

Chapter I

FRAMEWORK FOR THE HOUSING SECTOR

This chapter presents the background to housing reform in the Republic of Moldova. The first section provides basic information on the country and its national and local governmental system. It describes the macroeconomic background relevant to the housing sector and the situation of individual households. The second section covers the "history" of the transition since independence in 1991, stressing housing privatization and other reforms. The third section focuses on the institutional requirements for a successful national and local housing policy. The fourth section briefly refers to the new Government's housing sector issues and goals.

A. Background: social and economic transformation

Basic facts about the Republic of Moldova

The Republic of Moldova is situated in South-Eastern Europe, between Romania and Ukraine, in the basin of the Prut and Dniester Rivers. It covers a surface of 33,800 km². It has a population of 4,264,000 and an overall population density of 127 people per km². The urban network comprises 65 cities and municipalities. Chisinau (752,000 inhabitants), the capital and the most important economic centre, is followed by some other big cities such as Tiraspol, Balti and Bender (Tighina), with populations between 133,000 and 186,000 inhabitants.¹

Some 54% of Moldovans live in the country's 1,615 villages. The Republic of Moldova is unique in that its rural population is concentrated in large villages (2,000 – 10,000 inhabitants). As will be seen later, there is a dramatic urban-rural income disparity. In 1977 the total monthly net income of villagers was 64.8% of that earned by city dwellers; in 1998 it was 60.4% and in 1999, 52.1%.² The villagers' poverty is reflected not only in a reduced income but also in a limited access to education and jobs³ and to infrastructure and utilities. Although 76.1% of urban households have access to mains water, only 0.9% of rural households do. There are similar urban-rural disparities in other services, such as sewerage, natural gas networks, central heating and indoor baths or showers⁴ (see chap. II, table 15, for further details).

The Republic of Moldova is prone to different natural disasters such as earthquakes, floods and landslides. It has limited water resources.

Government system

On 27 August 1991 the Republic of Moldova gained independence. The Constitution was approved by referendum and ratified by Parliament on 28 July 1994. According to the Constitution, the Republic of Moldova is an independent and neutral country with Moldovan as its official language. The single-chamber parliament is elected every four years. As head of State, the President appoints the Prime Minister and the Council of Ministers (Government) with the approval of parliament. In 1998/1999 new laws⁵ were enacted to restructure local governments. The former 40 *rayons* were consolidated into

¹ Economist Intelligence Unit, *Country Profile 2000: Moldova* (2000); Ministry of Territorial Development, Construction and Public Utilities, *Republic of Moldova: National Report for the Regional Workshop on the Role of the Private Sector in Housing Supply and Environment-friendly Construction Practices* (Chisinau, 1999), pp. 15 f.; Republic of Moldova and United Nations Development Programme (UNDP), *National Strategy for Sustainable Development*, pp. 58 ff.

² UNDP, *National Human Development Report: Republic of Moldova* (Chisinau, 2000), p. 75.

³ World Bank, *Moldova: Poverty Assessment Technical Papers* (October 1999), p. 12.

⁴ UNDP, *National Human Development Report: Republic of Moldova* (Chisinau, 2000), p. 77.

⁵ Administrative and Territorial Reform Law, Local Public Administration Law and Local Public Finance Law.

Figure I. Map of the Republic of Moldova



10 *judets* (counties) plus the autonomous region of Gagauzia (Gagauz Yeri). In addition, autonomy was granted to 634 local government units – villages, communes (several small villages being governed as a single unit), towns and municipalities. Previously these local government units were subordinated to the *rayons*. The role of the *judets* and the distribution of functions between them and the local authorities is, however, still not clear. This is true, in particular, of the distribution of revenues, for the share to be transferred from the State budget to the local authorities needs further consideration.⁶

Demographic situation

“The demographic situation constitutes an integral indicator of a country's social development, as a reflection of its socio-economic and moral state.”⁷ On 1 January 2000 the population stood at 4,281,500, of whom 1,968,500 (46%) lived in urban areas and 2,313,000 (54%) in rural areas. The population distribution of by gender is 52% women and 48% men. Compared with the previous year, the country's population continues to diminish. Whilst annual population growth between 1960 and 1997 was 0.95%, between 1997 and 2000 it was -0.3%.⁸ The population continues to emigrate.

Table 1. Population (on 1 January)

| | 1990 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|--------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total | | | | | | | | |
| in 1000 | 4361.6 | 4347.9 | 4334.4 | 4320.0 | 4304.7 | 4233.0 | 4281.5 | 4264.3 |
| change in % | - | -0.31 | -0.31 | -0.33 | -0.35 | -0.27 | -0.27 | -0.40 |
| Urban | | | | | | | | |
| 1000 | 2036.4 | 2033.0 | 2004.1 | 1995.3 | 1987.3 | 1975.0 | 1968.5 | 1933.9 |
| change in % | - | -0.17 | -1.42 | -0.44 | -0.40 | -0.62 | -0.33 | -1.76 |
| Rural | | | | | | | | |
| 1000 | 2301.2 | 2314.9 | 2330.3 | 2324.7 | 2317.4 | 2318.0 | 2313.0 | 2330.0 |
| change in % | - | 0.60 | 0.67 | -0.24 | -0.31 | 0.03 | -0.22 | 0.73 |

Source: Ministry of Environment and Territorial Planning.

Gross domestic product (GDP)

Gross domestic product in 2000 was 15,980 million lei (US\$ 1,285 million), showing for the first time since 1993 positive growth of 1.9%. Low inflation over the last quarter of 2000 brought year-end inflation down to 18.4%. Real wages are finally rising but remain extremely low (official wages stand at around 407 lei – US\$ 33). Labour survey data indicate an unemployment rate of approximately 8% of the workforce. There are other positive changes in the GDP structure: gross total added value grew from 84.6% in 1998 to 89% in 1999 and services increased from 42.1% in 1998 to 50.5% in 1999. As for the use of GDP, the trade deficit decreased from 26.8% in 1998 to 9.9% in 1999.⁹

GDP figures have to take into account the contribution of the black economy, which is estimated at half of the official GDP.¹⁰ Some local experts put the figure even higher at about \$300 million per year entering the country from personal income gained abroad. These financial resources have an impact on the development of the real-estate market.

⁶ There is an ongoing United States Agency for International Development (USAID) fiscal reform project on the Local Public Finance Law and the Local Public Administration Law.

⁷ UNDP, *National Human Development Report: Republic of Moldova* (Chisinau, 2000), pp. 116 and 123.

⁸ UNDP, *National Human Development Report: Republic of Moldova* (Chisinau, 2000), p. 117; UNDP, *National Human Development Report: Republic of Moldova* (Chisinau, 1998).

⁹ UNDP, *National Human Development Report: Republic of Moldova* (Chisinau, 2000), pp. 119-120 and 129. Economist Intelligence Unit, *Country Report: Belarus Moldova* (London, February 2001), pp. 4 and 37.

¹⁰ Republic of Moldova and UNDP, *National Strategy for Sustainable Development*, p. 23; National Agency for Housing and Real Estate Services (NAHRES), *Housing Stock Project* (1998), p. 27.

Table 2. Main macroeconomic indicators

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|--|--------|-------|-------|-------|-------|-------|-------|-------|
| Real GDP growth rate, % | -1.2 | -30.9 | -1.4 | -7.8 | 1.6 | -6.5 | -3.4 | 1.9 |
| Nominal GDP (excl. Transnistria) million lei | 1821 | 4337 | 6480 | 7658 | 8917 | 9122 | 12322 | 15980 |
| Nominal GDP, US\$ million | 1214 | 1164 | 1443 | 1665 | 1933 | 1689 | 1171 | 1285 |
| GDP per capita, US\$ | 337 | 322 | 400 | 463 | 538 | 470 | 326 | 358 |
| Annual inflation rate (end period), % | 2706.0 | 104.6 | 23.8 | 15.1 | 11.1 | 18.2 | 43.8 | 18.4 |
| Average inflation rate, % | | 587.0 | 30.2 | 23.5 | 11.8 | 7.7 | 39.3 | 31.2 |
| Direct investments, US\$ million | 1 | 18 | 73 | 23 | 71 | 86 | 34 | 115 |
| Direct investments as % of GDP | 0 | 1.5 | 5.1 | 1.4 | 3.7 | 5.1 | 2.9 | 8.9 |
| End-year exchange rate, lei/US\$ 1 | 3.64 | 4.27 | 4.50 | 4.65 | 4.66 | 8.32 | 11.52 | 12.38 |
| Average exchange rate, lei/US\$ 1 | 1.5 | 4.1 | 4.5 | 4.6 | 4.6 | 5.4 | 10.52 | 12.43 |
| Commercial banks US\$ deposits to overall capital, % | | 19.0 | 22.6 | 20.2 | 19.3 | 44.2 | 50.2 | 48.0 |
| Gross fixed capital formation as % of GDP | | | 16.0 | | 19.9 | 22.1 | | |
| Change in construction materials production, % | | -21.8 | -4.8 | 26.8 | 14.8 | -21.1 | -15.7 | |
| Share of construction sector in GDP, million lei (current prices) | 60.6 | 213.4 | 228.2 | 297.8 | 421.9 | 288.6 | 373.3 | 398.0 |

Source: Center for Strategic Studies and Reforms, *Moldova in Transition* (Chisinau, March 2001); International Monetary Fund, *Republic of Moldova: Recent Economic Developments* (2001).

The population's standard of living and purchasing power

The transition of the Republic of Moldova to a market economy directly affected the social situation of the population. Although there have been some achievements and the financial situation has been stabilized, poverty – in particular in the rural areas – is clearly increasing.¹¹ According to official statistics, in 1999 wages constituted on average 35% of all household income. The figure for urban localities was 57.7%, and for rural localities, 15.3%.

Also according to official data, in 1997 about 79% of the population had an average monthly income per person below 252 lei (100% of subsistence level), 46% had less than 126 lei, 37% less than 101 lei and 25% less than 75 lei.¹² In 1999 per capita monthly income was 272.4 lei for urban dwellers and 141.8 lei for rural dwellers.

According to survey data in *Moldovan Economic Trends*, the average monthly nominal wage between June and August 2000 was approximately 407 lei (\$33), 2% higher in real terms than during the previous year. In 2001 average income is said to be 400 lei. This figure is well below the \$55 which had been reached before the 1998 financial crisis, so wages are still some 20% lower than before the crisis.

When speaking of living standards, one has to take into consideration another 400 to 600 lei of black economy income, particularly for jobs executed abroad. As in other former Soviet Union

¹¹ UNDP, *National Human Development Report: Republic of Moldova* (Chisinau, 1999), p. 38 ff.; NAHRES, *Housing Stock Project* (1998), p. 25 ff; Republic of Moldova and UNDP, *National Strategy for Sustainable Development*, p. 23; World Bank, *Moldova: Poverty Assessment Technical Papers* (October 1999).

¹² NAHRES, *Housing Stock Project* (1998), p. 26.

countries, labour migration has become the quickest and often the riskiest way to earn cash. Migrants travel to the Russian Federation, Ukraine, Belarus, Hungary, Romania (for trade), Greece (for agricultural work, housework and child care), Germany and Israel. In the Russian Federation, the largest single destination, men work in the heavy construction industry or as builders and masons in the private homes of the new rich, in agriculture on field brigades or as drivers and tractor operators. Women have broken into the formerly male domain of seasonal labour migration; and both men and women travel to the Russian Federation, Ukraine, Romania, Greece and Hungary to work in agriculture. Women also travel to Turkey, the Russian Federation and elsewhere to sell their products on the streets. Some 12% of Moldovans over the age of 15 are estimated to be working outside the country.¹³ This workforce of nearly 10% of the population lives either temporarily or permanently abroad. This eases both the financial situation and the pressure on accommodation – as detailed in chapter II.

The structure of household budgets shows that the proportions spent on food and beverages in 1999 were 58.5% in urban localities and 78.8% in rural localities. This constitutes an internationally recognized level of poverty.¹⁴

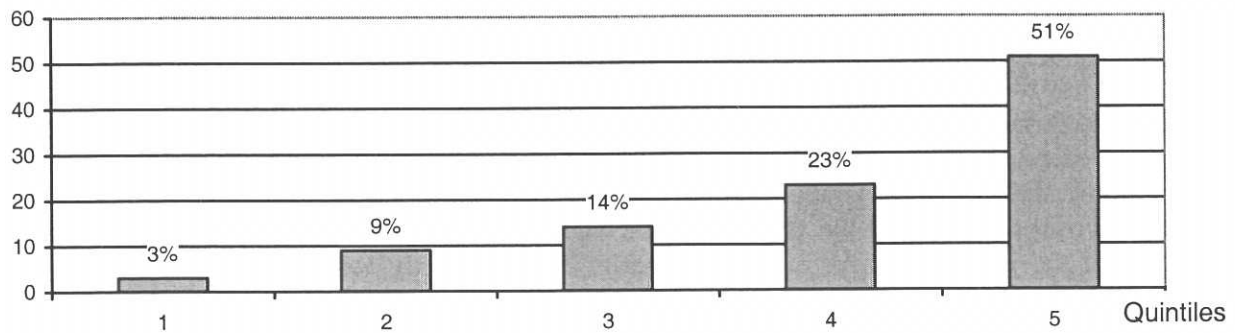
Table 3. Basic components of household income and expenditures, 1997

| | Lei | Share of the total, % |
|--|-----------|--------------------------|
| Total income: | 7,211,600 | 100.0 |
| including: wages | 2,517,100 | 34.9 |
| sale of agricultural produce | 716,100 | 9.9 |
| pensions, scholarships and benefits | 1,541,000 | 21.3 |
| financial system income | 177,300 | 2.5 |
| exchange operation income | 1,356,000 | 18.8 |
| other | 904,100 | 12.5 |
| Total expenditures: | 7,044,100 | 100.0 |
| including: expenditures for purchasing goods | 4,959,400 | 70.4 |
| obligatory payments | 646,600 | 9.1 |
| foreign currency | 1,275,200 | 18.1 |
| deposit increases, security purchases | 159,200 | 2.3 |
| housing purchase | 3,700 | 0.1 |
| Income minus expenditures | 167,500 | 2.3 |

Source: Department of Statistical and Sociological Analysis.

¹³ World Bank, *Moldova: Poverty Assessment Technical Papers* (October 1999); Economist Intelligence Unit, *Country Report: Belarus Moldova* (London, February 2001), p. 37.

¹⁴ The high share of household budgets spent on food is a sign of poverty. Since the early 90s, when food expenditures constituted 34 - 35%, this share has grown and Moldova now falls in the range of countries with insecurity. The quality and nutritional composition of the food have deteriorated considerably. The caloric value of food diminished to 1980 calories per capita in 1998. This is well below the minimum requirement of 2500 calories (UNDP, *National Human Development Report: Republic of Moldova* (Chisinau, 1999)).

Figure II. Distribution of disposable income by quintiles, 1997

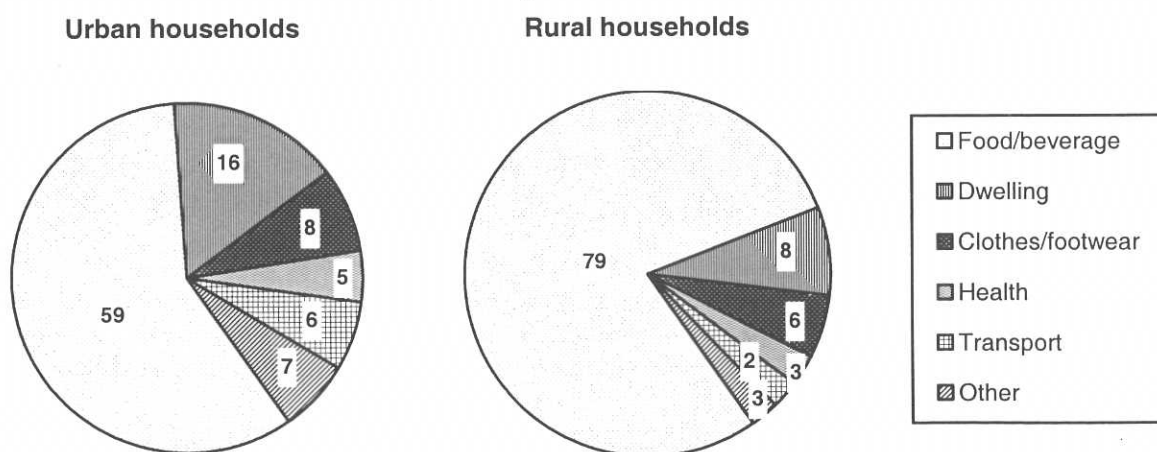
Source: Department of Statistical and Sociological Analysis.

The proportion of income spent on housing was 15.9% for urban localities and 7.9% for rural localities. In 2000 this dropped slightly to 15.5% in big cities and 14% in other cities, because a great number of people are simply not properly housed and many are not able to cover housing cost. In fact, the proportion of expenditure on housing in the family budget depends on the tariffs for housing services and utilities provided.

Clothes and footwear take 7.8% of household budgets in urban localities and 5.6% in rural localities, with 6.4% (urban) and 2.4% (rural) being spent on transport and communication. Once more the difference between urban and rural households is evident.

Income and expenditure figures show a large part of the population unable to solve their housing problems by their own means. According to the “household preferences and affordability” study, in the first quarter of 1998 urban households of the 5th (lowest) income quintile received 19% of their income from the sale or renting of real estate. The fact is that some very low-income households rent out part of their apartment to make ends meet. This again is an indicator of the extreme difference between rich and poor in terms of purchasing power and an indication of how the real-estate market is developing in urban settlements.

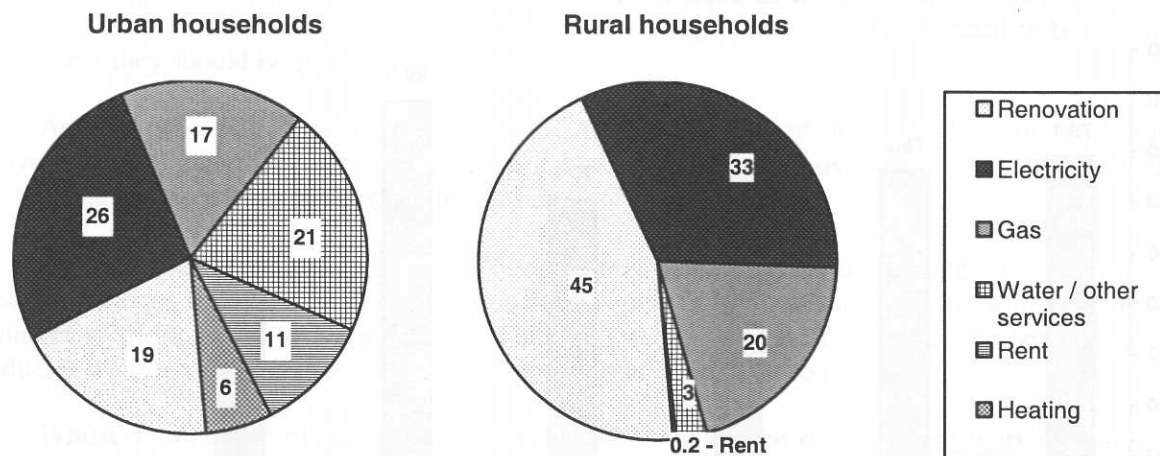
According to the 1997 household budget survey, renovation expenditures represented the largest share (29.3%) of global consumption expenditures per dwelling; it was followed by expenditure on electricity (29.0%), gas (18.5%), water and other public utilities (12.4%) and rent, 6.8%.¹⁵

Figure III. Structure of overall consumption expenditures 1999 (Percentage)

Source: UNDP National Human Development Report, Republic of Moldova 2000.

¹⁵ NAHRES, *Housing Stock Project* (1998), p. 27 f.

Figure IV. Structure of housing expenditures (Percentage)



Source: Department of Statistical and Sociological Analysis.

B. History of transition: changes in the housing sector since 1991

Government withdrawal from the housing sector: from State housing to private housing investment

State housing production was at its peak in the mid-1980s, reaching about 2.1 million m² of new floor space in 1987. By independence in 1991 production of both State and private housing had declined. While annual house starts fell dramatically during the 90s, the drop was greatest in the public sector, down from 6,000 units in 1992 (43% of the total for the year) to 400 in 1996 (10% of the total). In comparison, housing output was 23,600 units in 1990, of which the public sector accounted for 49%.¹⁶ The total housing stock of the Republic of Moldova at 1 January 2000 consisted of some 75 million m² of floor space, roughly 1.3 million units. There are approximately 910,000 separate buildings of different sizes – from detached houses to apartment blocks. Officially, there are no temporary dwellings.

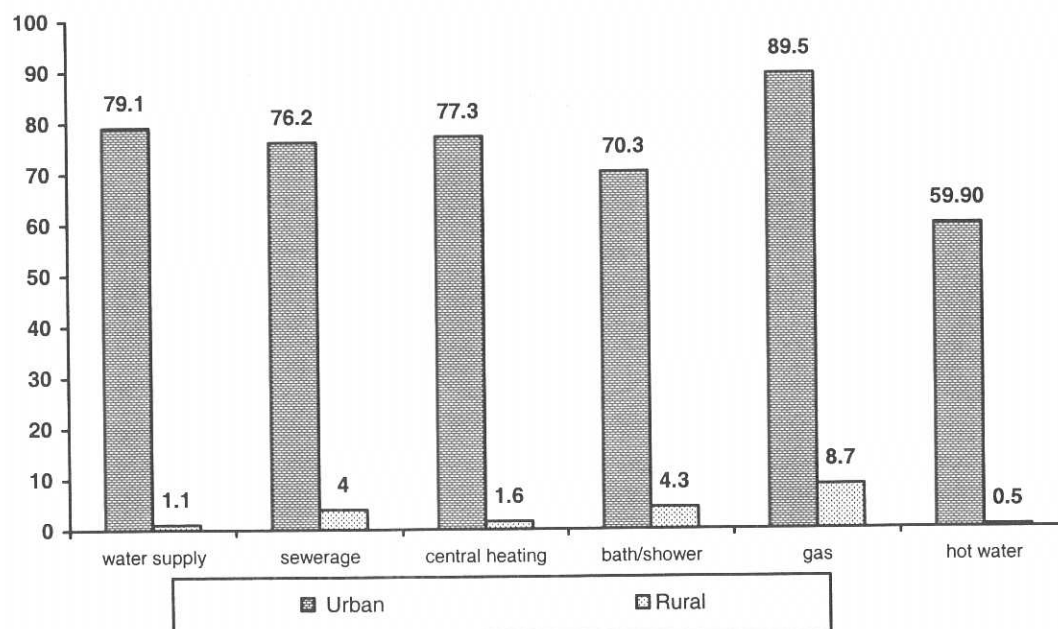
Foreign companies own only 0.02% of the housing stock, the rest is in Moldovan hands. Approximately 88% of the stock is in private ownership, 3% is owned by cooperatives, 9% by public organizations and 1% is in joint ownership (public/private).

In urban areas the level of amenities is very high, but the housing stock in rural areas is poorly equipped.

¹⁶ NAHRES, *Housing Market Study Final Report* (July 1997), p. 4.

Figure V. Housing amenities, 1997

(Percentage of total amount of dwellings)

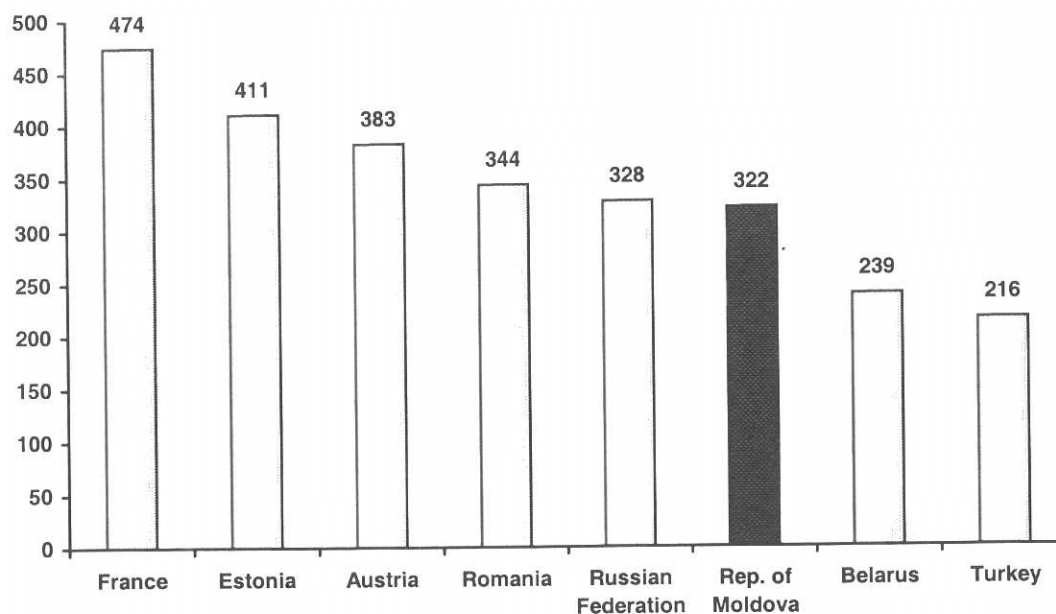


Source: Department of Statistical and Sociological Analysis.

The average amount of floor space per person is 18.2 m² in towns and 22.4 m² in villages.¹⁷

Figure VI. Housing quantity

(Number of dwellings per 1000 persons)



Source: Statistical Yearbook of the Republic of Moldova (1996).

¹⁷ NAHRES, *Housing Stock Project* (1998)p. 8 ff.; further details see chapter II, table 13.

A major legacy of the former State housing organization is the unfinished apartment buildings in Chisinau, Balti and Orhei. These could, however, be considered as future housing. About 300 blocks containing 12,000 apartments with an average technical completion level of 35% need to be assessed to see whether they should be completed or not.¹⁸

Another problem is housing maintenance. About 3 million m² of the housing stock need major renovation work and the number of apartment blocks requiring renovation is constantly increasing. The greatest problem is the district heating system.¹⁹

As Moldova is highly dependent on energy imports, 98% of the total energy and fuel needs are imported. Energy conservation and the thermal insulation of the housing stock are a high priority and a number of programmes and projects focus on this issue.²⁰ The inefficiency of the heating system is producing a further deterioration in the housing stock and is a danger to health.

Whilst 3 million m² of major renovation is needed, the volume of renovation work undertaken and the State funding allocated for this purpose are decreasing year by year. This is a consequence of the privatization of the housing stock at low prices. However, the majority of apartment blocks, even those where private homeowners' associations have been founded, continue to remain on the books of the municipal housing-stock maintenance company. The residents continue to pay for maintenance work, but the money is often used for other purposes.²¹ Instead, private initiative and private financial means are often used to maintain properties.

New housing construction has become almost entirely a matter of private investment, and depends on market demand and on an individual's financial capacities. The costs of 1 m² of new construction ranges between 1,600 lei²² and 2,200 lei or more,²³ depending on the quality of the final work, the level of equipment and the locality. Of the overall cost of 1 m² of surface, 60-70% constitute the cost of the construction materials. Existing dwellings are valued at 40-70% of the cost of new constructions.

As for income levels and prices, the average salary increased 643 times between 1991 and 1998 and the general consumption price index 7,386 times, 17 times higher than the level of salary increases. The cost of new construction increased 4,788 times between 1991 and 1998, 7.5 times higher than the increase in the population's incomes. It is obvious that only very few people (1-2%) can afford new dwellings. It is claimed that the introduction of long-term credit could open access to housing to 5-10% of the citizens.²⁴ These figures are in contrast with the estimate of 82,000-140,000 families that do not have their own separate housing.²⁵

¹⁸ Detailed considerations with respect to a future finishing and use of that stock are made in NAHRES, *Housing Market Study Final Report* (July 1997), p. 36 ff.; Ministry of Territorial Development, Construction and Public Utilities, *Republic of Moldova, National Report...*, p. 6.

¹⁹ The demand for energy in the housing sector is determined mainly by the need for heating. For many years the consumption of energy grew in line with the development of the housing sector. Energy was cheap and the State provided a growing volume. The housing sector's energy consumption in 1997 constituted 35.4% of the whole national energy consumption (NAHRES, *Housing Stock Project* (1998), p. 11 and p. 80 f.).

²⁰ See Republic of Moldova and UNDP, *National Strategy for Sustainable Development*, p. 54 f. and p. 77; European Bank for Reconstruction and Development project for energy efficiency mentioned in NAHRES, *Housing Stock Project*, p. 82 f.; United Nations Economic Commission for Europe (UNECE) *Environmental Performance Review: Republic of Moldova* (New York and Geneva, 1998); Energy saving programme 2000 – 2005 mentioned in Ministry of Territorial Development, Construction and Public Utilities, *Republic of Moldova: National Report...*, p. 21 f.

²¹ NAHRES, *Housing Stock Project*, p. 43 f.

²² NAHRES, *Housing Market Study Final Report*, p. 8.

²³ Ministry of Territorial Development, Construction and Public Utilities, *National Report...*, p. 4.

²⁴ Ministry of Territorial Development, Construction and Public Utilities, *National Report...*, p. 5.

²⁵ Republic of Moldova and UNDP, *National Strategy for Sustainable Development*, p. 61.

Table 4. Number of people on waiting lists for housing

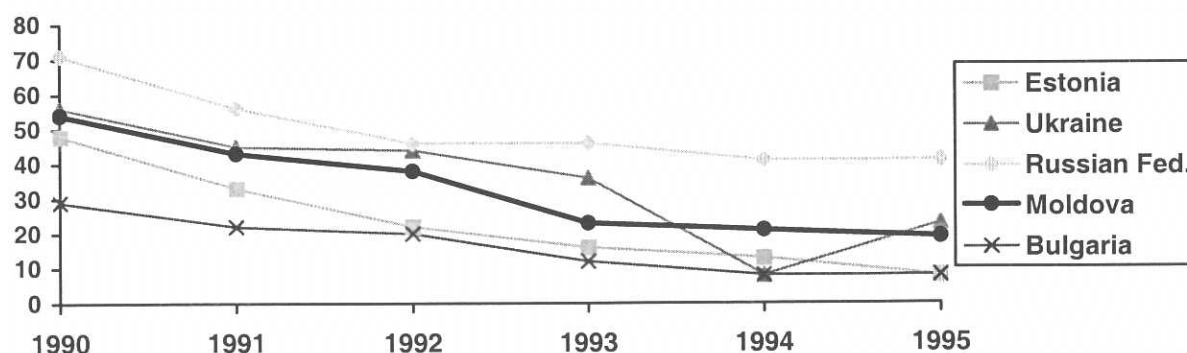
| Number of persons waiting | Total | Municipal waiting lists | Waiting lists of organizations and enterprises | Waiting lists of housing construction cooperatives |
|---------------------------|--------|-------------------------|--|--|
| Urban population | 81,113 | 17,891 | 41,958 | 21,264 |
| - Chisinau | 66,037 | 15,451 | 35,614 | 14,972 |
| - Balti | 8,902 | 229 | 2,668 | 6,005 |
| Rural population | 846 | 156 | 690 | - |

Source: Department of Statistical and Sociological Analysis.

Privatization of the housing construction and building materials industry

Until 1990 the construction sector occupied third place in the Republic of Moldova's economy, constituting 8% of GDP. It was considered one of the most prestigious sectors, paying high average salaries and providing its employees with dwellings in a short period of time. During the following nine years the crisis in the national economy reduced the volume of house starts rapidly when compared to neighbouring countries.

Figure VII. Slowdown in housing construction
(New housing units per 10,000 persons)



Source: Statistical Yearbook of the Republic of Moldova (1996).

The decrease in construction has also caused severe unemployment in the construction sector - from 56,700 jobs in 1994 down to 22,000 in 2000. In addition, employment figures for the real-estate market have fallen from 32,000 to 27,000.

However, at the same time, the proportion of property-related jobs has increased from 2.5% to 4%. There are two reasons for this. The real-estate maintenance companies are now established in the market and their activities are increasing. The "booming" figures of flat-owners' associations are creating a demand for new alternative maintenance companies thus offering new employment in the sector.

Up to 1994 the major construction enterprises had been transformed into joint-stock companies. By October 1999, 646 construction enterprises had been registered, the majority small firms with 10 to 100 employees. Although the big construction firms tried to avoid de-monopolization and to keep their geographical spheres of influence, small and flexible firms appeared on the market as contractors and subcontractors.

The building materials industry too experienced radical changes. Currently, there are 144 enterprises producing construction materials, of which 65 are small private enterprises. The majority of the enterprises of the ex-State sector have been transformed into joint-stock companies.

Both the housing construction sector and building materials production have improved since 1997. After a long period of recession in 1997 the number of house starts increased by 12% against 1996. The share of individual housing in the total amount of housing commissioned constituted 83%.

Concomitantly, the production of building materials increased by 8.1% in 1997. However, the sector is still said to be facing difficulties.²⁶

From free housing to market-priced housing

Until independence, housing was a virtually free asset with very low rents and running costs. Utilities such as energy, electricity and water were delivered almost free and consumed excessively without any attention being paid to their cost. There were no monitoring or controls to reduce energy or water consumption.²⁷

The allocation of apartments was the result of a rather obscure process, little related to specific needs – there was no means-tested allocation mechanism for housing. Waiting for an apartment could last for up to 20 years; interim housing "hostels" became a permanent form of housing for many families (currently about 12% of them live in hostels).²⁸

Now after the privatization of apartments and of the energy sector together with the introduction of market prices, people are supposed to pay the full cost of energy and hot water consumption. Since many households cannot afford to do so, they are deeply into debt.²⁹ In the period 1999-2001 household debt for heating increased dramatically. For example, in Chisinau the level of payment for heating is only 25%. Companies and State organizations have even bigger debts than private households. In 1998 their debt was 9 times that of households: 4.4 times higher for thermal energy, 3.6 times for water and 14 times for natural gas. This jeopardizes the economic viability of enterprises offering these services.

Table 5. Monthly tariffs of principal housing services and level of production-cost recovery

| | Unit | till 1 March 1997 | from 1 March 1997 | from 1 June 1997 | from 1 November 1998 |
|--|-------------------------|-------------------------|-------------------------|------------------------|----------------------------|
| 1. Electricity | lei/kWh | 0.20 | 0.24 | 0.255 | 0.42 |
| - production-cost recovery | % | ... | ... | 100 | 100 |
| 2. Natural gas | lei/person | 1.93 | 3.54 | 2.88 | 4.96 |
| | lei/1000 m ³ | 370 | 454.0 | 370.0 | 638.0 |
| - production-cost recovery | % | ... | ... | 100 | 100 |
| 3. Central heating | lei/m ² | 1.32 | 1.32 | 3.28 | 4.91 |
| - production-cost recovery | % | ... | ... | 100 | 100 |
| 4. Drinking water and waste water (no meter) | lei/person | 3.65 | 5.10 | 6.47 | 6.47 |
| - production-cost recovery | % | ... | ... | 64.0 | 64.0 |
| 5. Drinking water and waste water (metered) | lei/m ³ | 0.56 | 0.56 | 0.71 | 0.71 |
| - production-cost recovery | % | ... | ... | 64.0 | 64.0 |
| 6. Hot water | lei/person | 8.88 | 8.88 | 16.18 | 27.14 |
| - production-cost recovery | % | ... | ... | 73.8 | 82.5 |
| 7. Rent and maintenance payments (non-privatized dwellings) | lei/m ² | 0.08 | 0.20 | 0.43 | 0.43 |
| - production-cost recovery | % | ... | ... | 0.71 | 0.71 |
| 8. Maintenance (privatized dwellings) | lei/ m ² | 0.10 | 0.23 | 0.23 | 0.23 |
| - production-cost recovery | % | ... | ... | 41.8 | 41.8 |

State and private owners are reacting to the increased costs of utilities by installing meters – so controlling consumption and making considerable savings. These are first steps and future improvements are still necessary.

²⁶ NAHRES, *Housing Stock Project*, pp. 14 and 17.

²⁷ NAHRES, *Housing Stock Project*, pp. 80 ff.

²⁸ UNDP, *National Human Development Report...* (1999), p. 38.

²⁹ World Bank, *Moldova: Poverty Assessment...*, p. 12; Republic of Moldova and UNDP, *National Strategy for Sustainable Development*, p. 61.

Stagnation in the maintenance and servicing system

The public housing maintenance system has not yet been privatized and modernized. The overall supplier of housing services is still the traditional municipal maintenance companies. These public suppliers like the local authorities fear that changes will lead to redundancies, competition and deficits. The creation of homeowners' associations following privatization of the apartments is very slow. The same is true for the establishment of new private maintenance companies.³⁰

Housing stock privatization

Following the Law on Housing Stock Privatization of 10 March 1993 by 1 January 1999 some 225,300 apartments out of a total of 263,000 had been privatized.³¹ (See table 6 and chap. IV.)

About 38,000 apartments and rooms in hostels have remained in public ownership because residents did not want or could not afford to become homeowners, or because of disagreement between householders.

Table 6. Housing stock privatization and creation of private homeowners' associations (PHOAs)

| | Unit of measure | 1995 | 1996 | 1997 | 1998 (1 July 1998) |
|--|-----------------|-------|-------|-------|-----------------------|
| 1. Number of applications for the privatization of dwellings | Thousand | 185.9 | 212.2 | 221.3 | 225.5 |
| 2. Number of dwellings privatized | Thousand | 182.0 | 207.0 | 219.1 | 225.1 |
| 3. Value of privatized housing stock | Million lei | 175.7 | 301.0 | 314.7 | 322.4 |
| 4. Sum obtained from the privatization against money | Million lei | 6.0 | 11.5 | 13.9 | 15.1 |
| 5. Number of PHOAs formed at territorial agencies | Units | 14 | 168 | 265 | 368 |
| 6. Number of PHOAs registered at State Registration Chamber | Units | - | 75 | 185 | 267 |
| 7. Apartment buildings and houses transferred to PHOAs | Units | - | 40 | 240 | 524 |

³⁰ NAHRES describes the related problems (dual reporting systems, lack of transparency, no influence on the service quality, no release of private flat owners (associations)) in detail and makes specific recommendations for the restructuring of the institutional system of housing stock management and service in its *Housing Stock Report*, pp. 39 ff.

³¹ Other laws relevant to privatization: the Law on Privatization (4 July 1991): article 15 describes the privatization of apartments and other residential space. Citizens may use cash or "patrimony" bonds to purchase the residential space they occupy. Space above 18 m² per person must be purchased at commercial prices, whereas space below that amount is purchased at regulated State prices. Following article 14 it should be possible to buy or sell land since 1 January 2001. Law on State Privatization Programme for the Republic of Moldova for 1995 – 1996 (May 1995), article 5 of the accompanying parliamentary decision provides for the sale of dacha plots; article 13 provides that land plots of unfinished construction can be sold for cash. The Land Code (amended in 1995) establishes the principles and categories of landownership and refers to a hierarchy governing cadastres, land use and land allocation and alienation. The provisional regulation on the purchase and sale of land plots (approved by government decision no. 377 of 6 June 1995) regulates the private sale of land plots associated with houses, dacha plots and land shares. The regulation purports to be based on the Land Code, the Law on the Normative Price of Land and the 1995 – 1996 State Privatization Programme. The regulation provides that the private owner of a house is deemed to own the adherent land. The owner may also sell such land plots at a "free price". The Law on the Normative Price of Land (2 December 1994) establishes prices for private and public land converted from agricultural to non-agricultural use. The sales price is artificially high and consequently a serious impediment to the privatization of land. All information gathered from USAID, *Pilot Effort to Develop Land and Real Estate Markets in Moldova* (2 March 1996).

The total value of privatized housing equals 322,350 million lei. The housing stock was partially privatized, producing revenue of 15.06 million lei. Most of the housing stock – evaluated at 307.3 million lei – was privatized in exchange for national patrimonial bonds or gratis.

In Chisinau 6.8 million m² (out of 7.7 million m²) of housing had been privatized by the end of 1998; this implies that some 119,000 families became private owners. Some 17,600 apartments remained in public ownership. These are dwellings with rather unsatisfactory conditions and hostels, which are not eligible for privatization.³²

Under the Law on Privatization the owners of privatized apartments are responsible for the maintenance and repair of their property. Homeowners should also set up private homeowners' associations (PHOAs). This process is taking a long time. On the one hand, people are not yet used to and do not trust this new private organization. On the other hand, municipalities and the municipal maintenance companies do not let the customers switch to a private organization.³³ If PHOAs are being created, they consist of the owners of flats in an apartment block. Municipal tenants are not members. The activities of PHOAs so far seem to be limited to the role of broker between flat owners and the service enterprises, i.e. they facilitate contractual relations between individual flat owners and the service enterprises.³⁴ The self-governing function of PHOA as a decision-making body with public meeting and voting procedures, with a common budget and business plans has not yet developed. The appropriate legislative³⁵ and institutional framework and a realistic taxation policy³⁶ have yet to be established. However, these PHOAs have already assumed a decisive role in repairs and energy-saving investments.

Experience from other countries in transition shows that the creation of PHOAs is a positive influence on the establishment and the activities of new private maintenance and renovation companies. In the Republic of Moldova some enterprises specializing in certain areas of maintenance and repairs already existed. The overall maintenance and management of housing stock are still concentrated and monopolized by the municipal housing boards and their subdivisions.³⁷

Development of a private housing market

The first significant push for a private housing market was given by the Law on Property (22 January 1991). Before 1992, 75% of all apartment transactions involved the exchange of State-owned apartments. After the adoption of the Law on Property sales figures increased significantly. By the end of 1992 – due to an abundant supply – a one-room apartment cost on average \$3,000-4,000, a two-room apartment \$4,000-7,000, a three-room apartment \$6,000-9,000. Buyers had saved money between 1987 and 1991 and invested it in real estate.

A new impulse came with the adoption of the Law on Housing Stock Privatization (10 March 1993), which together with the abolition of the residential registration required for the purchase of an apartment opened the way to potential buyers such as entrepreneurs, rural residents and foreign citizens. Prices rose, as did transaction figures. In 1994 – 1995: a one-room apartment cost \$4,000-5,000, a two-room apartment \$5,000-9,000, a three-room apartment \$8,000-15,000, a four-room apartment \$16,000-20,000 and a five-room apartment \$18,000-25,000.³⁸ By 1996 - 1997 considerable price increases were common and consequently sellers made substantial profits (see table 7).

³² NAHRES, *Housing Stock Project*, pp. 11 ff; Ministry of Territorial Development, Construction and Public Utilities, *National Report...*, pp. 7 f.

³³ NAHRES, *Housing Stock Project*, pp. 38 f.

³⁴ Examples of activities are described in *Housing Stock Project*, pp. 44 f.

³⁵ The Law on Housing Condominiums (no.913; XIV/2000) is an important requirement therefore. See below in chapter IV.

³⁶ NAHRES made detailed recommendations in its *Housing Stock Project*, pp. 22 ff.

³⁷ NAHRES, *Housing Stock Project*, p. 39.

³⁸ NAHRES, *Housing Stock Project*, pp. 19 f.

Table 7. Trends in the average apartment price and total value of dwellings sold

| | Unit | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|-------------------------------------|---------------|------|------|------|-------|-------|-------|-------|------|
| Average price of the apartment sold | Thousand US\$ | 6.5 | 8.8 | 10.5 | 11.4 | 12.5 | 13.2 | 15.0 | 14.0 |
| Total value of the dwellings sold | Million US\$ | 8.4 | 35.2 | 74.0 | 104.2 | 120.7 | 466.9 | 393.8 | - |

Source: Calculated using HREMS and NAHRES data.

This trend came to a halt in 1997/1998 as a result of the 1998 financial crisis - when the demand for apartments fell and prices for apartments practically equalled those of 1996. By summer 1998 the average price in an up-market district of Chisinau ranged from \$332/m² for a one-room apartment, \$347/m² for a two-room apartment, \$372/m² for a three- and four-room apartment and \$548/m² for a five-room apartment.

However, private property is still considered a means for generating income either by selling it – for the time being not a very profitable activity – or renting it out. Renting, estimated to cover 10% of apartments in Chisinau, is not officially documented and requires the introduction of an appropriate rental law, preferably in conjunction with an updating of the Civil Code, so as to ensure effective regulation.

C. National and local housing policy

The housing sector is a key element of the national and local economy. Housing production and modernization are labour-intensive. The related energy-saving activities offer considerable possibilities for reducing imports and energy costs.³⁹ Moreover, the housing sector is an element of social stability and private wealth creation.⁴⁰

Radical changes in the State's activities and priorities, namely the overall withdrawal from and transfer of responsibilities and financial burdens to the local level and to the private sector, mainly to private households, are symptomatic not only of Moldova but of many countries in transition. The achievement of a proper distribution of competence and responsibilities between the State, the municipalities and the private sector and an efficient coordination of that competence and those tasks is necessary and widely demanded.⁴¹

State as the framework-setting body

It is generally understood that the State should no longer be the direct provider of housing and its related services. Households are responsible for their own housing and the direct support of the State should be targeted at low-income households.⁴² However, the State has to encourage private initiative by ensuring a legal, financial and institutional framework for it.

In 1997, a Government-commissioned report was published by the National Agency for Housing and Real Estate Services. Research conducted by PADCO Europe Limited resulted in the Housing and Real Estate Market Strategy producing a carefully analysed appraisal of Moldova's housing situation and a strategy for dealing with it. Although the Government adopted the Strategy in 1998, it has been unable to implement the action plan.

³⁹ NAHRES, *Pilot Project on Energy Conservation in the Housing Sector* (31 May 1999), pp. 8 f.

⁴⁰ NAHRES, *Housing Stock Project*, pp. 36 f.

⁴¹ Republic of Moldova and UNDP, *National Strategy for Sustainable Development*, pp. 104 f.; NAHRES and PADCO Europe Ltd., *Housing and Real Estate Market Strategy*, (September 1997), pp. 27 ff.; Ministry of Territorial Development, Construction and Public Utilities, *National Report...*, p. 23; NAHRES, *Housing Stock Project*, pp. 36 f.

⁴² NAHRES, *Housing Stock Project*, pp. 47 ff.

Housing issues are dealt with at the Ministry of Ecology, Construction and Territorial Development. Housing-related tasks such as the implementation of the National Housing Concept and the Housing and Real Estate Market Strategy and the development and implementation of State programmes, are dealt with in the Principal Division for Housing. The Division is responsible for overall policy-making, while some parts of the implementation take place at local level. Cities, municipalities and counties are obliged to implement Government housing policy. So far, the Division is lightly staffed for its wide agenda and many tasks. At parliamentary level, housing does not have its own committee but has to be handled in the Committee on Social Protection, Health and Family.

As the State has withdrawn from the housing sector and transferred its obligations to the local administration and the private sector, it has to ensure that the requisite financial and technical means are available. A particularly important issue is the municipal right to raise local taxes, to sell land and to keep the revenues. In addition, a sufficient share of State revenue has to be transferred to the local level. According to the Law on Budget System and Budgetary Process (24 May 1996), the distribution of State revenues to the different levels is decided by Parliament when setting the annual budget. An ongoing USAID (fiscal, property tax and land reform) project is helping to improve local capacities, i.e. the local authority's (fiscal) autonomy and accountability.

The improvement of local capacities requires technical assistance, i.e. information and training programmes. The decentralization of housing tasks is expected to require a (revised) role of the State as well as considerable financial resources.⁴³

The municipalities as key actors for local territorial development

It is foreseen that the national network of local authorities will undergo changes in both structure and role.⁴⁴ The implementation of a sustainable development strategy (e.g. creation of jobs, land use, water and energy use) will largely take place at this local level.

With respect to the housing sector, local tasks and responsibilities should be focused on land policies, i.e. local planning and development (technical and social infrastructure), construction and upkeep of local roads, urban revitalization and renewal activities, activities to combat disintegration and disparities between urban and rural areas, the participation and integration of individuals and organizations.

High-quality infrastructure is vital for the country's progress and is a precondition for housing sector development. Currently the infrastructure is in a critical situation because of the lack of financial resources. Although the local authorities are responsible for the development of the infrastructure, there is hardly any investment to be seen in local budgets. Local authorities have no strong incentives to actively invest in infrastructure and the lack of funds prevents implementation of these tasks. For the time being the local authorities simply allocate land plots for residential construction – without any infrastructure at all – giving them away free or for a nominal price, instead of creating and supporting commercial land development.

Another important task for local government is to ensure the functioning of public services such as utility networks for water supply and sewerage, as well as the management and maintenance of the housing stock. So far this is organized by public enterprises which face severe financial problems because a considerable number of customers do not pay their bills and because low maintenance fees do not cover maintenance costs.

The designation of municipal tasks and duties must be accompanied by the technical, financial and organizational framework needed to carry them out. This will be foremost among the Government's duties and challenges.

⁴³ NAHRES and PADCO Europe Ltd., *Housing and Real Estate Market Strategy*, pp. 29 and 43.

⁴⁴ Republic of Moldova and UNDP, *National Strategy for Sustainable Development*, pp. 98 f.

The private sector's role

There are a number of key actors in the private sector working alongside Government and local authorities. These are private households, tenants and flat owners, PHOAs, NGOs, private companies and housing finance institutions. Whilst the State has already largely transferred responsibilities and financial burdens to these actors, the necessary underlying framework (e.g. consumer protection rules, competition among public and private companies) together with a change in mentality and administrative culture – i.e. the development of a civil society – needs profound consideration and improvement. The required changes in culture concern both the public and the private actors and will require a great deal of information and training.

In a country where more than 90% of the housing stock is privatized, potentially the most important organization is that of the private homeowners' association. So far, fewer than 1000 associations have been created. If a PHOA wishes to take over management and maintenance from a municipal service company, it is also obliged to take over the company's accrued debts. Both the owners of apartments and the State will benefit from well organized PHOAs, hence the need for a strong umbrella organization for PHOAs in the NGO sector and a federation of tenants' organizations. Both will be important actors in the further development of the housing sector in the Republic of Moldova.