, in particular the need for repair and improvement to the housing stock, and the need for a housing safety net.*

Functions of a national housing agency

Research and information

- *Data collection, analysis and research into Moldovan housing conditions*
- *Establishing dialogue on housing issues with leading academic institutions, housing stakeholders and residents*
- *Make findings on Moldovan housing conditions and real-estate markets widely available*

Promotion, advice and education

- *Assist local authorities in developing housing strategies*
- *Disseminate good practice advice to housing agencies*
- *Promote the establishment of professional institutions in housing-related activities such as valuation, surveying, housing management, etc.*
- *Support further education courses in housing-related disciplines*
- *Advise the Government on housing issues*

Implementation

- *Develop action plans for implementing government policies, such as:*
 - *Strengthening the role of private homeowners' associations (PHOAs)*
 - *Privatizing municipal maintenance companies*
 - *Establishing a social housing safety net*
- *Establish and support pilot programmes for innovative activities, such as:*
 - *Homesteading*
 - *Savings programmes*
 - *Infrastructure financing mechanisms*

B. Dealing with the existing housing stock

The condition of Moldova's existing housing stock is the single most crucial housing problem facing the Republic.

In the cities and towns, 225,000 out of about 263,000 apartments were privatized between 1993 and 1999. Although of relatively modern construction (1960-1980), of reasonable space standard (an average of 57m² per apartment) and with modern amenities, little consideration was given to ongoing maintenance and repair at the time of privatization.

As a result, apartment blocks are deteriorating rapidly. One scenario envisages that every year 10% of this stock will be in need of major repair and require evacuation of all its residents.

Although new housing completions have fallen to an all-time low of 2900 homes a year, many of these are built without basic service infrastructure (sewerage, water, gas). A further 300 blocks of apartments which were under construction at the time of the Soviet collapse in 1990 are still unfinished.

In rural areas, only 1% of homes have running water and 1% have mains sewerage. Many homes are affected by the risk of earthquake or landslide.

The maintenance of their apartment buildings became the responsibility of individual residents on privatization. With average incomes of 407 lei per month in August 2000, and soaring energy bills, many households simply cannot afford to maintain their apartments, let alone carry out major repairs or improvements.

Until the Law on Housing Condominiums was enacted in 2000, there was some confusion about responsibility for managing and maintaining apartment blocks (condominiums). Municipal maintenance companies have been reluctant to relinquish responsibility to private homeowners' associations (PHOAs). PHOAs have found it difficult to become established, to some extent because they are required to take on the burden of debt owed to the supply companies. They are therefore as yet few in number and, perhaps unjustly, regarded by some as being unpopular and ineffective.

Standardized service charges for maintenance are in force in the municipalities. In Chisinau these currently stand at 0.19 lei per square metre per month and are quite inadequate to pay for even a basic repair service.

The construction industry has declined to less than half of its 1990 capacity measured in terms of skills, capital equipment and financial capacity. Major contracts are often granted to foreign companies, and many Moldovans (up to 12% of the workforce) work abroad. The renaissance of small, private building firms has failed partly on account of the low level of investment in repairs and maintenance, and partly on account of the tight grip that municipal maintenance companies have maintained on housing repair contracts. Skilled and experienced building consultants (especially engineers) are in short supply.

And yet it is well known that investment in housing has a significant positive effect on the economy. When housing completions were running at 24,000 in 1990, some 172,000 people were employed in the building industry. Similar numbers would have been employed in the related supply and design industries, and together the wealth that their wages represented would have supported many other jobs in the Republic of Moldova. Similarly, tackling the backlog of housing repair would create a significant number of jobs, which would have a knock-on effect on the wider economy.

An upswing in the market for existing apartments and houses would undoubtedly improve the housing supply and investment into housing and make a consequent positive contribution to national economic performance. There will, however, be some polarization between more popular condominiums (improving conditions, stable/rising values) and less popular ones. Turnover is currently around half the European average, suggesting that there is pent-up demand for housing, which will be released if market conditions improve.

Recommendations

4. *The operation of private homeowners' associations (PHOAs) should be strengthened in a number of ways:*
 - (i) *Each apartment block (condominium) should have its own separate PHOA, maintaining separate accounts for that condominium and reporting periodically to all residents. Groups or consortia of PHOAs sharing administrative arrangements are acceptable;*
 - (ii) *The Government and local authorities should be proactive in facilitating the effective operation of PHOAs as provided for in legislation. For example, more equitable ways are needed to deal with the debt burden. At the same time, a mechanism for regulating PHOA business activity should be considered;*
 - (iii) *Government should continue to provide financial support for developing the National Union of PHOAs. In particular, principles of best practice should be established, together with a vigorous programme of education and promotion, and access to professional technical advice.*

5. *Day-to-day management and maintenance operations should be put on an economic footing by:*
 - (i) *Ending the arrangements whereby rent and service charges are set by law;*
 - (ii) *Requiring every PHOA to set an annual budget and develop a long-term business plan;*
 - (iii) *Establishing forms of competitive tendering for maintenance contracts as good practice.*
6. *Further legal powers and processes should be developed to underpin the effective management of the housing stock:*
 - (i) *More effective legal arrangements for the collection of service-charge debt should be developed, e.g. distraint, service terminations, possession;*
 - (ii) *Local authorities should be given powers to deal with unsafe and unsanitary housing. For example, to serve notices requiring property owners to undertake specified work; to carry out such work directly (at owner's cost) if notices are not complied with.*
7. *Long-term programmes of major repairs, improvements and thermal-efficiency measures should be stimulated by:*
 - (i) *Undertaking costed surveys of work required to bring each condominium up to an "adequate" standard;*
 - (ii) *Introducing new forms of loan financing for PHOAs.*
8. *The Government should take steps to ensure that the construction industry gears up skills and capacity to deliver increasing investment in housing renovation work by:*
 - (i) *Encouraging the establishment of training programmes for building workers, tradesmen, consultants and entrepreneurs among the relevant trade bodies;*
 - (ii) *Require municipal maintenance companies to be privatized over a period of time, ensuring adequate arrangements are made for the protection and training of existing personnel;*
 - (iii) *Encouraging the leasing of construction equipment to help improve the efficiency and competitiveness of construction companies.*

C. Stimulating the housing market: institutional, legal and financial mechanisms

With 88% of housing owned by private individuals, Moldova is committed to using market mechanisms to provide decent homes for its people. Financial, institutional and legal reforms over the past 10 years have been geared to making this possible. One particular success has been the establishment of a national cadastre for the registration of all property ownership and transactions.

Up to 1997, a steady market for new and existing housing had been established with prices rising to around \$300/m². With the 1998 financial crisis, prices fell back to around \$125/m² in Chisinau at the end of 2000. Around 17,000 housing transactions were recorded in the national cadastre in 2000, a disconcertingly low level for a stock of 2.1 million homes.

The main problem is affordability. At present only 1-2% of households can afford a new home. Purchases are nearly always for cash. Such housing loans that exist are short-term, usually for up to three years. Interest rates are excessive, typically 30% a year.

The key to resolving this problem is the development of practical financial measures underpinned by policy, legislation and regulation to gradually improve confidence in the housing market.

Recommendations

9. *Personal saving* should be encouraged, and made more effective through the development of:
 - (i) Governmental savings programmes with longer maturities;
 - (ii) Housing-related securities, such as housing certificates;
 - (iii) Mutual savings institutions.
10. Expand the volume of *commercial mortgage lending* through:
 - (i) Improvements to the relevant banking regulations and standards;
 - (ii) The introduction of dedicated mortgage legislation, including the rights of mortgagees to obtain possession in the event of default, and mortgage ranking;
 - (iii) The development of insurance for title and mortgage protection;
 - (iv) The development of fuller information systems on real-estate markets, valuations, and individual credit histories;
 - (v) Widening the variety of available mortgage instruments, e.g. bridging loans, and loans for the reconstruction of existing housing;
 - (vi) Considering government support by means of down-payment subsidies and income-tax benefits;
 - (vii) Education programmes for inexperienced borrowers, both individual and corporate.
11. Make the housing sector more attractive to *institutional investors*, such as private insurance companies, pension funds, investment companies and credit unions, by:
 - (i) Developing a system of credit-rating services in cooperation with international rating agencies;
 - (ii) Introducing a wider variety of housing investment instruments;
 - (iii) Developing private pension fund legislation;
 - (iv) Reviewing the regulation and taxation of funds used for housing investment.
12. Undertake reforms of the municipal finance system, particularly housing finance, by:
 - (i) Developing debt finance and other financing mechanisms for housing programmes, especially infrastructure projects;
 - (ii) Introducing a municipal credit-rating system;
 - (iii) Reviewing the tariff policy for the management and maintenance of apartments;
 - (iv) Considering relaxing some central financial controls, for example allowing local authorities to retain the proceeds of the sale of land;
 - (v) Giving local authorities tax raising powers, and transferring appropriate shares of State revenues to them for executing delegated tasks.

There are a number of significant development issues that must also be solved if the housing market is to grow effectively. Firstly, the Government must ensure a steady supply of land suitable for housebuilding. Local authorities are the principal supplier of such land, and historically there has been a glut, in which prime sites have been given away, followed by a dearth as a result of the Government clawing back proceeds and of difficulties in financing infrastructure development.

Secondly, suitable arrangements must be made to ensure development is sustainable. Proper infrastructure provision should be made for the supply of clean water, sewerage and so on, as well as for ensuring protection against environmentally unsound development disasters. Whilst there is a highly refined system of urban development planning and control, there are significant weaknesses in its application, particularly in rural areas and to the construction of one- or two-storey houses.

A third significant problem is the completion of 300 unfinished apartment blocks abandoned in mid-construction on the collapse of the Soviet regime. The Government has made significant efforts to stimulate their completion, and this should be continued.

Recommendations

13. *Ensure that there is an adequate supply of land available for new housebuilding by:*
- (i) *Continuing with legislative and fiscal reforms which introduce up-to-date land-valuation and land-taxation methodologies;*
 - (ii) *Providing support for the creation of a private-sector valuation service which meets international professional standards;*
 - (iii) *Expanding land auctions, including making information about prices available;*
 - (iv) *Incentivizing local authorities to dispose of land for housebuilding within their approved urban development plans, including publishing an inventory of public assets;*
 - (v) *Reviewing the basis on which leasehold disposals take place so as to facilitate the use of leasehold land as collateral for loan finance.*
14. *Stimulate sustainable new housebuilding activity by:*
- (i) *Amending legislation in order to prohibit the development of unserviced land, and making landowners responsible for the cost of service provision;*
 - (ii) *Monitoring the provision of service infrastructure for housing developments, and creating a framework of service tariffs as a basis for infrastructure development finance;*
 - (iii) *Strengthening the building control service to encompass all forms of housing, including one- and two-storey developments;*
 - (iv) *Mobilizing construction finance for developers by undertaking a review of existing arrangements and developing new forms of financing;*
 - (v) *Continuing to incentivize the completion of unfinished, publicly owned apartment blocks.*

It is estimated that some 10% of households are tenants of private landlords in the Chisinau municipality. Tenancies are not governed by legislation, and rental income is largely within the black economy. In most European economies, private renting is a significant and satisfactory way of providing accommodation in towns and cities, giving individual households a genuine choice.

This sector is clearly developing of its own accord in Moldova's free market economy, and this should be encouraged. However, it is essential that the sector be regulated effectively so as to benefit both tenants and landlord, and prevent abuse.

Recommendation

15. *Create a profitable and orderly private rented sector, which will contribute to the achievement of national housing objectives, through:*
- (i) *Enacting legislation which will properly codify the rights and responsibilities of tenants and landlords;*
 - (ii) *Developing mechanisms for both promoting and regulating a private rented sector;*
 - (iii) *Ensuring existing and proposed financing mechanisms are available to individual and institutional landlords, and if appropriate developing specific funding mechanisms for this sector.*

D. Creating a social housing safety net

Although the right to housing is proclaimed in Moldova's constitution as a basic right of all citizens, there are no comprehensive legal, financial or policy measures in place to give effect to this right.

There are, however, a number of benefits available to certain classes of individuals, recently reduced to just nine categories, and some subsidies for finishing uncompleted constructions remain.

However, the system of uneconomic rents and the non-payment of service charges by a significant minority of households and State organizations introduce hidden and unfair subsidies, which it will be difficult to eradicate.

Further review and targeting of subsidy systems is needed.

We can anticipate that, in the short and medium term, housing conditions in Moldova may deteriorate particularly for the poorest people, living in the worst apartment blocks. Homelessness may become a problem in municipalities as:

- The worst apartment blocks become degraded and uninhabitable;
- Rent and service charges rise to economic or market levels whilst there is no accompanying housing allowance system;
- Courts begin to repossess homes and evict residents for serious non-payment.

The State, therefore, should consider creating a social housing safety net for households unable to solve their own housing problems through the normal housing market. A social housing safety net should be available to all, and be based on an impartial assessment of needs.

The principles of a social housing safety net should include:

- All benefits to be means-tested, using a standardized system throughout the country;
- Benefits to be available to households irrespective of tenure;
- A clear order of priorities, e.g. actually homeless, living in unsafe, unsanitary or overcrowded conditions;
- Priority to be given to the most vulnerable households;
- Benefits to be made available directly to households, as opposed to subsidies for building works.

A social housing safety net could take a number of forms, including:

- Housing benefits to pay for rents and service charges;
- Grants, loans, guarantees or equity share loans for essential repairs and improvements;
- Relocation allowances;
- The provision of rented accommodation by local authorities or not-for-profit companies, especially for emergency use;
- A home-repurchasing scheme;
- Support for self-help schemes, such as homesteading and cooperatives.

Clearly the extent of a social housing safety net will depend on the resources available. Given the present condition of the Moldovan economy they are likely to remain limited. Nevertheless, the pressure may well grow for at least the provision of emergency accommodation as a result of the further degradation of apartment blocks or environmental disasters. Some resources, however, may become available through the continuing reform of existing, less well-targeted subsidies.

Much of the concern has focused on housing in urban areas, especially the multi-storey apartment blocks where the population density and technical building problems are critical. However, over half of Moldovans (53%) live in rural areas, in compactly built villages. While housing itself does not appear to be a problem, there are real problems associated with poverty and the lack of utilities infrastructure. If the de-urbanization process continues, rural living conditions may deteriorate further and become unsustainable. Action is needed now to prevent the long-term degradation of the Moldovan countryside.

Recommendations

16. *The constitutional provision of a right to housing should be supported by legal provisions targeted on the socially needy.*
17. *The Government should review the whole system of housing-related support, and take the opportunity to establish mechanisms for providing a social housing safety net. A unified, countrywide system for assessing eligibility for personal housing subsidies should be established.*
18. *The effects of de-urbanization on living conditions in rural areas should be reviewed.*
19. *Consideration should be given to providing rented accommodation to vulnerable people in need, either directly by local authorities or through not-for-profit social landlord companies. Accommodation for relieving emergency situations is a particular priority.*

E. Concluding remarks

The recommendations in this report, if implemented in full, imply a long-term and potentially costly programme of activity. Bringing the housing stock up to an “adequate” standard has not been costed, but is likely to be many millions of dollars. Clearly, such an investment can be contemplated only in conjunction with an improvement in Moldova’s economic situation.

The chief prerequisite for improving housing conditions is to continue the reform of energy consumption patterns. A lot is already being done in this area, including installing meters, reviewing tariffs, improving energy efficiency, modernizing district heating provision and so on. This is one of Moldova’s highest priorities, and progress in this area is essential before the recommendations in this report can be fully implemented.

Nevertheless, there are a number of areas where progress can and should be made on housing matters. Some activities, whilst being relatively inexpensive, are the essential foundations for any subsequent improvement in housing conditions:

1. Strengthening the Housing Division of the Ministry and establishing a governmental advisory board would be one mechanism for engendering a national debate on these recommendations and housing issues more widely;
2. A key contribution could be made to that debate by providing an idea of the cost of these housing reforms, including the macroeconomic effects of housing investment. Work on these aspects should be commissioned quickly;
3. Many of the actions needed to stimulate the housing market are relatively low cost and could be driven through by a strengthened Housing Division. Key among these actions is gaining the support of the banking and financial services community;
4. The recommendations on improving the management of apartment blocks signal a shift in culture. A wide debate is needed before rents and service charges begin to rise, and the municipal maintenance companies are privatized. There are three immediate steps to take:
 - Ensuring that there is a robust legal framework underpinning the role of PHOAs and facilitating the collection of debts;
 - Identifying good practice examples, and beginning an educational programme for PHOAs and residents;
 - Drawing up a strategy for developing political support for these reforms at national, municipal and individual levels.
5. On a pilot basis, working with one municipality and a commercial bank to bring forward proposals for disposing of land and installing service infrastructure in advance of housebuilding. Waivers on existing financial regulations may be needed, as well as a government guarantee for commercial loans. However, the objective is to make the scheme self-financing with shared risk in a way which is replicable elsewhere;
6. Halting the practice of giving government interest-rate subsidies for construction loans, and considering how these monies may be used more effectively.

A transition from one system to another is never easy, often controversial. Nevertheless, these recommendations can be seen as a continuation of the processes set in train by the Moldovan Government in recent years. By accepting these further recommendations, the Government should be able to bring about a marked improvement in Moldova’s housing conditions.