

ECONOMIC COMMISSION FOR EUROPE

COUNTRY PROFILES
ON
THE HOUSING SECTOR
REPUBLIC OF MOLDOVA



UNITED NATIONS

ECONOMIC COMMISSION FOR EUROPE
Geneva

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PREFACE

This study on the housing sector of the Republic of Moldova is the sixth carried out by the UNECE Committee on Human Settlements to analyse housing sector reform in countries with economies in transition. The previous studies were on: Bulgaria, published in 1996 (ECE/HBP/101); Poland, published in 1998 (ECE/HBP/107); Slovakia, published in 1999 (ECE/HBP/112); Lithuania, published in 2000 (ECE/HBP/117); and Romania, published in 2001 (ECE/HBP/124).

These country-specific strategic housing sector analyses are intended to assist the Governments of countries with economies in transition in improving performance in this sector. They also aim to provide practical information to those with a special interest in the country, such as international lender and donor organizations, technical assistance agencies, or private sector investors, within and outside the country. The objective is to identify positive trends and problem areas, so as to be able to assess the implementation of national policies and strategies, and the social and economic consequences of housing reform for the population and other major actors in the sector. The studies are the work of international teams of experts. They cooperate with governmental bodies, non-governmental organizations, local authorities and the private sector to mobilize available information sources in the country. An international team of experts also draws up recommendations to guide the housing sector reform towards sustainable patterns of housing development.

The UNECE Committee on Human Settlements included the Country Profile on the Housing Sector of the Republic of Moldova in its work programme in September 2000. The Governments of Denmark, Estonia, Germany, Romania, the Russian Federation and the United Kingdom made national experts available for the task. The travel expenses of the experts from countries in transition and from the UNECE secretariat were covered by extrabudgetary funds, which had been provided by the Netherlands. The Governments of Denmark and the United Kingdom financed their experts' participation as their contribution in kind. The successful conclusion of the project would not have been possible without this generous support.

The project started with a preparatory mission in March 2001. The research mission of the international team of experts took place in April 2001. Moldovan experts responded to the queries and requests of the international team during and after the mission.

The results of this study will be discussed at the annual session of the UNECE Committee on Human Settlements in September 2002. UNECE has also carried out an Environmental Performance Review of the Republic of Moldova. The follow-up process to both projects is important for inter-sectoral policy implementation in the country.

This Country Profile on the Republic of Moldova is also available on the web site of the Committee on Human Settlements <http://www.unece.org/env/hs/cph/welcome.html>.

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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.

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.

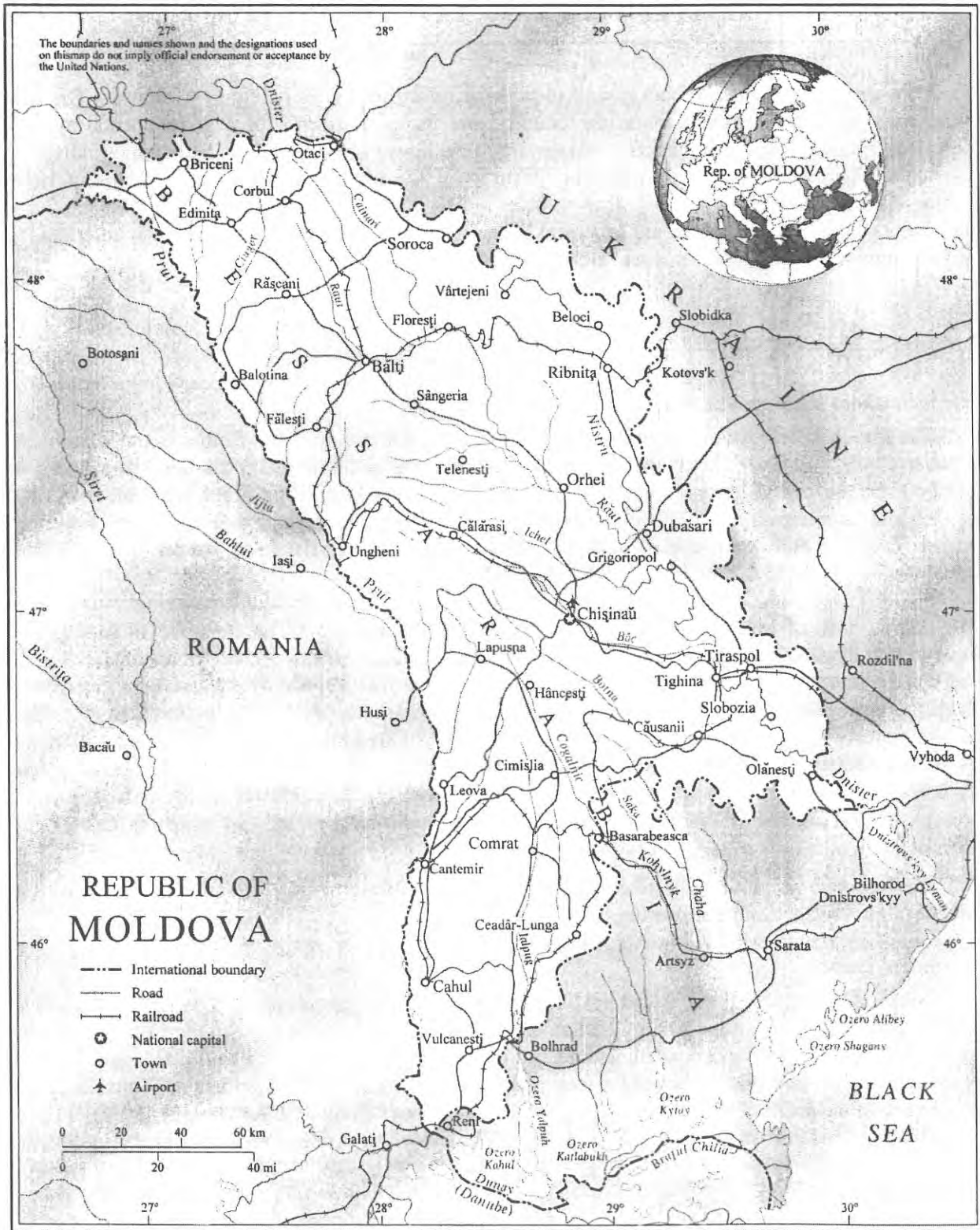
² UNDP, *National Human Development Report: Republic of Moldova* (Chisinau, 2000), p. 75.

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

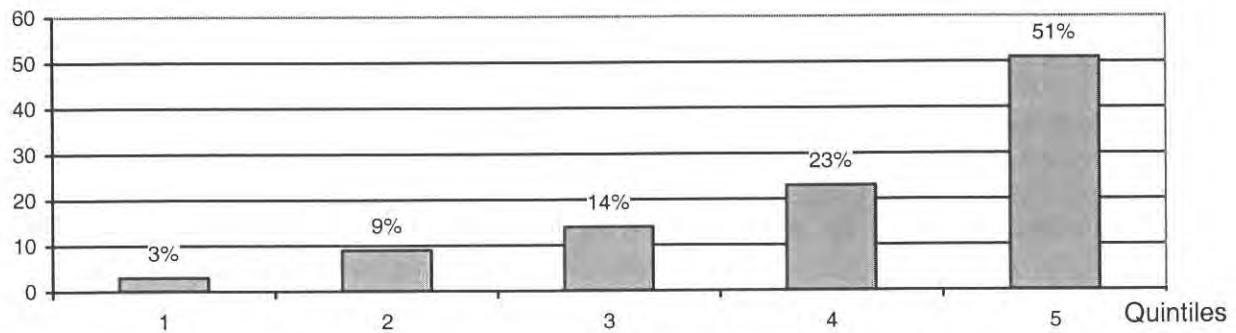
Table 3. Basic components of household income and expenditures, 1997

	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

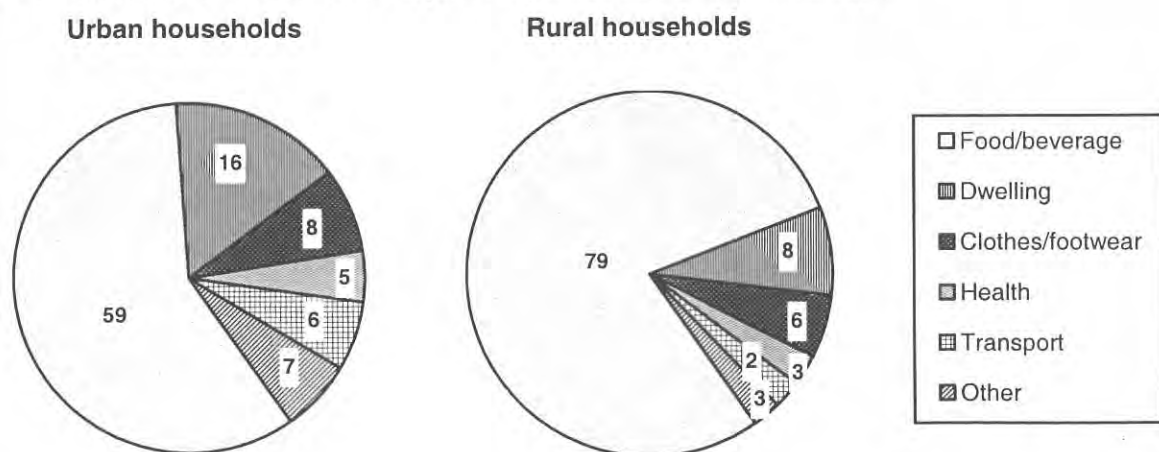
Source: Department of Statistical and Sociological Analysis.

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.

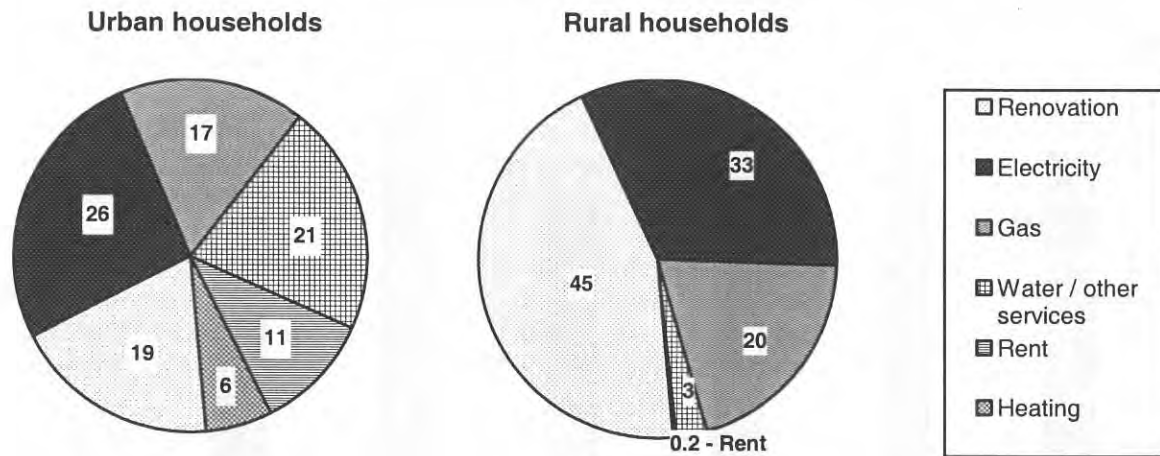
According to the 1997 household budget survey, renovation expenditures represented the largest share (29.3%) of global consumption expenditures per dwelling; it was followed by expenditure on electricity (29.0%), gas (18.5%), water and other public utilities (12.4%) and rent, 6.8%.¹⁵

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.

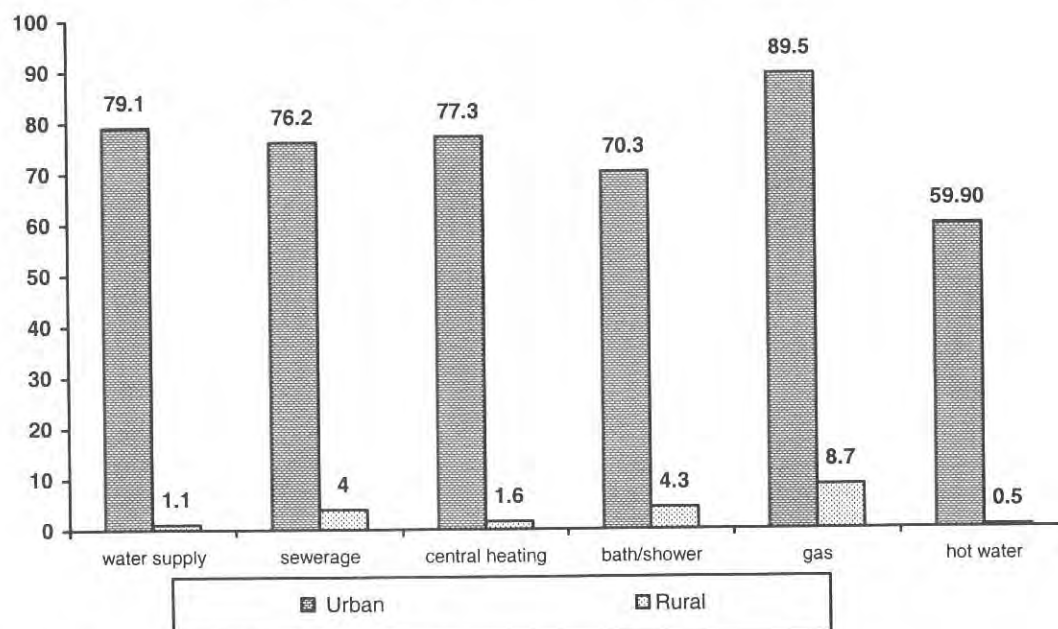
Foreign companies own only 0.02% of the housing stock, the rest is in Moldovan hands. Approximately 88% of the stock is in private ownership, 3% is owned by cooperatives, 9% by public organizations and 1% is in joint ownership (public/private).

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)

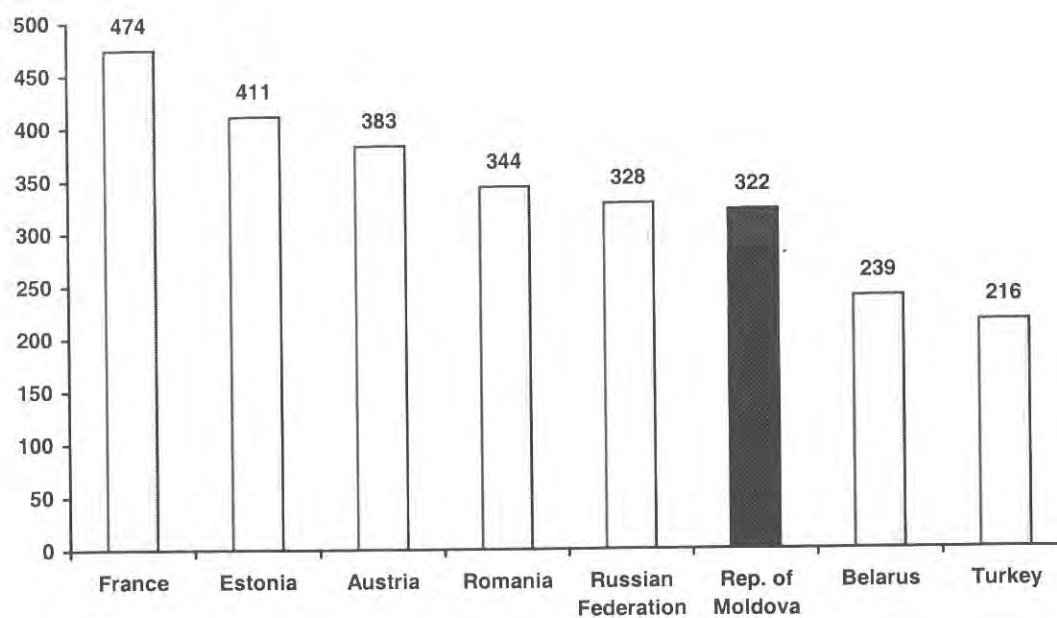


Source: Department of Statistical and Sociological Analysis.

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 Chişinău, 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

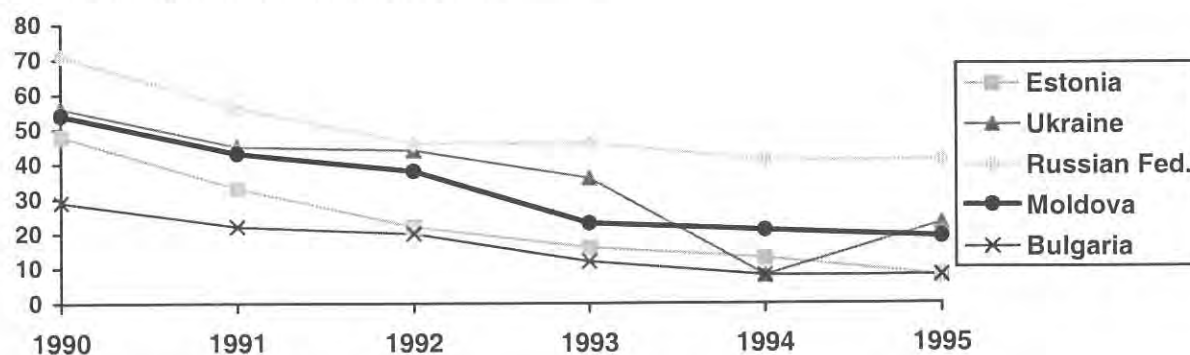
Number of persons waiting	Total	Municipal waiting lists	Waiting lists of organizations and enterprises	Waiting lists of housing construction cooperatives
Urban population	81,113	17,891	41,958	21,264
- Chisinau	66,037	15,451	35,614	14,972
- Balti	8,902	229	2,668	6,005
Rural population	846	156	690	-

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.

EXISTING HOUSING STOCK AND NEW HOUSING CONSTRUCTION

Introduction

This chapter analyses the housing stock in the Republic of Moldova - its type, construction, location and condition. It also examines whether the housing supply is sufficient to meet demand and how the problems of utility infrastructure affect residents' quality of life. The chapter also examines the effects of the transition on the construction industry and, finally, it analyses the state of the real-estate market.

A. Housing stock and recent performance

Existing housing stock

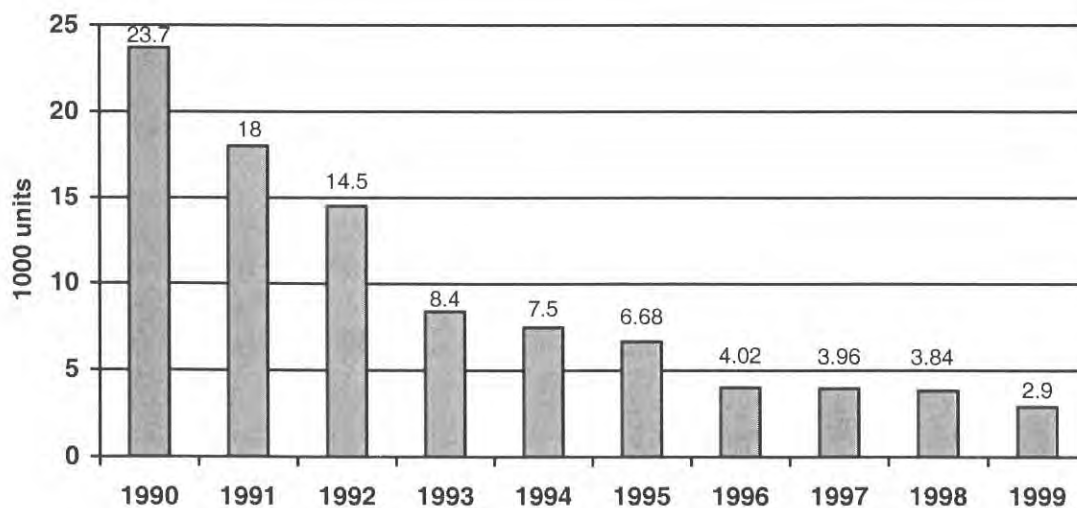
At the beginning of 2000, Moldova's housing stock consisted of about 1.3 million units with a total of some 75 million m² (table 8). There are about 910,000 separate buildings of different sizes – from detached houses to apartment blocks. There are officially no temporary dwellings there.

Table 8. Housing stock of the Republic of Moldova

	Unit	At year-end				
		1995	1996	1997	1998	1999
Number of units	1000	1222	1227	1236	1265	1282
increase	in per cent	-	0.4	0.7	2.3	1.3
Total space	million m ²	71.8	72.2	73.2	74.5	75.4
increase	in per cent	-	0.6	1.4	1.8	1.2

Source: Ministry of Environment and Territorial Planning.

Figure VIII. Number of completed dwellings



The housing stock has increased little over the past five years because of a marked decrease in new housing construction. Completions were just 12% of their 1990 level (fig. VIII). Given that new housing construction is considered to be the main means of expanding and improving the housing stock, this relatively small number of new dwellings has had little impact upon the overall quality of the stock. On the contrary, it can be argued that intensive wear and tear, lack of maintenance, and the limited amount of renovation has deteriorated the quality of the housing stock during this period.

Though the basic parameters would indicate stability over time, these numbers may in fact disguise considerable structural changes. The housing stock data in table 9 provided by the Ministry of Environment and Territorial Development differ slightly from the data in table 8, but the 1999 data give a certain overview of the housing-stock-related problems.

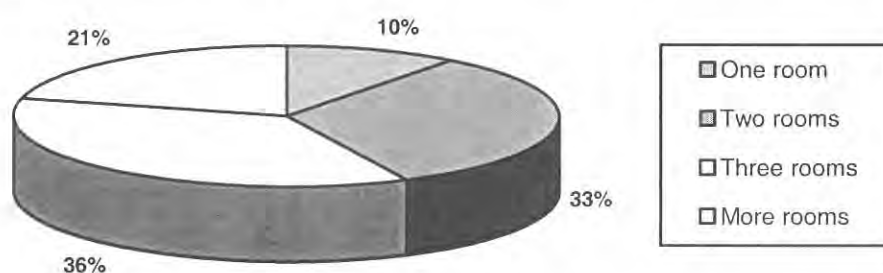
Table 9. Dynamics of the national housing stock, 1999

	Availability of stock (in m ²)	Change in housing stock (in m ²)		
		Increase	Decrease	Balance
At beginning of the year	75,316,104			
physical change		1,197,154	1,417,889	- 220,735
incl. new construction		254,424		
resulted by surveying		567,607	290,710	+ 276,897
At year-end	75,372,266			

Source: Ministry of Environment and Territorial Planning.

The data in table 9 are a good illustration of the problems of obtaining reliable housing-stock data. For example, since 1998 the two regions of Camenca and Dubasari - located on both banks of the Dniester river - have presented no housing stock data, nor is all the data presented earlier reliable. Surveying and resurveying stock may well improve the quality of data, but these changes also outweigh actual stock increases due to new housing completions. Another phenomenon is that many unfinished detached houses in the countryside are not included in completions figures, but are, nevertheless, occupied by households.

Figure IX. Distribution of dwellings according to the number of rooms



Source: Ministry of Environment and Territorial Planning.

The size and composition of dwellings is one aspect that demonstrates the quality of housing. About 70% of the dwellings have two or three rooms (fig. IX). From the very rough statistical information about the whole national housing stock, it can be deduced that an average dwelling comprises 62.7 m² of space with approximately 2.8 'living' rooms.

Any comparative historical analysis of Moldovan housing is difficult because unreliable data means that conclusions cannot be trusted. So most of the data used here are from the most recent years - 1999 and 2000.

There is also a historic-geographical element to be taken into account when analysing the structural differences of the housing stock. There are no uninhabited areas in the Republic of Moldova.

Settlements are dense and relatively uniformly distributed. Most of the rural population live in large villages – some of them with more than 10,000 inhabitants. This structure has been influenced during the past decades by the following two factors:

- 1) favourable natural conditions have encouraged the population of the Republic of Moldova towards agriculture; and
- 2) the vulnerable geopolitical position of this region has discouraged long-term investment and delayed urbanization.

The influence of these factors suggests that national housing performance should be analysed according to the two major categories of settlement, urban and rural. By the end of 1999 the national housing stock consisted of 75.4 million m², of which 27.9 million m² in urban (37%) and 47.5 million m² in rural (63%) settlements. About 40% of all the dwelling units are located in the urban environment.

The geopolitical trends have resulted in the housing stock developing very differently in urban and rural areas – rural dwellings are both larger and more spacious than those in cities (table 10).

Table 10. Urban-rural composition of the housing stock

	Urban	Rural	Total
Average number of rooms per dwelling	2.2	3.1	2.8
Average floor space (m ²) of a dwelling	47.8	71.5	62.7

Source: National Human Development Report. 1999. UNDP.

Currently only about one third of all newly completed housing is located in the rural settlements, but as there is little new construction, the long-established structural proportions between rural and urban stock remain unchanged.

Moldova's housing stock consists of permanent buildings – there are no temporary buildings used to house people. The Soviet-era urban system-built blocks of flats are either large prefabricated slab buildings, or concrete in-situ, or cut stone ones. In 1995, about 49% of all the apartments in urban areas were in buildings with nine storeys or more. By contrast, in the countryside 96.7% of dwellings are privately owned, detached single-family houses. Traditional Moldovan houses are built of clay bricks, but today cut-stone blocks are more usual.

About 18% of the territory is affected by soil erosion. In some cities soil erosion seriously hinders any further development. At the same time, according to the relevant clauses of the 'Quality of Construction Act' 1996, single-family one-storey dwellings are **not** subject to any construction/engineering supervision.

The housing statistics of the former Soviet Union specified two different types of space-related data – 'total floor space' and 'living space'. 'Total floor space' includes all the spaces in a dwelling, whereas 'living space' includes only living rooms and bedrooms. These kinds of data are currently available and still collected in Moldova, so supplying additional data on the spatial quality of a dwelling (table 11).

Table 11. Qualitative composition of spaces in the housing stock

	Total floor space (in million m ²)	Living space (in million m ²)	Share of living space in total (in per cent)
National housing stock	75.4	52.7	70
- Urban	27.9	18.1	65
- Rural	47.5	34.6	73

Source: Ministry of Environment and Territorial Planning.

Table 11 shows that in the average urban dwelling living space occupies about two thirds of the total space. This is a fully acceptable proportion keeping in mind the different amenities required by a household living in urban dwellings – mostly in system-built blocks.

In rural homes a relatively smaller proportion is devoted to amenities and space for household activities – only 27%. For rural Moldovans, at least, building and owning a one-family house has traditionally been regarded as an important feature of well-being. In single-family housing with its own plots and gardens, and where family-based farming is part of the lifestyle, the ratio of space for amenities and for household work should be higher than in cities. This spatial composition (based on table 11) indicates a marked lack of modern facilities in rural housing.

The Republic of Moldova is unique in concentrating its rural population in large villages of 2,000 – 10,000 inhabitants. Housing is generally of one- or two-storey construction and there is a significant self-help building culture. These villages lack adequate social and utilities infrastructure. Housing construction using low-quality materials and unskilled labour is generally of poor quality and undertaken without professional supervision. The lack of sanitation services means that rural spaces are highly polluted with domestic waste.

Housing stock condition

Overall, 65% of the existing housing stock dates back to 1970, and 84% to 1960. The housing stock is relatively new compared to that in many western countries. The relative newness of the housing stock in Chisinau is not surprising since a great deal of older housing was destroyed in the Second World War.

According to surveys conducted by the National Agency for Housing and Real Estate Services (NAHRES) in 1997, the population is not satisfied with the dwellings they live in.¹ Only about 25% of the respondents were satisfied with the quality of their dwellings and with the available service infrastructure. According to the type of the building, the lowest ratings were given to the 16-floor blocks, though these are relatively recent. The highest ratings were given to the stone dwellings and detached houses. About half the respondents stated that their apartment block needed general renovation or improvement. There were the 'traditional' complaints about leaking roofs; mouldy and fungus-infested concrete walls; rotten floors (from leaking roofs and walls), broken water pipes and taps; windows with broken panes.

All these defects and faults are an indication of the state of housing quality, especially in the system-built blocks. Moldova's housing stock is relatively new – the construction of new apartment blocks was rapidly accelerating toward the end of the Soviet Union (table 12). About half of this stock is only 20 years old, but its technical quality poses the most problems.

According to the Department of Architecture and Planning, more than 24% of the housing stock in Chisinau should be demolished. More than 80% of the doors in city buildings need to be changed. Though the lion's share of urban housing is relatively new, approximately 3 million m² need a major overhaul, an increasing amount of housing needs repairing, and there are no adequate financial resources. For example, resources received from privatization were not channelled into maintenance and reconstruction. Thus in 1998 of the 23 million lei received from privatization only 0.07% was spent on the renovation of existing housing, even though the existing tax system allows 50% of regional budget revenue obtained from non-housing privatization to be spent on housing maintenance. Some 75% of the families in urban areas spend one third of their income on apartment and communal expenses, most of which are communal service fees. Expenditure on building maintenance is reduced to the minimum and is insufficient. When there is a chronic deficit State enterprises very often spend money inefficiently and on the wrong things. The State tariff policy of direct and indirect subvention of housing services has failed. Local experts estimate that even when maintenance fees are very low and highly subsidized only

¹ NAHRES and PADCO Europe Ltd., *Housing Preferences and Affordability Survey: Final Report* (31 July 1997).

80-85% of the families pay them. High-income families are also frequently in arrears because of a lack of discipline.

Table 12. Comparison of apartment block construction in Eastern Europe

Country	Proportion of apartment blocks built in different periods (In per cent of total)				
	Before 1961	1961-1970	1971-1980	1981-1990	1991 or later
Bulgaria	53.8	20.0	15.4	9.4	1.4
Estonia	21.2	19.7	21.3	18.9	-
Poland	41.5	16.7	22.8	15.2	3.8
Slovakia	34.4	20.3	25.5	19.8	-
Hungary	43.0	14.7	22.1	17.3	3.0
Republic of Moldova	14.6	18.6	21.2	31.4	7.9

Source: United Nations Development Programme (UNDP), *National Human Development Report: Republic of Moldova* (Chisinau, 1998).

B. Consumption and quality of housing services

Supply and demand

The fundamental housing question is: how many dwellings must be available to ensure adequate housing? The starting point for any estimate of this type, once the basic information about the housing stock is available, is the availability of data about the population and its structure. The simplest solution would be to compare the number of households requiring accommodation with the number of units currently available. This would give a very rough balance between dwellings and households using the criterion of one unit per household for minimum privacy. The amount of space in dwellings per person has also become an international unit of measurement for comparisons of national housing situations.

Currently the Republic of Moldova has no very reliable and up-to-date figures for the number and structure of households. The latest census data date back to 1989 and the number of households then was 1,143,423. During the past transition decade there may have been crucial changes in the demographic structure. Nevertheless, with an overall housing stock of 1.3 million in 1999, there should be one housing unit for every household. The next questions are:

- is the stock located in the places where people need housing;
- is it of the right size and quality;
- are the housing and related services appropriate, accessible and affordable?

The total population of the Republic of Moldova is about 4.3 million and about 54% live in rural settlements. Between 1970 and 1990, the urban population increased, but it never exceeded 46%. During the transition period, the rural population increased slightly, which is not typical of European countries, especially countries in transition. In the mid-90s the rural population was still growing mainly due to the migration of people from the cities to the countryside but today these structural changes have nearly vanished.

The national population, during the past 10 years has recorded a regular decrease of about 0.3-0.4%. This decline is due partly to natural causes, but also to net emigration from Moldova.

These basic housing stock and population data allow us to detect housing consumption trends – square metres of total space per inhabitant (by the end of the year shown).

Figure X. Total space per inhabitant

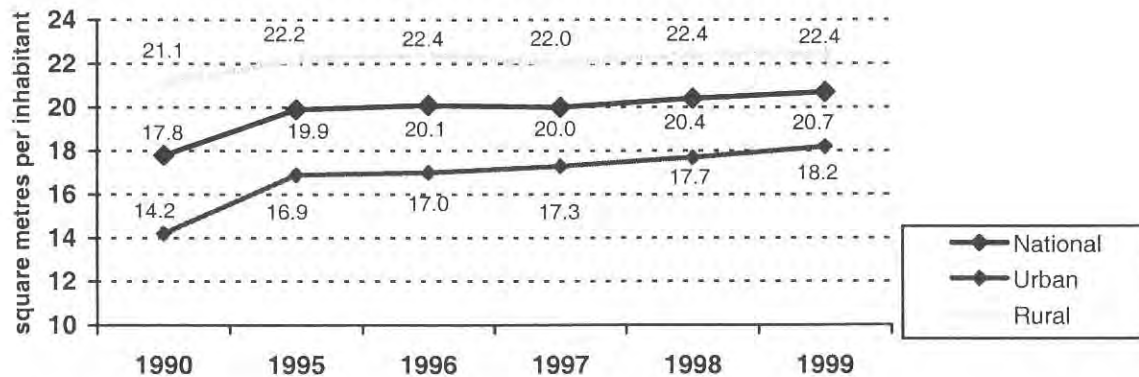


Figure X shows an encouraging picture of basic housing consumption – the average of the three basic consumption profiles shows a general increase over time and also that the absolute numbers per capita are comparable to those in neighbouring countries, but have increased considerably since 1990. Currently the average floor space in urban areas is 18.2 m² per person, compared to 22.4 m² in rural areas. However, it should be recognized that this trend reflects a decrease in population rather than an increase in floor space. Other assessments reveal that spaces have deteriorated significantly over the past few years and lack contemporary facilities.

And when looking at the relevant housing consumption data per administrative-territorial unit we can see the dominance of Municipal Chisinau at the national level – the average for this municipality equals the national average (table 13). At the same time the average numbers for housing consumption for most of the other regions (*judets*) have variations of about 10% with the national average level. This highlights the fact that there are no marked differences based on these basic consumption-related data, though these data are not related to the present quality of housing.

Table 13. Housing consumption (In square metres per capita)

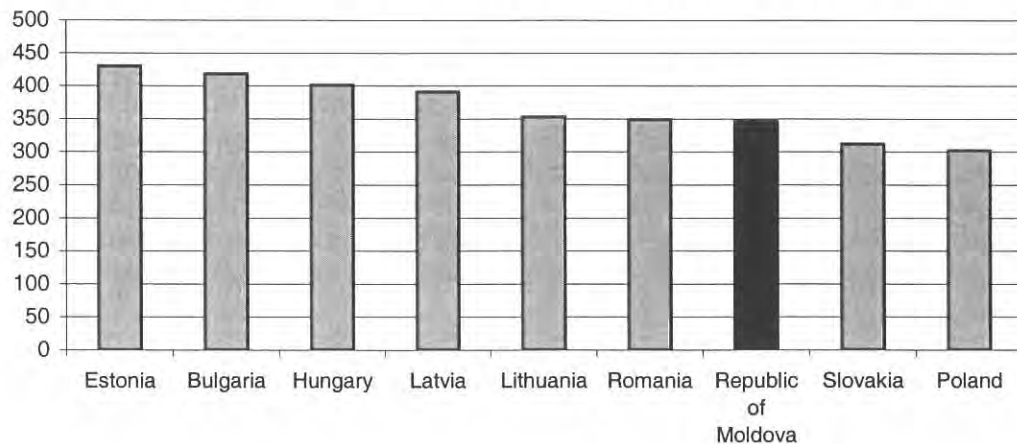
	Administrative-territorial unit	Total	Urban	Rural
1.	Municipal Chisinau	20.7	18.2	22.4
2.	Judet of Balti	20.6	16.9	23.6
3.	Judet of Cahul	20.6	16.9	21.8
4.	Judet of Chisinau	23.2	21.7	23.5
5.	Judet of Edinet	23.9	20.3	25.2
6.	Judet of Lapusna	20.4	19.4	20.8
7.	Judet of Orhei	19.6	22.1	18.9
8.	Judet of Soroca	22.2	18.6	23.8
9.	Judet of Taraclia	20.1	21.2	21.6
10.	Judet of Tighina	23.0	17.1	23.5
11.	Judet of Ungheni	18.9	15.0	20.6
12.	Gagauzia	21.5	19.3	22.9
	National average	20.7	18.2	22.4

Source: Ministry of Environment and Territorial Planning.

Table 13 shows that 'housing provision is sufficient in general'.²

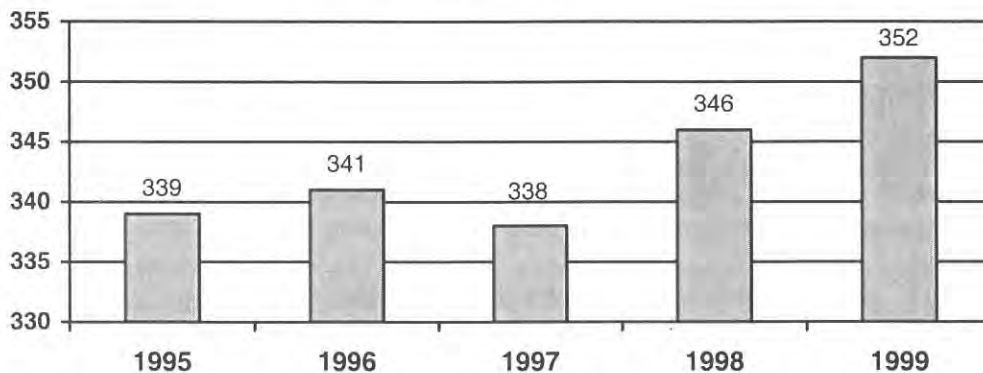
The number of dwellings per 1000 inhabitants is widely used for international comparisons. Figure XI gives these analytical data for 1998 for neighbouring countries and for the Baltic States, which used to be linked to the housing policy of the Soviet Union. According to the above, the Republic of Moldova provides quite a reasonable number of dwellings.

² UNDP, *National Human Development Report: Republic of Moldova* (1999).

Figure XI. Number of dwellings per 1000 inhabitants, in transition countries

Source: United Nations Economic Commission for Europe (UNECE), *Bulletin of Housing and Building Statistics for Europe and North America* (New York and Geneva, 2000).

More confusing still are the Moldovan data for the past five years in figure XII – the improvement is really impressive when you consider that new housing construction had, in fact, halted. This analytical figure is sensitive to population figures, and since the population is decreasing all the per capita figures record an increase.

Figure XII. Number of dwellings per 1000 inhabitants

Another problem is that official data sources may overestimate the population, because a significant number of Moldovans work and live abroad. Unemployment is very serious in the Republic of Moldova - the official unemployment rate at the end of 1999 was 11.1%. Assessment of the numbers of Moldovan workers employed abroad varies from 350,000 to 600,000.

Whatever the real number of temporary or long-term émigré workers is, they represent a minimum of one tenth of the population, though they are included in Moldovan population statistics. Consequently, this quite considerable proportion of workers employed abroad eases the pressure on accommodation in Moldova. One consequence of this is that there are some 2,000 empty single-family houses in the countryside, which will deteriorate more rapidly and may be deducted from the housing stock.

Overcrowding

Though statistics show that there is enough living space available for each person, overcrowding remains one of the most serious problems in city apartments.

The urban housing stock is composed 63% of apartments (flats), 25% of detached or semi-detached houses and 12% of hostels. The hostels date back to Soviet Union days, when they were used to

help solve labour problems by housing single professionals. After marriage these professionals became eligible for larger accommodation. Today, these houses are overcrowded as families remain on the waiting lists for years, but never receive a decent apartment. During the past decade these rooms have also been used to house people who have moved into the city to find work. Sometimes dwellings are shared by two families.

There are also cases where two or more families live in one apartment and the average number of persons per room is 1.6. Specific population groups especially may suffer from disproportionate housing problems. For example, the elderly find it hard to maintain their apartments and a minimum level of comfort. Young families and people with disabilities are often crammed into inadequate living spaces on average.

Not surprisingly then, a survey conducted for NAHRES in 1997 found that only 25% of households were satisfied with their apartments. Lack of hot water, insufficient heating during the winter, and difficulties in disposing of domestic waste are frequent problems. Many people complain about security in their districts, street lighting and poor sanitary conditions in public places. According to this survey, nearly 75% of the families in urban settlements spend about one third of their income on housing and related communal expenses.

Utilities infrastructure

Infrastructure is a vital element in assessing housing quality. Housing consumption depends on different services that the dwellers either physically need or may require socially, and the overall assessment of 'housing quality' depends on how these services are provided.

The environment has a direct impact on living conditions and on the health of the population. At the end of the 1980s, Moldova was considered to be one of the most densely populated and polluted zones in the former Soviet Union. There were 127 inhabitants/ km² and about 13% of the whole territory was built-up.

Housing quality is not just about space. It is also about facilities and infrastructure. Here a major imbalance can be seen when comparing urban and rural housing (table 14).

Table 14. Amenities and infrastructure (In percentage)

	Total	Urban	Rural
Electricity	99.0	99.5	98.7
Water			
Aqueduct	31.1	76.1	0.9
Pump	6.0	9.6	3.5
Well	62.9	14.3	95.5
Sewage	31.1	76.1	0.9
Indoor bath or shower	28.9	71.9	0.2
Natural gas			
Central network	28.5	63.9	4.8
Gas containers	42.4	25.5	53.8
Heating			
Central	32.3	75.8	3.1
Local	67.7	24.2	96.9
Telephone	36.8	65.5	17.5

Source: UNDP, National Human Development Report... (2000).

Most of the urban apartment blocks were built according to the principles accepted throughout the former Soviet Union. All the water, gas, electricity and heating systems were equally distributed to each apartment and there were no meters and no controls to regulate consumption. According to table 14, urban dwellings are well equipped with the basic facilities, whereas in the rural areas most houses only have electricity systems. Public utilities are now widely available in rural areas.

There are major differences between the water supply in cities and in villages. The Republic of Moldova has only limited water resources and the availability of clean groundwater is a matter of national importance. Only 30% of water resources meet international standards. The average daily consumption of fresh water per individual is 163 litres, which is less than that in most Central and South European countries (about 255 litres). At the same time in many of the settlements in the south of Moldova consumption does not exceed 20 litres per capita. In rural areas, less than 1% of houses have sewer systems and this is highly detrimental to sanitary conditions. This may be the reason why about 42% of the population consider that the poor quality of fresh water directly affects their health and causes disease.³

Waste disposal is another key issue. According to the National Strategy for Sustainable Development, the average Moldovan generates 300 kg of waste a year. The proportion of food waste is 35% and the total organic component about 70%. Such waste attracts rats and stray pets. In villages and small towns, people used to haul away their rubbish and dump it far from their homes, while today they dump it in nearby ravines, on roads, even near their homes. Where rubbish collection is not organized according to normal sanitary and technological principles, there is a serious risk that the water supply from streams and wells will become polluted.

Currently, the utilities infrastructure for Moldova's housing stock is in a critical condition. The conduits supplying the consumers with different types of energy (thermal, electricity, gas), or with water and sewerage services reflect earlier policies that allowed excessive consumption. The basic features are:

- the supply infrastructure is designed jointly for housing and industrial enterprises. Since several of the industrial units which were major energy users have been closed down, the supply of energy is excessive for housing estates
- consumption is basically measured by consumers, who are also charged for transmission costs
- the technical and economic lifespan of infrastructure is estimated at about 10 - 15 years. These estimated periods presuppose preventive and regularly planned repairs and maintenance, which has not been the case for years
- production and consumption records and an analysis of efficiency levels would indicate that producer-based interests prevail over national ones.

The whole utilities system was established in parallel with the expansion of settlements. Between 1970 and 1990, the capacity of the principal water pipes increased two to three times; the centralized sewer network grew tenfold and annual thermal energy consumption quadrupled. Today the condition of these installations is extremely poor. About 17% of Chisinau's water pipelines require immediate repair, and 40% of heating systems are being used far beyond their capacity so that the output of thermal installations has decreased 50% on average.

Electricity consumption is generally metered at consumer level. Gas consumption is partially metered. The most serious problems affecting housing quality are related to the thermal energy systems used to heat the major housing estates. The efficiency of district-heating stations is very low, and transmission network losses are estimated at over 50%. About half the conduits currently in use have passed their reasonable lifetime so the running costs of these systems have increased dramatically. The cost of modernizing and rehabilitating these thermal networks is estimated at \$200-300 million.

The largest part of thermal energy produced in Moldova is used in the housing sector for heating and warm water. Bearing in mind that about 98% of national energy resources are imported and that their cost has increased considerably, the emphasis has to be on conserving energy in all spheres of life.

The 1999 NAHRES report, 'Pilot Project on Energy Conservation in the Housing Sector', presents an overview of energy-efficiency improvement plans in the housing sector, backed by specific details.

³ UNDP, *National Human Development Report...* (1999).

Table 14 gives details about the provision of utilities infrastructure, but the data do not include information about the quality of services provided. Moldovan poverty assessment papers from 1999 describe several problem cases in connection with utilities. Though they are specific cases, the issues have wider application in the Republic of Moldova. In urban and rural areas alike there are some houses still unconnected to gas and water systems. Even when they are connected, people complain either about the quality of the service or about the fact that they have not received the service for years. There are also cases where electricity or water is received for only a few hours a day.

The basic problem with mains water pipes is the wear and tear. Suppliers estimate losses to be about 30-50%. The consumption of drinking and warm water is partly metered at building level, but few apartments have meters. The varied location of drinking-water sources complicates the development of mains water systems.

Recently, the Ministry of Environment and Territorial Development approved a Programme for preserving energy in construction and public management for 2000-2005. This energy project is targeted on energy saving and on reducing the environmental impact of energy production.

To help resolve these issues, a number of national targets and resolutions have been adopted. National Government Decision 337 of 25 May 1995 requires the installation of meters for water and thermal energy consumption (for dwellings and for different public entities). Implementation, however, has been patchy. At the beginning of the year 2000 only some 70% of dwellings had water meters. And when the implementation of this Government Decision was discussed in January 2001, it was also noted that the thermal metering installed by consumers was illegal, since it should have been installed by the service provider.

C. Construction and property sector

The construction industry

1991 to 1994 saw radical changes in the Moldovan construction sector. Until 1991, it was extremely centralized, with construction firms managed by several State organizations. Planning for all projects was done by the State Committee for Planning, technical coordination depended on the State Committee for Construction, and the work was coordinated by the respective construction-related ministries. Between 1992 and 1994, the major State-owned construction enterprises were transformed into joint-stock companies. By October 1999, there were 646 construction companies registered, mostly relatively small firms with 10 to 100 employees.

Large construction companies have made considerable efforts to avoid break-up and to maintain their monopoly and geographical spheres of influence despite a reduction in production volume. However, small and more flexible firms have appeared on the market as contractors and subcontractors. The emergence of private ownership has also generated changes in contracting.

All these changes in the 1990s were accompanied by a steep decline in the construction industry as a whole and especially in housing construction. Employment in the sector has decreased, and much of the construction related plant and equipment has been abandoned.

Housing production has been declining over the past five years (fig. VIII). At the same time there are about 300 unfinished apartment blocks (dating back to the 80s) and most buildings especially multi-storeyed ones urgently require major repairs. According to the data received during an interview with the Chisinau City Government, about 24% of the dwellings in the capital require emergency repairs. Data from official sources suggesting that only 0.3% of the national housing stock requires emergency repairs may be unreliable. The 'Quality in Construction Act', stating the major principles to be followed by the construction sector and including the basic quality requirements for buildings was passed in 1996.

By January 2001 there were 379 construction companies⁴ on the market. Some 8% of total construction turnover is the work of contractors in full public ownership; 66% is on new construction. Over 70% of all construction is carried out in and around Chisinau.

The average turnover of contractors according to company ownership is shown in figure XIII.

Figure XIII. Average turnover per contractor, 2000

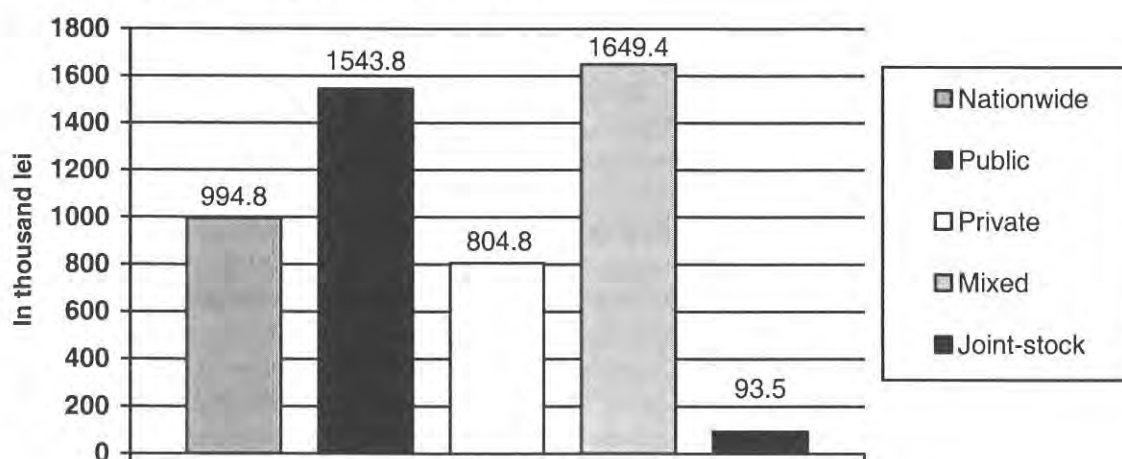


Figure XIII shows that public companies and mixed companies (which were developed from former public companies) continue to enjoy the largest turnovers, albeit in a much diminished market place.

The decrease in construction business has also caused increasing social problems. The number of people employed in construction (56,000 in 1994) has fallen by more than 50% (in 2000 it was down to 22,000). In addition, about 13% of the skilled workers are laid-off (compulsory leave) and amongst these the longest lay-offs (about 84 days) are for construction workers.

Over the same period, the number of staff employed in the real-estate market has fallen only from 32,000 to 27,000. Bearing in mind that total employment has fallen considerably over this period, the proportion of property-related employees has actually increased on the labour market from 2.5 to 4%.

This relative increase in employment stems from two major activities on the market. Firstly, the real-estate companies have found their role on the market and their activities are broadening. Secondly, the creation of private homeowners' associations is developing new alternative housing maintenance companies giving employment to people in this sector.

Construction materials

The Republic of Moldova is largely self-sufficient in traditional building materials. About 75% of house construction materials are produced in Moldova and it may be possible to make greater use of local raw materials, for example, for the production of glass, heat-resistant materials, ceramics and china. The existing limestone reserves could also be better exploited through the modernization of cutting equipment. The Republic of Moldova imports a number of construction materials, such as tiles, ceramic boards, blocks of concrete and gypsum, linoleum and wallpaper.

During the Soviet period the construction industry used technologies based on reinforced concrete panels, cast in-situ reinforced concrete ("monolithic" construction) and cut limestone. As a result of the substantial reduction in funds for the construction of dwellings, starting in 1994, the

⁴ United Nations. Economic Commission for Europe, Bulletin of Housing and Building Statistics for Europe and North America (July 2000).

construction of large panels and prefabricated elements has decreased considerably. The current trend is for low-rise housing built from stone on cast in-situ concrete frames to protect against earthquakes.

Adjacent zones in the Carpathians, including the Republic of Moldova, reflect the high seismic risk of the region. The most powerful earthquakes reach a magnitude of 7.5 on the Richter scale and 8 in the southern part of the country. Magnitude 6 earthquakes affect the north and east of the country, and the majority of the territory of the country is in the magnitude 7 zone.

Special consideration should be given to using materials and technologies with low energy consumption, or which conserve energy during construction. The country continues to apply the standards worked out for construction in stone and concrete. This is expensive and produces economically inefficient houses with a high consumption of materials, technologies, mechanisms and power resources. About 60-70% of construction costs are for materials.

At national level, a change in culture is required. Housing must become more efficient in terms of energy and materials, and more environmentally sustainable. New development standards should be adopted to promote this approach. End-users, designers, constructors and public authorities should change their attitude and use more efficient materials and construction methods.

New construction

In 1999, 2,900 buildings with a total of 284,000 m² of space were completed. Only 30% of these units were built in urban areas. The average number of rooms per dwelling was 2.96 and the space 97.7 m²/56.2 m² (total/living). Only about half of these dwellings were connected to piped water and sewerage systems, and about 40% were connected to a district-heating system.

The market price of 1 m² of dwelling is about 2,000 lei, while 1 m² of new construction costs 2,200 or more, depending on the quality, the level of equipment, the region etc. Only about 1-2% of the population has access to new dwellings.

Only 14% of the buildings put up in 1999 were publicly funded, and most privately funded buildings were individual dwellings. Of the total number of dwellings built 62% were one-family detached houses.

Some 72% (204,000 m²) of total new housing space was in brick and stone buildings. The rest included concrete in-situ and concrete frame buildings with large panels or blocks. No timber frame buildings were built.

Repair and renovation

In addition to new construction, there is a considerable amount of renovation work to be done on poorly maintained housing units. This will require greater management flexibility from construction companies.

Overall, the most common maintenance and renovation problems are: the cleaning of and repairs to common areas of apartment blocks, the high cost of maintenance, poor lighting, problems of dampness, of rubbish on the stairway or around the waste chute in apartment buildings, the lack of heating and a lack of hot water.

According to the Ministry, in 1999 major repair work was carried out in 101 dwellings, comprising some 20,000 m² of space. An average 110 lei/m² was invested in repair work. These data concern repairs paid for by public funds, though it can be assumed that private individuals also made a contribution.

D. The real-estate market

Housing property sales

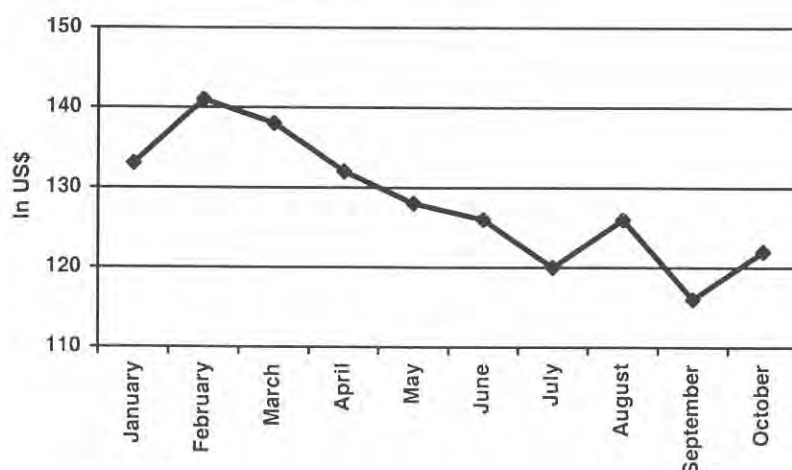
In midsummer 1997, NAHRES prepared the 'Housing Market Study' to give a general review of housing supply and demand. It also highlighted related institutional, legal, financial and technical issues. The major housing market issues are summarized in the following extract from this report.

"The choice of housing is mainly influenced by, in order of importance, location, type of construction, apartment layout, number of storeys, availability of services in the district and environmental conditions. There are distinct preferences for certain types of apartment. There has been a steady growth in the demand for high-price individual houses, partly for the owners' own use and partly as a hedge against inflation. Nevertheless, given for the high price of new housing and the serious impact of rising utility charges, the main market is likely to remain the 'trading-up' of two- or three-room apartments by buyers using their existing assets and savings."

At the end of 2000 and in 2001, the housing market has almost touched bottom. By the end of 2000, one square metre of a dwelling in Chisinau was priced (on the average) at \$125, the lowest level quoted during the past five years (fig. XIV). In 1997, when the above-mentioned report was published, the housing market was flourishing, with prices ranging from \$270 to \$300/m². Local property brokers forecast that prices could fall yet further. One property company speaks of a 60% reduction in turnover since 1996. In 2000, approximately 12,000 apartments changed hands in Chisinau.

Currently – in 2001 – there are about 70 real-estate companies in the Moldovan market. Property valuation activity is Government-licensed and 51 companies possess the relevant licence. Nineteen of them have combined to found a professional association, and five of them are considered as key actors on the market. Their activities centre on Chisinau and Balti, highlighting the great importance of 'location' where real estate is considered.

Figure XIV. Average price per square metre, 2000



Some analysts explain the fall in prices as the 'normal' cycle following the 1998 crisis. However, property dealers argue that the major reason for this fall is that prices are too high for clients/buyers. Demand for housing has fallen considerably, so the seller has to reduce the price. The market may be there, but it is limited geographically and greatly influenced by low demand. In 2000 one- and two-room apartments sold best. The price level has become the major factor in completing a deal; location and state of repair have become less important.

The greatest downturn in property sales has been for larger apartments. An analysis of on-line listings of apartments for sale in June 2001 shows: one room - 13; two rooms - 35; three rooms - 71; four rooms - 30; five rooms or more - 4.

This reflects both the availability of apartments (former Soviet construction policy allowed only limited numbers of large flats) and affordability. Small flats are the most affordable, as are their running costs, but the supply is very limited as they are quickly bought up. Three-room apartments are in good supply but demand is limited as apartments of this size are too expensive for most users/households. A three-room flat in Chisinau can cost from \$4,000 up to \$12,000.

This analysis relates to one property company in Chisinau. Only six apartments located elsewhere in the Republic of Moldova were listed.

There was no information available about apartments for rent. Although it is estimated that 10% of properties in Chisinau are rented privately, there is no information or analysis available, as much of this activity takes place in the black economy.

The market for land for development

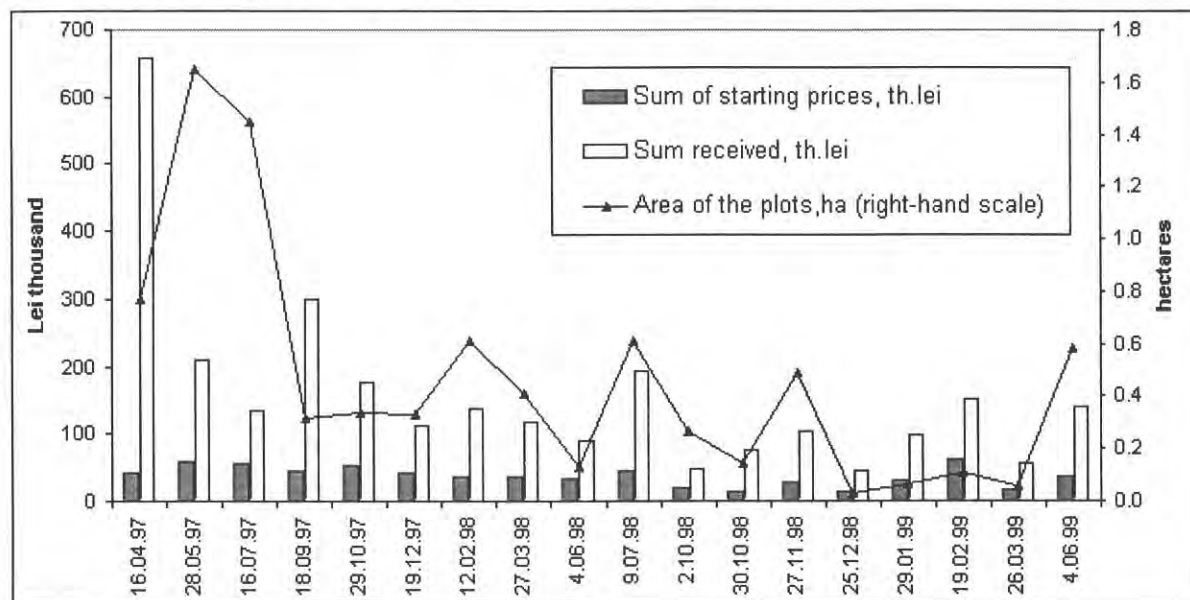
The transition to a market economy has changed the use of land through the abrupt decline in apartment block building and the free distribution of publicly owned land plots for individual construction. As a result, in cities, available land reserves were occupied very rapidly, sometimes chaotically, for the construction of rural-type individual houses. Today the majority of settlements no longer have free plots for construction. At the same time average population density remains relatively low, in cities it amounts to about 35 persons per hectare.

The market for land for development is likely to continue changing:

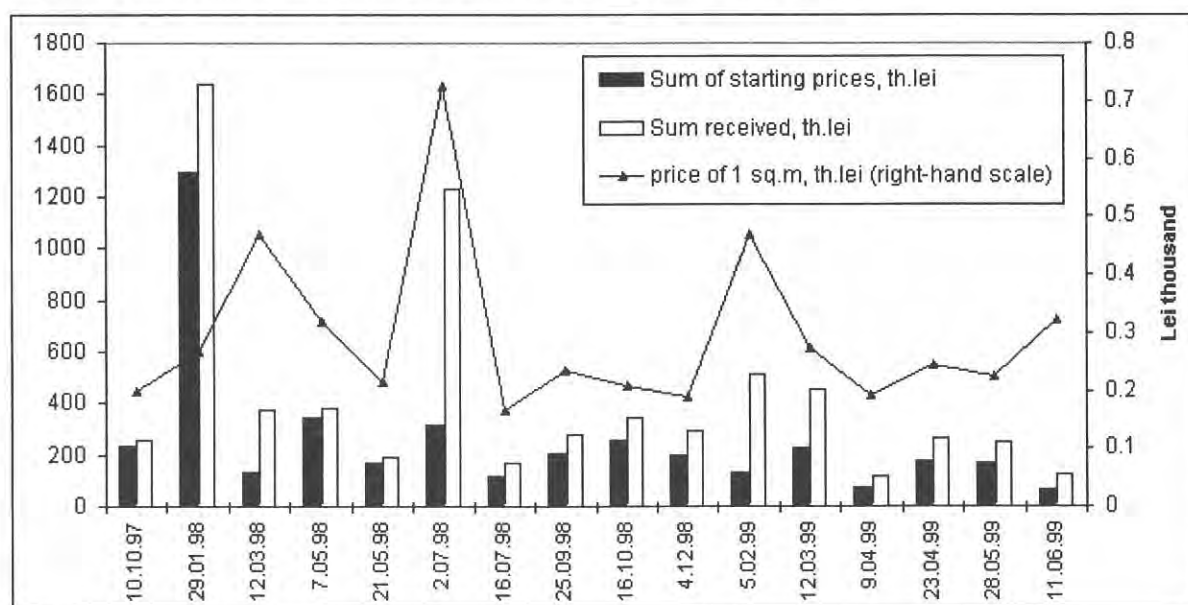
- The introduction of the new Law on the Real Estate Cadastre and the new unified land and property title, once approved by Parliament, should be a major boost to the land market by giving security of ownership rights, laying the foundation for a land and housing market information system and an improved property-based revenue system and providing more secure collateral for bank loans.
- The recent introduction of land auctions is an important step towards establishing market prices for land in urban areas.
- The need to change the approach to urban planning and land management provides the opportunity for public - private partnerships in land development. These may take the form of fully-serviced development sites with agreements with developers on the cost recovery of off-site infrastructure, and/or partly serviced sites allowing families in the middle-income range to construct their own housing incrementally as time, funds and other resources allow.
- There is the opportunity for local governments to give a lead to the currently small individual and commercial developer industry by providing information and advice on, inter alia, streamlined procedures for obtaining land, the identification of phased land release for development, etc. as part of its proposed enabling role in the land and housing sector.

According to the Law on the Normative Price of Land (1997), all citizens of the Republic of Moldova and foreigners have the right to buy a plot of land. Although plots can be owned, sold or leased, the market land-pricing mechanism is not yet effective. The Cadastre uses an appraisal based on the physical valuation of land plots. Legislation lays down that the State and local authorities decide land prices and set rents based on land location.

Two types of auctions for land acquisition have been introduced: one for leasing land and one for buying land into full ownership. Temporary regulations on sales procedures have been developed and pilot projects implemented. All land plots to be leased have a particular designated use and bidders may choose what to build on them according to the lists proposed by the municipality. Leases are offered for different periods of time extending from 5 to 50 years. According to municipal experts, more attention is given now to auctions for selling land plots rather than auctions for the right to lease them (see figs. XV and XVI).

Figure XV. Total auctions for the right to lease land, 1997- 1999

Source: Department of Land Use in Chisinau Municipality.

Figure XVI. Overall distribution of auctions to buy land, 1997- 1999

Source: Department of Land Use in Chisinau Municipality.

Auctions (by tender) for planning and conducting public investment will help to ensure equal conditions for all participants in the investment process and to create a competitive environment.

Urban land privatization is continuing, although not quickly enough. So far 16 auctions have been held and 64 land plots sold (see fig. XIV). On average, the price stood at 294 lei/m², while ranging from 198 to 726 lei at different auctions. A clear decrease in demand for land plots was observed in the second half of 1998. However, in the beginning of 1999 the situation started improving, although auctions are still not held regularly as was envisaged.

According to the Department of Privatization and State Property Administration, there are 1928 'associated' land plots, including 341 plots smaller than 0.5 ha. Almost all of these small land plots have been privatized, but none of the large land plots (6-10 ha) has been bought. From the beginning of privatization (July 1997), 805 land plots have been bought. During 1998, 88 'associated' land plots were

privatized with a total area of 16.8 hectares. The amount received for these plots was 3.3 million lei, of which 1.7 million lei was transferred to the State budget.

Rented housing

There are two types of rented housing: residual municipal housing, which remains in the ownership of local authorities, and privately rented housing. Limited information is available on this sector, particularly on privately rented housing.

Municipal housing

There are some 38,000 municipal apartments, around 14% of the condominium stock. These apartments have not been privatized for a number of reasons:

- Younger households had insufficient working credit and insufficient funds to pay the cash balance.
- Disputes between the adults in the household, consequent, for example, on separation or divorce.
- Some households did not want to become owners because of the red tape (production of documents, queries, etc.) and felt it was all unnecessary.

Local authorities are responsible for keeping waiting lists (a statutory requirement), managing the accommodation, allocating apartments, collecting rent and maintaining buildings.

In Chisinau, there are some 60,000 names of the waiting list. Only five or ten people on the housing list are rehoused each year, suggesting that tenancies are changing outside of municipal control.

Maintenance is carried out by the municipal maintenance companies on the basis of a statutory charge of 0.19 lei per month per square metre. This is equivalent to around \$115 a year per apartment on average, and is insufficient for proper maintenance of the apartments.

Rents are also very low, at 0.2 lei per month per square metre. By contrast, heating charges work out at 300 - 400 lei per month for the average apartment.

In conclusion, it is fair to say that municipal rented housing cannot be compared to the social rented housing available in many European countries for people most in need and unable to arrange their own housing in the market place.

Privately rented housing

Very little information is available about the private rented sector in the Republic of Moldova. The sector exists largely outside of the formal economy and without regulation. In Chisinau, 20,000 - 30,000 dwellings, some 10% of the stock, are estimated to be rented on the black market.

There are several reasons why dwellings are rented out. For example:

- Households with surplus accommodation rent out a portion of their apartment to boost their income.
- Households move in with friends or relatives in order to rent out their own apartment.
- Some households acquired more than one dwelling on privatization. Others have inherited property.
- Owners are working abroad.
- Municipal apartments are sublet.

The sector is apparently not sufficiently organized or profitable to allow private renting to operate as a business on its own. There is no market for the sale of predominantly rented apartment blocks.

There are no laws in place to control the private rental sector. Tenancies are informal, there is no security of tenure as such, and possession may well be regained by landlords through unlawful means.

Rents are in the region of 6-7 lei/m² (over 30 times municipal rents), clearly demonstrating the potential for this sector. However, earnings from letting out property tend to be undeclared, and form part of the black economy.

Chapter III

INSTITUTIONAL FRAMEWORK

Introduction

The change from a planned economy to a market economy requires great adaptability, not only on the part of the State, which has to enact new legislation, but also in society, where the changes must be anchored. Many existing institutions will receive new tasks, others will be abolished. New institutions will be established to help ensure a successful transition. Finally, every citizen will have to adjust to the new circumstances.

Housing management takes the form of a hierarchical pyramid, which includes parliament (some committees), Government (some ministries), public agencies, public local administrations (different levels), non-governmental organizations and, finally, individual householders. This chapter will explain the relations between central and local public authorities, between central and local public authorities and non-governmental organizations, and how the institutional framework established in the Republic of Moldova influences housing management and householders.

Figure XVII shows the public sector's institutional structure.

It is quite a challenge for each citizen to assume responsibility for his dwelling as a result of the privatization of the housing stock. Every owner must accept responsibility for the poor condition of his dwelling due to a lack of maintenance over many years. A new institutional framework is needed to create the tools necessary for a better standard of housing and improved living conditions.

Moldova's transition may last a long time. During that time the institutions will be learning their new roles, for they cannot be expected to be effective immediately.

For example, a new mechanism for the maintenance of newly privatized housing stock is only gradually developing from the former system based on municipal maintenance companies. Householders are apparently not yet ready to exercise their power as property owners in association with their neighbours in a way that will improve their housing conditions.

This chapter analyses the current institutional framework and identifies the key changes needed to improve housing conditions.

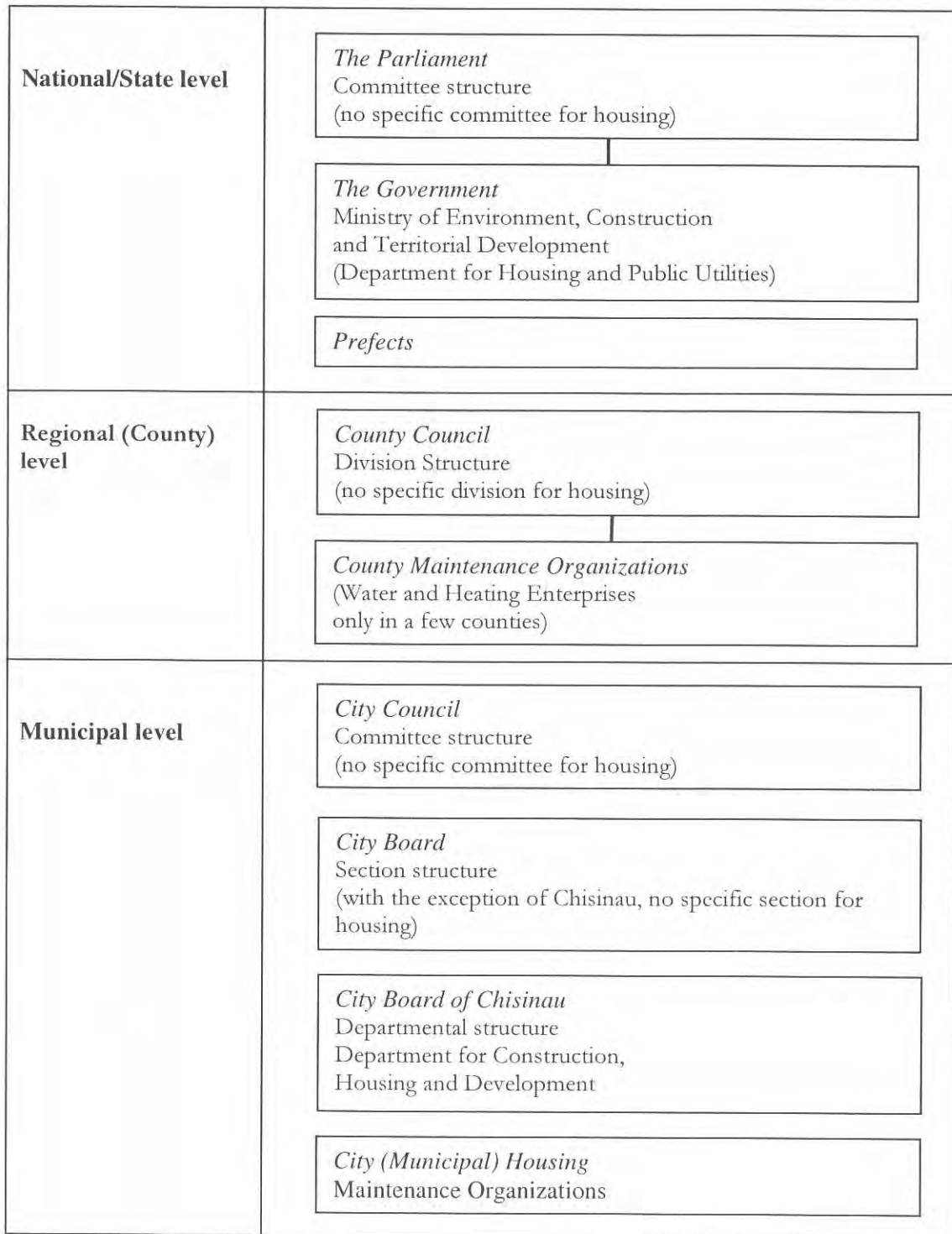
A. National institutions

The constitution defines Moldova as an independent republic. It defines and limits the power of the State, since power belongs to parliament, the President, the Government and the courts.

The President is elected for a four-year term by parliament. He is assisted by an advisory staff.

The present Legislative has 101 deputies. Its members are elected for a four-year term by proportional representation. Parliament is considered legally constituted only after the mandates of two thirds of the elected members have been validated. The structure, organization and functioning of parliament are set out in its internal rules and regulations. Members of parliament have the right to nominate candidates for the appointment or election to the Standing Bureau, to committees and to other parliamentary working bodies. They can propose items for the agenda of meetings of the legislative forum and subsidiary bodies. They can propose the creation of ad hoc committees and can initiate and discuss draft laws, decisions and other legislative acts. Each committee includes representatives of all the parliamentary groups. The permanent committees approve draft laws and legislative proposals,

Figure XVII. Institutional structure of the public sector



undertake parliamentary enquiries, debate and take decisions on other problems moved for examination by the Chairman and vice-chairmen of parliament. The most important documents are debated in the parliamentary groups. At plenary sittings, draft laws are debated, as a rule, in two or three readings.

Parliamentary institutions

Parliament has established a number of standing committees:

The Legal Committee for Names and Immunities
The Committee on Economy, Industry, Budget and Finance
The Committee on State Security
The Committee on Foreign Policy
The Committee on Human Rights and National Minorities
The Committee on Public Administration
The Committee on Culture, Science, Education, Youth and the Mass Media
The Committee on Agriculture and Food Industry
The Committee on Social Protection, Health and Family
The Committee on Environment and Territorial Development.

Housing matters do not have a separate committee and hence have a low priority in parliament. Most housing matters are discussed in the Committees on Economy, Industry, Budget and Finance, on Public Administration, on Social Protection, Health and Family, and on Environment and Territorial Development, making it a rather fragmented subject.

One way to increase the public and the political profile of housing would be to establish an advisory board which would meet twice a year to discuss the status of Moldovan housing, and make recommendations to parliament and the Government. The board should include a wide range of stakeholders (municipalities, ministries, private sector, homeowners' associations, academics, etc.).

Parliament has set up an administrative-territorial reform commission to look into possible local government changes.

The Government of Moldova consists of the Prime Minister and 15 other ministers and the following ministries:

- The Ministry of Economy,
- The Ministry of Agriculture and Food Industry,
- The Ministry of Industry,
- The Ministry of Transport and Communication,
- The Ministry of Energy,
- The Ministry of Finance,
- The Ministry of Education,
- The Ministry of Culture,
- The Ministry of Health Protection,
- **The Ministry of Environment, Construction and Territorial Development**
- The Ministry of Labour and Social Protection,
- The Ministry of Foreign Affairs,
- The Ministry of Justice,
- The Ministry of Internal Affairs,
- The Ministry of Defence.

The Ministry of Environment, Construction and Territorial Development

The Ministry of Environment, Construction and Territorial Development is responsible for the housing sector, although other ministries are also involved. The Ministries of Economy, of Finance, of

Labour and Social Protection, of Justice, as well as the Departments of Privatization, and of Statistics and Sociology, the National Agency for Geodesy, Cartography and Cadastre and the National Bank of Moldova are also involved in national housing matters. The organizational structure of the Ministry of Environment, Construction and Territorial Development is shown in figure XVI. Housing activities are dealt with in the **General Division for Housing**. This Division is responsible mainly for the implementation of the “National Housing Concept” and the “Housing and Real Estate Market Strategy”, and the development and implementation of State housing programmes.

The current priorities in the implementation of State programmes are:

- Maintenance of the housing stock;
- Modernization of the housing stock, where possible;
- New housing construction by attracting funding from the general population.

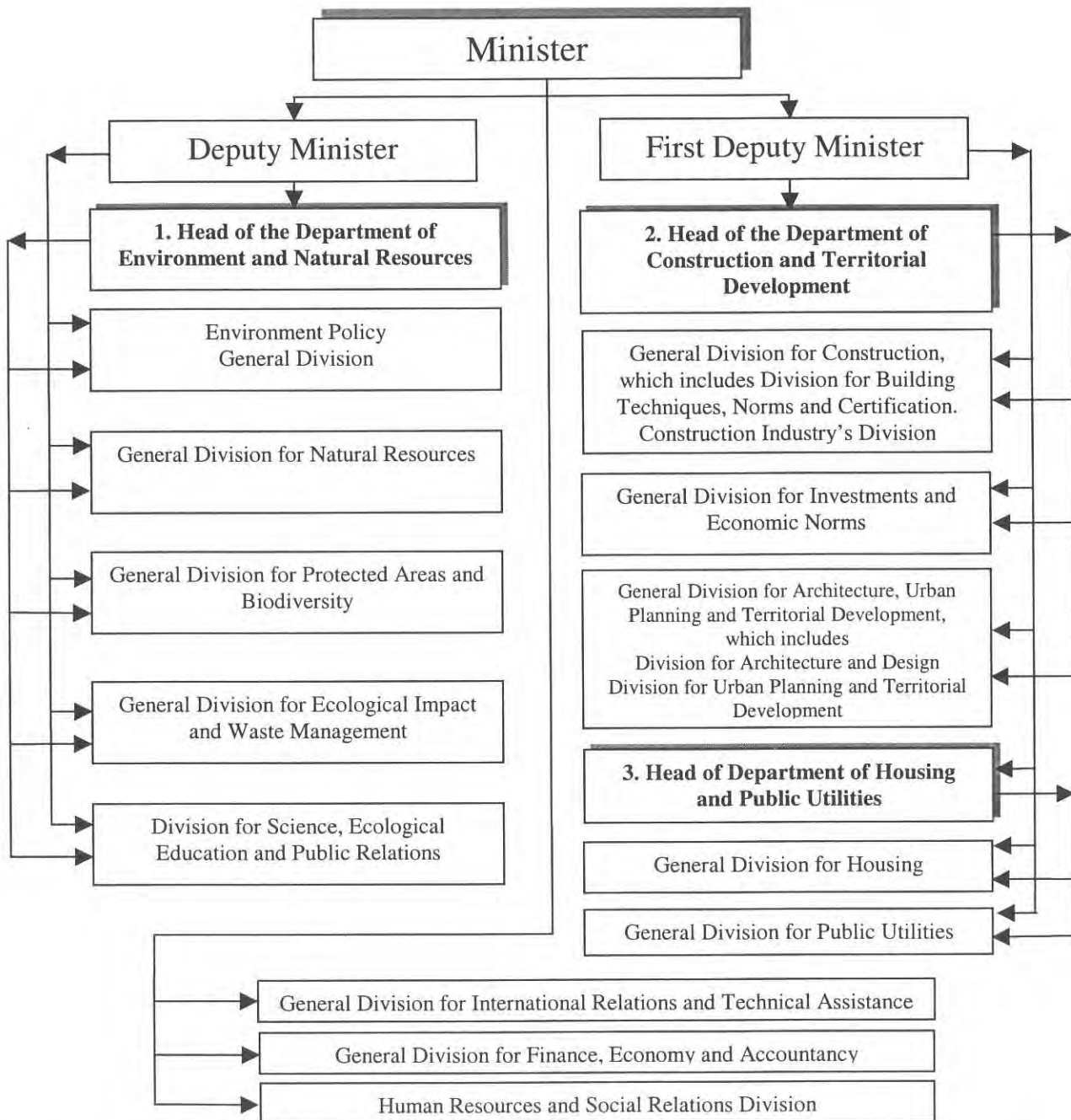
In accordance with these priorities, the key tasks are:

- Developing and implementing State policy and strategy in the housing sector;
- Implementing economic and organizational reforms in the housing sector;
- Developing and implementing State policy in the administration of housing;
- Participating in the development of an investment policy for the housing sector;
- Creating the institutional framework for the housing sector;
- Drawing up draft legislation for the housing sector;
- Creating the environment for a flourishing real-estate market;
- In conjunction with local authorities, coordinating and monitoring the establishment of homeowners’ associations;
- Developing proposals for improving housing sector organizations;
- Cooperating with local authorities in developing local housing programmes;
- Cooperating with the Ministry of Economy in developing subsidy instruments for vulnerable categories of the population especially with regard to housing maintenance;
- Creating a housing statistics database of information not included in current official statistics;
- Organizing national and regional workshops, seminars, conferences on the problems of the housing sector;
- International cooperation.

The General Division for Housing is responsible for overall policy-making, while cities, counties and municipalities have a duty to implement Government policy.

The Division for Housing has a staff of six persons, including the head of the Division. There is a disparity between the size of the staff and the volume of the tasks. There is therefore also a gap between approved policies and their implementation, for example, legislation provides for mandatory membership of homeowners’ associations but only 600 associations have been established.

Figure XVIII. Organizational Structure of the Ministry of Environment and Territorial Development, 2001 (after reorganization)



List of institutions and enterprises which are subordinated to the Ministry of Environment, Construction and Territorial Development

- 6 State inspection and control institutes
- 9 Research and design institutes
- 7 Enterprises
- 2 Teaching centres
- 7 Service enterprises
- 21 Joint-stock companies (with shares in State hands)

The Division has to be strengthened if more comprehensive improvements in the housing stock and in the housing sector are to be made. The Division needs:

- A planning section
- A legal section
- A social housing and renting section
- A private ownership section
- A maintenance section.

The staff needs to be increased accordingly.

Because of the slow implementation of national housing policies, the General Division for Housing should take over responsibility for implementation, and establish an implementation body to ensure that government policy is delivered on the ground. The body may be organized as a national housing agency or as local divisions in the county administration. In either case both local operating units and a central planning office will be essential. The initial tasks of this body should be to:

- Organize the establishment of homeowners' associations
- Set up a social housing safety net
- Work with the financial sector to create new market funding mechanisms.

Given the savings that can be achieved by energy-efficiency measures in the building stock, it would be useful to combine the above-mentioned implementation bodies with regional or local energy advice centres.

A new national housing agency should take over some of the functions of the Department of Privatization. This transfer of responsibility and tasks is a natural part of the transition. The General Division for Housing should be responsible for the entire housing stock after privatization. The national housing agency should work very closely with local authorities.

Within the Ministry a satisfactory housing policy cannot be developed or implemented without close cooperation between the General Division for Housing and the Department of Construction and Territorial Development. The Division of Architecture and Design is particularly relevant. Rigorous building norms and regulations are essential to deal with the housing that is in very poor condition. Moldova's 80 construction inspectors will play an important role in achieving this and in completing the unfinished apartment blocks.

The long-term housing perspective demands that both the General Division for Housing and the Division for Urban Planning and Territorial Development should contribute to the sustainable development of new settlements.

In the transition process, the Ministry has gained from the analysis and the research of State research institutes. Often foreign capital has been involved. The National Centre for Research and Building Norms (CERCON), and the National Research and Design Institute (Urbanproiect) have been influential. It is important for such research to continue even though State funding is very limited. Research institutes can be important participants in the evaluation of pilot projects to determine the most efficient technologies. These institutes will also be central to the collection of experience from similar projects in other countries in transition.

Other State institutions

The activities of other ministries play an important role in the development of the housing sector and of housing policy:

The Ministry of Economy, which is responsible for examining and presenting investment proposals (including for housing construction), for analysing the different sectors of the national economy (including housing construction and public utilities), for developing State strategies and

programmes on energy conservation and subsidies to vulnerable groups of people and to producers of heating and hot water;

The Ministry of Finance, which is responsible for the State budget, for taxation and for financial policy instruments;

The Ministry of Labour and Social Protection, which is responsible for the benefit system;

The Department of Privatization, which is responsible for privatizing the housing stock and enabling homeowners' associations to be formed;

The National Agency for Energy Management, which is responsible for preparing a methodology for setting tariffs for water, heating and energy consumption and then for controlling its implementation.

The **National Agency for Geodesy, Cartography and Cadastre** is the key institution for the implementation of the cadastre project with financial assistance from the World Bank. Its work is crucial to the drive to regularize the housing market by registering secure title for property owners. Most agricultural registrations are completed and the registration of urban properties is under way. All changes of ownership are registered. The Agency has 26 local branches. The next phases of its programme should include the computerization and mandatory recording of transaction values.

The prefects

The prefects are the local representatives of the Government and administrators of the decentralized public services of the ministries, departments and other specialized central authorities. The Government appoints a prefect for each county, for each autonomous territorial unit and for the Municipality of Chisinau. The prefect resigns when the government that appointed him resigns.

The prefect's main responsibilities are:

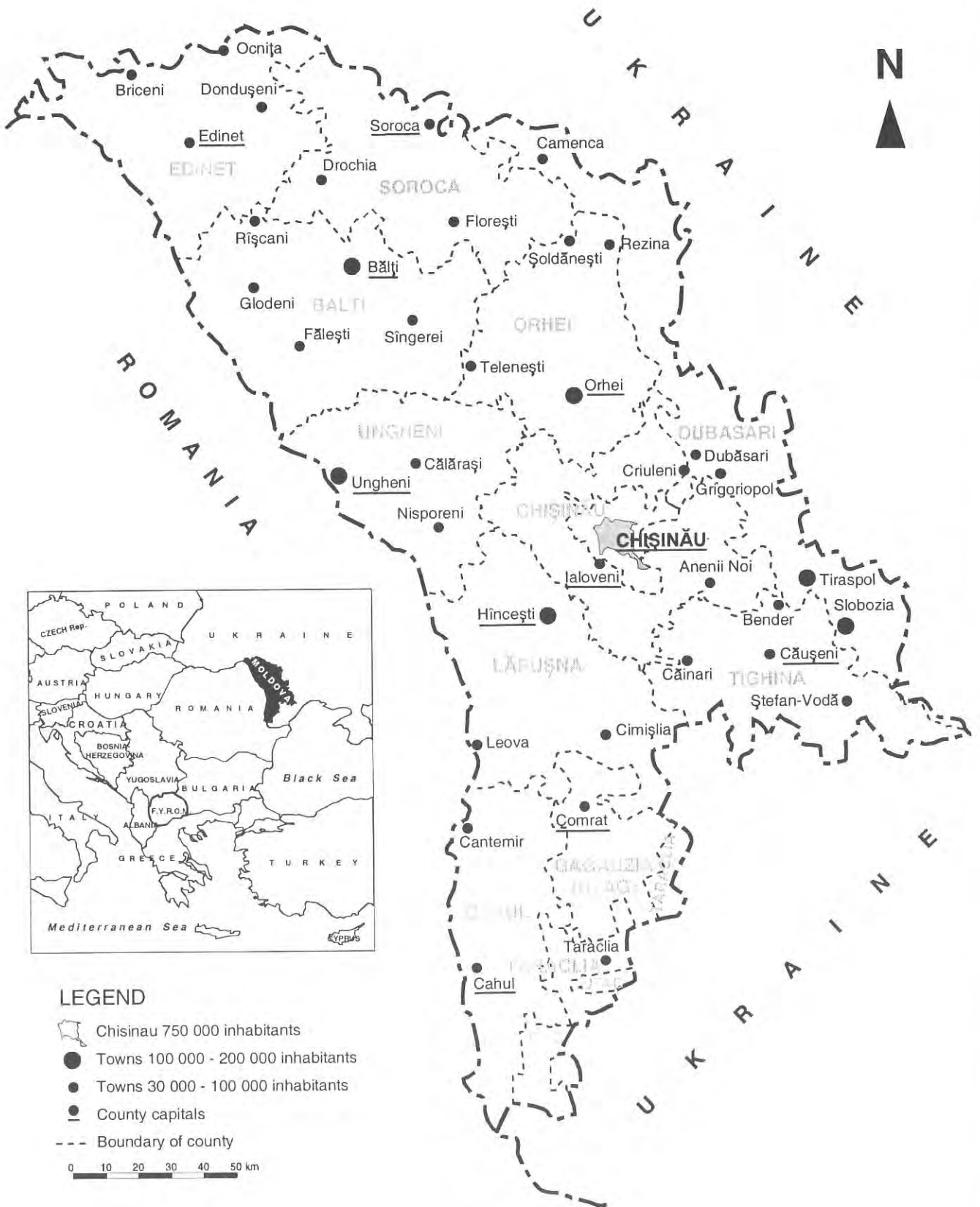
- To ensure that local authorities operate within the law;
- To act as principal loans accountant (in accordance with Law no. 298-XV from 22 June 2001);
- To prepare a budget forecast and present it to the county council for adoption (in accordance with the above-mentioned law);
- To check the legality of decisions adopted by local authorities;
- To present reports on the economic, cultural, social and administrative situation of the county to the Government.

B. Regional and municipal structure

Under the central government, the Republic of Moldova is divided administratively into 10 counties, the capital Chisinau and two territorial units, Dubasari (Transnistria) and Gagauzia.

Each county is divided into cities, municipalities and villages. Table 16 shows the distribution and structure of the settlements and the number of administrative bodies.

Figure XIX. Administrative map of the Republic of Moldova



The boundaries shown at this map do not imply the official endorsement or acceptance by the United Nations.

Table 15. Administrative units

Counties	Municipalities	Towns	Villages	Total settlements
Balti	1	6	104	243
Cahul	1	1	70	119
Chisinau		5	103	155
Edinet	1	7	97	165
Lapusna	1	4	90	149
Orhei	1	3	96	174
Soroca	1	4	106	191
Ungheni	1	3	83	163
Taraclia	1	-	10	13
Tighina	2	2	60	93
Dubasari (Transnistria)	3	7	69	147
Administrative Territorial Unit Gagauzia	1	2	23	32
<i>Municipality of Chisinau</i>	<i>1</i>	<i>8</i>	<i>14</i>	<i>37</i>
Total	15	52	925	1681

The functions of municipalities and villages include:

- Territorial planning, urban planning, management of the settlement and its administrative territory;
- Building and maintaining roads, streets, bridges and public spaces;
- Constructing and operating water-supply, sewerage, water-treatment and sanitation systems, and sites for depositing and processing household waste;
- Building and maintaining housing stock.

Furthermore, the counties and the Municipality of Chisinau are responsible for:

- The socio-economic development of their territory;
- Environmental protection.

The public administration in villages consists of the council, which takes decisions as a deliberative authority, and the mayor, who is the executive authority.

Municipal enterprises

One of the main tasks of local government is to ensure the proper functioning of public services such as water supply, sewerage, etc. Another important task is the management and maintenance of the remaining publicly owned housing stock. These functions are organized in public companies or enterprises. The municipal councils approve the tariffs, which are expected to cover the cost of these operations, including the maintenance of privately owned housing.

The major problem for the maintenance companies is their poor financial foundation. They do not receive payments from all their customers, which makes it impossible for them to carry out the planned and necessary activities. Secondly, the lack of payment is tantamount to a system of cross-subsidizing. The owners and the tenants who do pay their bills are paying for the services used by the non-paying group of owners and tenants. This system implies a lot of hidden and uncontrolled subsidies in the housing sector (non-government determined subsidies).

Another serious problem is that the fees charged are too low to provide effective maintenance and so preserve the building and avoid depreciation. The highest priority is given to emergency

maintenance followed by minor repairs; the lowest priority to renovation programmes. Even though every building is a separate property owned by the apartments owners, no separate accounts are kept. No reports specify whether or not each building has a surplus or a deficit, so there is another kind of cross-subsidy: residents in one building are paying for work carried out in other buildings.

The introduction in 2000 of nine specific social groups that are entitled to subsidies from the Government is one step towards reducing cross-subsidy. Nevertheless, many people outside the nine groups do not pay for utilities and services.

Consequently, there is a mix of maintenance and social security involved in the operation of municipal maintenance companies, which leads to ineffective management and maintenance. Herein lies "the prisoner's dilemma". People who can pay do not pay because others do not pay either. A vicious circle is created.

The municipal maintenance companies were established to undertake maintenance and servicing of the municipal (publicly owned) dwelling stock. Even though the dwelling stock has been privatized, the companies still provide services to the homeowners. The continuation of these unreformed companies presents certain distinct problems:

- There is no competition between the different municipal maintenance companies. Each company operates as a monopoly within its own municipality. Efficient companies cannot expand their business and inefficient companies have no incentive to improve.
- There is also a lack of competition inside the maintenance sector despite the fact that private owners have the right to establish associations. The development of private homeowners' associations is inhibited since any new ones are required to take over the debts owed to the municipal service companies from that block of apartments (see chap. II). This is one of the reasons why only 600-odd associations have been established and so few private maintenance companies are seen on the market. Without a significant number of truly autonomous PHOAs, private enterprises will not enter this business.
- There is a need for an independent inspection unit for the maintenance service provided to private homeowners.
- As long as there is a link between the municipality and the municipal maintenance companies there is a great risk that the municipalities will continue to use the companies to discharge their social housing obligations. This is inappropriate in Moldova's circumstances where the top priority is to ensure that maintenance work is being properly undertaken.
- It is unlikely that significant public funds will be made available in the next few years to help improve the efficiency of municipal maintenance companies. It is therefore imperative that private funds and expertise be attracted into the maintenance sector.
- It appears that the operations of the maintenance companies are based on cash flow and not on traditional economic principles.

The key to resolving this complexity of problems is to separate municipal maintenance companies from municipal ownership. This can be achieved through whole or partial privatization. At the same time limitations on the operation and management of such companies should be removed so as to facilitate competition and the input of private finance.

C. Private-sector institutions

The recent development of other real estate and market infrastructure elements has helped boost the number of housing transactions. Professional real-estate companies have started to offer their

services to clients involved in housing transactions. At present the largest of such companies process some 10-12 housing deals per month. The National Real Estate Chamber was created in the form of an NGO and it has started to provide legal assistance for real-estate sales.

There are also licensed valuers and the law regulates their activity. The National Agency for Geodesy, Cartography and Cadastre is responsible for issuing licences for valuers. The valuation of a dwelling costs 100-200 lei and valuation should be done within a month of application. The National Association of Evaluation has been created to support the development of a real-estate valuation profession.

But there are various institutional gaps in the development of a sustainable housing market. For example, there is no adequate and accepted basis for professional property valuation and the market value is rarely used in real-estate transactions. In addition, current licensing procedures for real-estate brokers do not extend to their activities outside privatization transactions. As for land, there is no systematic information base for recording, analysing and disseminating data on property prices, plot availability, building material choice and availability and other aspects of the property market.

Figure XX. Main private-sector institutional structures influencing the housing sector

<i>Employers' and producers' organizations</i>	<i>Professional organizations</i>	<i>Consumers' organizations</i>
National Managers' and Professionals' Association for Construction	National Society of Architects	National Union of Homeowners' Associations (60 members from different cities)
National Managers' and Professionals' Association for Public Utilities and Housing Maintenance	National Real Estate Chamber	The Chisinau Municipal Council (about 58 members) of Homeowners' Associations
1274 construction, designing and building materials companies (2001)	National Association of Evaluation	578 homeowners' associations and 243 individual housing cooperatives
National Association of Water Suppliers (Moldova Apa Canal) (35 members)		
127 enterprises for public utilities		

Financial institutions and the construction industry

For financial institutions see chapter V (Financial Framework).
For construction industry, see chapter II (Existing Housing Stock and New Housing Construction).

D. Private homeowners' organizational structure

Private homeowners' associations

In a country where more than 90% of the dwelling stock is privatized and 25% of the housing stock is in apartment blocks, one of the most important organizations is the private homeowners' association (PHOA). All activities related to the management and maintenance of apartment blocks should be anchored in such organizations. Indeed, the new Law on Housing Condominiums requires a PHOA to be set up for each apartment block for this purpose.

In the free market economy, power rests with individual property owners. However, using that power effectively means working with neighbouring homeowners to:

- Organize effective management of the apartment block;
- Organize maintenance, major repairs and refurbishment when required;
- Arrange long-term finance for building works;
- Get the best value-for-money building contracts, and energy deals;
- Ensure quality maintenance and other services;
- Organize the management of common property in the building as well as the plot of land;
- Attract equity capital from the owners.

A democratic way to set up an institution to take care of these tasks is to establish an association of the owners in the building. The owners are jointly responsible for the operation (and the safety) of the building and they must jointly bear the financial burden. In the case of partial municipal ownership, the municipality has to join the association. It is unlikely that much improvement in the standard of apartment blocks will be possible without PHOAs taking on this vital role.

It is therefore in the Government's interests to facilitate the establishment of PHOAs. So far only 1000 exist (including cooperatives). It will be necessary to remove the various obstacles to establishing and operating PHOAs, including finding more equitable ways to deal with existing debt. The local authorities, the municipality and the municipal supply and maintenance companies will benefit from the establishment of PHOAs because of the consequent clarification of responsibilities in each privatized multi-apartment building. Through cooperation with the associations and by providing the necessary information and data about the building, local authorities can contribute to a successful start-up for PHOA operations.

Transparency in the provision of condominium services requires one PHOA for each apartment block. Owners must be able to see how their money is being used to better their housing conditions. At present, some PHOAs have been established covering a number of apartment blocks and some of them have a membership of over 12,000. In these structures, little transparency is possible, owners feel disconnected from real decision-making and the overall effect is largely to replicate the existing municipal maintenance company arrangements.

However, the management of large apartment blocks with significant technical problems requires skilled professionals. This may be achieved in a number of ways, for example by forming a "group" (or unions according to the Law on Housing Condominiums) with other PHOAs to share professional staff and encourage economies of scale, always remembering that authority rests with the owners in each block.

Alternatively, it is likely that private companies offering professional condominium management services will spring up in the market place. PHOAs will in effect have a choice in how they procure their management and maintenance services.

A number of PHOAs rely on self-help to undertake cost-effective maintenance. Others use the few new private building contractors and many still use the municipal maintenance companies. Choice in procuring building work is to be encouraged so long as the PHOA remains in control and is able to switch contractors in order to get better results. Today the associations and their boards do not have such experience and skills. Education in contracting for the board members and managers of the associations will facilitate sound decision-taking. The dissemination of best practice will also be helpful to fledgling PHOAs.

These modern institutional structures will gradually transfer responsibilities from local authorities and municipal maintenance companies to the homeowners. A considerable number of jobs will be created in condominium management and in private building and maintenance companies. The aggregate annual turnover of management and routine maintenance in multi-family buildings will be in excess of \$100 million.

Such a scale of enterprise, on which around a quarter of the population depends for the provision of satisfactory housing conditions, will require State regulation. Regulation should be aimed at providing individual homeowners with the right to decision-making in the PHOA, to information about the management of the condominium, and to redress should things go wrong. Of equal importance will be the development of good practice guidelines and training in the operation of a PHOA.

National Union of Private Homeowners' Associations

The National Union of Homeowners' Associations was established two years ago and today has fewer than 60 members. The activity level is very low because of the lack of funding, which is why the PHOAs from Chisinau associated with the Chisinau Municipal Council of Homeowners' Associations (58 members). A strong and powerful association could be an important participant in the further development of the housing sector. The National Union of PHOAs has to be strengthened if it is to fulfil its aims:

- Education
- Legal service
- Political lobbying
- Other advisory services

An increasing number of PHOAs will boost membership of the National Union of Private Homeowners' Associations.

Association of cooperatives

A small part of the privatized dwelling stock is organized as cooperatives. These represent 3% of the total dwelling stock. It means that close to 300 cooperatives manage approximately 40,000 dwellings and 2 million m².

In the national context cooperatives play only a minor role in the development of the housing stock, even though more than 100,000 people live in those dwellings, but they could well become a target for pilot projects in maintenance and in reconstruction because of their clear ownership structure.

At present, there is no association of cooperatives. This could be recommended since conditions for cooperatives are different from those of conventional homeowners' associations.

Tenants' organizations

Tenants in Moldova are generally people who either cannot afford to buy their own apartment or do not want to own property. Many have a low income. There appear to be no organizations exclusively representing their interests. Tenants in apartment blocks with a mixture of homeowners and tenants should be represented in the PHOA by the local authority as owner, in accordance with the Law on Housing Condominiums. A separate tenants' organization is preferable.

In due course, some people will choose to rent instead of owning. This new tenant group will be a strong group of people living in new residential buildings owned by private landlords.

In general, it is likely that for the time being tenants' organizations will play but a minor role in the Republic of Moldova's housing sector.

LEGAL FRAMEWORK

The Republic of Moldova now has extensive legislation regulating most of the housing-related sectors, which has been enacted over a historically short period of time. The legislative process is an ongoing one, as old laws, codes and regulations are gradually being redrafted or replaced by new ones. In this situation, some contradictions between legal acts and gaps in the legislative system are inevitable. This chapter explores the housing-related legislation and identifies further areas for action.

A. General framework legislation for housing

Developing a new legal framework for the transition from a planned to a market economy was one of the major tasks facing the Republic of Moldova after it became an independent sovereign State in 1991. In the past ten years, Moldova has made significant progress in laying the groundwork for a new approach to housing distinct from the former system of State-planned housing allocations. New legislation has been passed to reinstate the private ownership of housing, return real estate to its previous owners and regulate the development process, etc.

Main legislation

General

- The new **Constitution of the Republic of Moldova** adopted by parliament on 29 July 1994
- The National Housing Concept, adopted by the Government in 1994
- The Housing and Real Estate Strategy, adopted by Government in 1999
- Law No. 2718-X, 3 June 1983 on Housing Code
- The new Housing Code – draft 2001
- Law No. 186-XIV of 1998 on Local Public Administration

Land and real estate

- Law No. 828-XII, 25 December 1991 – the Land Code
- Law No. 459-XII, 22 January 1991, on Property
- Law No. 861-XII, 14 January 1992, on Leasing
- Law No. 302-XIII, 2 December 1994, on the Normative Price of Land
- Law No. 564-XIII, 13 July 1995, on Concessions
- Law No. 488-XIV, 8th July 1999, on Expropriation for Public Utility Purposes
- Law No. 523-XIV, 16 July 1999, on the Public Property of the Administrative-territorial Units
- Law No. 838-XIII, 23 May 1996 (and subsequent No. 563-XIV, 29 July 1999), on the Real-estate Cadastre

Housing privatization/restitution

- Law No. 1324-XII, 10 March 1993, on Housing Stock Privatization (and subsequent amendments in 1994 and 1995)
- Law No. 1225-XII, 8 December 1992, on the Rehabilitation of Victims of Political Persecution
- Government Decision No. 338, 26 May 1995, on the Restitution to and Compensation for Property of Politically Persecuted Persons
- Legal acts for stimulating the completion of unfinished blocks of flats: Parliamentary Decision No. 834-XIII, 16 May 1996, Government Decisions Nos. 676/1995, 601/1996, 945/1999 and 675/1999.

Housing management

- Law No. 913-XIV, 30 March 2000, on Housing Condominiums
- Government Decision No. 1224, 21 December 1998, on Regulations for Housing Operation and Management

Taxation

- Law No. 1245-XII, 22 December 1992, on Land Tax and Taxation Procedures
- Law No. 186-XIII, 19 July 1994 on Local Taxes and Tariffs
- Law No. 838-XIII, 23 May 1996, on Collateral (with subsequent amendments in Law No. 563-XIV, 1999)
- Law No. 1163-XIII, 24 April 1997, the Fiscal Code, Title VI on real-estate taxes
- Law No. 1056-XIV, 12 October 2000, for the Implementation of the Fiscal Code – Title VI

On 29 July 1994, the parliament of the Republic of Moldova adopted a new *Constitution*. It states that the market, free economic initiative and loyal competition are the basic factors of the economy. The economy of the Republic of Moldova is a market economy, with a social orientation, based on private and public property, engaged in free competition.

The Constitution guarantees private property rights and the liability of the State (art. 46); no property can be expropriated, except for public utility purposes, with prior and just compensation. According to the Constitution, the State protects property and guarantees its enjoyment in all forms, as long as it is not in contradiction with the interests of society (art. 127).

The right to housing is proclaimed to be a basic right of all citizens and ensuring social assistance and protection is included among the duties of the State.

At present, the main framework legislation for housing is the *Housing Code* and the *Civil Code*, approved in Soviet times. Both are now being revised. The draft of the new Housing Code lays down as its basic principles “the free and unrestricted access to housing as the intangible right of each citizen” and “housing as a major long-term objective in the national interest for the local and central administration”. The Housing Code aims to bring together all housing-related legislation (regulating relations between individuals, enterprises and the central and local authorities in various housing tenure types). The new Civil Code is expected to define real estate with all its attributes and recognize private business companies, both basic preconditions for land development activities.

In 1994 the Government adopted the *National Housing Concept* as a new approach to the development of the housing sector. It sets out the principles for the reform of the housing sector:

- Ensuring the right of every citizen to choose the most adequate way of solving his/her housing problem;
- The clear separation of responsibilities between the State and individuals and legal entities in the housing process (in financing new construction and the rehabilitation and management of the existing stock);
- The provision of (free) housing for the socially vulnerable;
- Creating the conditions for the development of the housing market by restructuring and/or creating the financial and fiscal framework for housing, housing privatization, restructuring the building industry, etc.

In 1999 the Government approved the *Housing and Real-estate Market Strategy*. It emphasizes the role of the State as a facilitator of the development of the housing market, while creating a social safety net for the most vulnerable part of the population. It states that the role of the central administration is to formulate a general strategy for the housing sector and to create the necessary legislative and institutional framework. The duties and responsibilities of the local authorities include local policies and the management of housing, levying real-estate taxes and charges, as well as granting

subsidies for the socially needy. At present, the Strategy – though providing a general direction for the development of a housing market and accompanied by a set of action plans and measures (see box) – has not become a guiding document in its own right.

State support for housing

- Law No. 982-XIII, 19 September 1996, on Housing Stock with Special Status
- Law No. 933-XIV, 14 April 2000 on Special Social Protection for Certain Population Groups (“winter subsidies”)
- Government Decision No. 761/2000 on Compensation for Certain Population Groups (“winter subsidies”)

Development control

- Law No. 835-XIII, 17 May 1996 on the Principles of Urban and Territorial Planning
- Law No. 721-XIII, 2 February 1996 on Quality in Construction
- Government Decision No. 360, 25 June 1996 on the State System for Controlling Construction Quality
- Law No. 332-XIV, 29 March 1999, on Licensing Different Types of Activities (including provisions for all construction-related activities)

B. Land and real-estate development

Landownership and land tenure, information about land and the protection of landownership and real-property rights are key issues in the political and economic transformation that has been taking place in the Republic of Moldova since 1991. The development of a functioning and flexible land market within which families and individuals have the opportunity to choose their place of residence and business activity and the reliable protection of rights to land and real estate are preconditions for housing privatization, investment and transactions in the market.

The legislative framework for land and real estate represents a completely new approach, far from that of the Soviet period, when agricultural land was the property of the State and of the collective farms and urban land had no monetary value, being considered a natural resource with the State as the only owner, allocating and managing it according to central-planning principles.

From the viewpoint of land and real-estate development, the legal framework developed so far encompasses the following areas:

- Constitutional and general legal regulations (see sect. A above);
- The process of privatization and property registration; the transfer of property rights and access to information related to land;
- Urban planning and construction regulations;
- The definition of Government and municipal authorities’ responsibilities.

As early as 1991, the *Land Code* (and its subsequent revisions) provided the overall framework for major changes in land ownership. Though primarily referring to agricultural land, the Code started the process (later reinforced by the Constitution adopted in 1994) of establishing landownership rights for Moldovan and foreign nationals. All categories of landowners have State protection and can freely use and dispose of their property. However, the Land Code stipulated a moratorium on sales until 1 January 2001 and this hindered free transactions. This latter restriction was lifted as unconstitutional in 1996 (by a Constitutional Court ruling).

Former collective or State farm workers and pensioners were allocated a share of land (an average of 1 ha) out of a "privatization fund"; plots for individual housing construction were granted free to all applicants inside the settlement limits (0.04-0.07 ha in cities and 0.08-0.12 ha in villages). Land-share owners can use their plot for farming, or they can sell, donate or lease it.

Specific provisions of the Land Code illustrate the importance that Moldova attaches to its high-quality agricultural land, as a basic economic resource. Articles 71 and 83 allow for the conversion of agricultural land only in exceptional circumstances and then only in the case of land of low fertility. Considering that, according to official data, most of Moldova's land is very fertile, conversions to non-agricultural, i.e. urban, use are very limited.

Subsequent legislation completed the framework for land transfers/transactions:

- The Law on Leasing stipulates that all land and real estate can be leased to Moldovan and foreign natural and legal persons, with the exception of protected land of natural, historical or cultural value and of forests.
- The Law on Renting, addressing primarily the agricultural sector, contains provisions regulating relations between landlord and tenant, by a rental agreement that cannot exceed 99 years.
- The Law on Collateral allows for land, buildings and other constructions to be registered as collateral for loans.

The *Law on the Normative Price of Land* is the main legal act regulating public and private land conversion to non-agricultural use. The Law stipulates that the value of land is based on the natural and economic potential of agricultural land (agricultural rent) in both agricultural and urban areas. This method of valuation is seriously thwarting the development of the real-estate market: it may lead to excessive prices for land used for business purposes (of little or no agricultural value) and the underpricing of valuable inner-city land.

The *Law on Expropriation for Public Utility Purposes* fills the procedural gaps in the above legislation by stipulating that prior and due compensation should be granted in any case of compulsory purchase of private land and property. The Law contains an extensive, if not exhaustive, list of public utilities which can ask for expropriation. It also stipulates that compensation shall be established by court decision, at real-estate market value.

The *Law on Leasing* contains provisions on the long-term (up to 99 years) leasing of all real estate, including land, buildings and housing of all types. All rights for a lease longer than three years have to be duly registered. Lease contracts include all the rights of possession and use, sublease and succession.

Real-estate registration

One of the crucial issues for the development of a real-estate market is clear ownership rights supported by an effective and reliable system of registration.

In February 1998 the parliament passed the *Law on the Real-estate Cadastre*. The Law stipulates the mandatory registration of all real property and establishes a new unitary system – with complementary technical, legal and economic elements – to ensure the identification, registration and monitoring of all land and other real property, regardless of their use and owner (Moldovan and foreign citizen, legal persons, international organizations, administrative-territorial units). The institutional setting consists of the National Agency for Geodesy, Cartography and Cadastre, as the coordinating body, and 12 regional units with 28 branches, directly in charge of establishing and managing the cadastre registers. The registers contain the legal, economic and technical characteristics of real estate, namely:

- The physical identification of plots of land, buildings, apartments and rooms in multi-storey buildings;
- The patrimonial rights of economic management;
- Rights of use (including permanent use, lease for more than three years, freehold, succession);
- Easements and charges;
- Mortgages;
- Legal facts limiting or terminating ownership rights.

The register is open to the public and everybody can have access to real-estate information, in accordance with legal procedures.

By Government Decision No. 1030 of October 1998, a State programme was established to speed up the creation of the real-estate cadastre. With the assistance of the World Bank and the United States Agency for International Development (USAID), a first cadastre project was initiated in 1999. It has had wide-ranging results over the past two years in revising and completing the existing legal framework, in organizing the regional cadastre offices and in furthering primary mass registration.

By December 2000, over 2 million properties and 1.9 million plots of agricultural land had been registered; cadastral works for 32 settlements had been completed and another 50 were in progress.

The Law on the Real-estate Cadastre and the first cadastre project represent significant steps towards the development of housing and land markets. They have set in motion a dynamic process of legislative activity: two new important legal acts have been drafted (on valuation for taxation purposes and on regulating valuation activity) and proposals were made to revise other relevant legislation (inter alia the Land Code and the Law on the Normative Price of Land). They are also the basis for a new institutional framework (institute for land use, information bank for land, etc.) and for the envisaged establishment of a fiscal cadastre.

C. Privatization of State-owned housing

The privatization of housing was another major step towards reinstating and reinforcing private property rights. In accordance with the *Law on Housing Stock Privatization* (No. 324-XII of March 1993 et seq.), State and enterprise housing were transferred to sitting tenants, mainly in exchange for national "patrimonial" bonds and, to some categories of residents, free of charge.¹ In the first stage (1993-1996) only the apartments were transferred into private ownership and the buildings remained on the balance sheet of the State. By 1997, patrimonial bonds were no longer used for privatization and tenants had to pay for "living space" exceeding established norms (20 m² per person and an additional 10 m² for each family). Buildings and houses were transferred to the balance sheet of the homeowners' associations. Resources obtained from privatization were transferred into the municipal budget to be used for housing purposes (according to the law).

At present, 94% of the stock has been transferred to private ownership. The residual public housing stock is now very limited and should not be considered as social housing. It is distributed throughout all urban areas and managed in conjunction with the privatized stock.² The Law on Housing Stock Privatization granted, for the first time, the right to possess more than one dwelling (either by keeping former housing or by acquiring additional units, paying the full commercial price established by the Government). It should also be noted that privatization did not eliminate housing inequalities: some residents were entitled to privatize good-quality, large apartments, while others had to buy the room they

¹ Free transfer of housing was granted to those who had accumulated more than 35 working years and to specific categories of individuals (e.g. university professors, disabled persons, etc.)

² Residents in non-privatized housing are those who were put off by the red tape, younger households with insufficient years of work and unable to raise money to pay the cash balance or dysfunctional families (V. Isaico).

were occupying in a hostel. In most cases, the new owners acquired a liability rather than an asset, considering the need for massive investment in repair and renovation.

Restitution of housing to the former owners was granted by a decision of the local authorities. Houses were returned with the ancillary land.

The privatization of *unfinished housing* was the subject of a number of government decisions (GDs), aiming to speed up the completion of construction by attracting funds and selling individual apartments or whole structures. The Ministry of Environment, Construction and Territorial Development is in charge of monitoring the stock of unfinished buildings. According to recent information, this stock consists of 296 buildings with about 20,000 apartments. Incentives ranged from long-term credits subsidized by the National Bank of Moldova (Parliamentary Decision No. 834/1996), to sales by auction of whole structures (GD No. 676/1995), via pre-sale (under the terms of "privatization") of individual apartments to those eligible from the waiting lists (GD 366/1998). Since all the efforts deployed did not resolve the problem of unfinished buildings, in 1999 the Government united all the provisions in a three-year special programme (GD No. 675/ July 1999), adding a new incentive (VAT exemption).

D. Housing management and maintenance

For almost five decades the State was the main owner of housing, and ensured the management and maintenance through management enterprises. The new Law on Housing Stock Privatization stipulated, for the first time, the mandatory establishment of private homeowners' associations as a major step towards helping new owners to take over their incumbent responsibilities.

The *Law on Housing Condominiums* (No. 913-XIV/2000) defined the new concept of *condominium* as a set of real-estate assets, including the apartment building or individual house, the ancillary land and other premises (constructions). The Law stipulates the *obligatory association* of all real-estate owners – private, municipal and other – with a view to jointly managing, maintaining and operating jointly the assets constituting the condominium (under the name of private homeowners' association (PHOA)).

The Law regulates ownership relations in the condominium, the rights and duties of the owners, the framework for the management of the condominium and the procedures for the establishment and registration of PHOAs.

According to the Law, PHOAs are legal entities, functioning on the model of consumer cooperatives. Their main activities concern:

- The management, operation and repair of the condominium's assets;
- The renovation of common spaces and premises;
- The leasing, renting or selling of the association's assets to supplement its revenues for the maintenance and renovation of the joint properties.

The associations may also sue individual owners and tenants for non-payment of their lawful dues related to public services, and the use, maintenance and repair of common spaces. However, it should be noted that under current constitutional provisions, evictions for failure to pay or to comply with other duties cannot be enforced.

The management of the condominium (current repairs, renovations) can be carried out, on a contractual basis, by certified individuals, legal entities or by the association itself.

Subsequent legislation (GD No. 1224/1998) made detailed provisions for housing in municipal or other institutional property, for tenancy in multi-apartment structures and for the management of buildings. The Government Decision regulates contractual relations between owners and renters or

lessees, their respective rights and duties concerning operation, repair, maintenance of and payment for public utilities.

E. Legislation regulating the financial aspects of the housing sector

At present real-estate taxation comes under the *Law on Local Taxes and Charges (Law No. 186-XIII/1994)*. Unlike all other local taxes and charges which are directly fixed by the local authorities, the two separate taxes applied to buildings and land are fixed by parliament. Both are fixed on a normative basis, with no connection to market values and changes due to inflation. Taxes on land depend on location, area and fertility potential. Taxes on buildings are related to the current registered value (representing the replacement cost less physical depreciation)³.

The Law on Local Taxes and Charges also provides for the collection of a special tax from all individuals and legal entities for *land planning and development*. For companies this tax consists of 10% of their annual payroll and for individuals of a sum equalling two minimum wages. Out of this tax, local authorities are expected to finance the preparation of urban development plans and other planning-related activities.

The recently adopted *Fiscal Code (Law No. 1163-XIII/1997) – Title VI* introduces new methods of real-estate taxation. It contains detailed provisions on procedures for taxes on all real property, including land for agriculture, industry, transport and other types of activities. Unfinished buildings (80% completed) and unfinished constructions abandoned for more than five years are considered taxable goods and the tax base is fixed at 50% of its value.

Maximum taxes should not exceed 0.5% of the tax base; they are revised by local authorities every three years, so as not to be less than half of the maximum tax. Tax exemptions are granted by law to real estate used by public authorities, public institutions, religious institutions and a number of special categories of individuals (disabled persons, war veterans, etc.).

Though Title VI of the Fiscal Code made provision for the enforcement of the new taxation methods by 1 January 2001, until the Fiscal Code is enforced and related legal provisions are adopted, transitory legislation⁴ provides for real-estate taxes to be fixed, up to January 2004, on an annual basis by local authorities.

Important provisions of the new Fiscal Code are closely linked to the adoption of subsequent legal acts. These include the adoption of the law on valuation (and subsequent regulation of valuation activity and the monitoring of the real-estate market), which will introduce the concept of market value of taxable goods and due methods for establishing it:

- Comparative analysis of sales
- Method of revenues
- Method of expenses

The introduction of the Fiscal Cadastre (see sect. C above) at a later stage will enable the monitoring of and the necessary transparency for all information on real-estate taxation.

Legal basis for the mortgage system

The Law on Collateral (No. 563-XIV/1996 and subsequent revision) introduced regulations governing the use of real estate as lien. The Law allows for the alienation, possession, attachment and

³ It is common practice in transactions (i) to declare a lower value of the real estate, to evade some taxes; (ii) to raise excess loan on a property (high-risk lending); (iii) to require a higher collateral to minimize risk.

⁴ Law No. 1056 – XIV, 16 June 2000 on the Implementation of the Fiscal Code.

transfer of collateral. Pursuant to the legal registration of property liens, the Law specifies the following categories of mortgages: on land, buildings with ancillary land, on enterprises, *on future assets and patrimonial rights*. Properties are mortgaged through contracts between the creditor and the owner of the property, which have to be registered by the Notary Public. The Law also allows real-estate owners and leaseholders to enter into secondary mortgages. Claims of creditors for non-payment and foreclosure are dealt with in the Arbitration Courts.⁵

Recent legislation⁶ established the mandatory registration of all mortgages in the cadastre register.

At present, the existing legislation on collateral and the absence of a mortgage law are hindering the development of mortgage financing by:

- Cumbersome collateral procedures;
- The liquidation of collateral through the Arbitration Court if a borrower defaults.

State support for housing

The constitutional right to housing in principle protects Moldovan citizens from homelessness and eviction. However, subsequent legislation does not provide for effective enforcement of this basic right.

Support for housing, urban development and management and the building and operating of public utilities are listed among the responsibilities of the local authorities - local councils of villages, communes, towns, municipalities – as stipulated in the Law on Local Public Administration.⁷ Local governments should finance the responsibilities assigned to them by the Law on Local Public Administration from their budgets. Yet, due to the scarcity of funds, local governments are unable to provide housing for those in need who are relegated to the local authorities' hopelessly long waiting lists.

Special support for families and individuals is provided, through local budgets, to cover utility costs (Law No. 933-XIV/2000 and subsequent government decisions). Financial support is supposed to cover 25-50% of the cost of energy, public services (water, sewage, waste disposal), district heating and the hot water supply.⁸ Beneficiaries belong to certain categories, selected on criteria other than low income (e.g. former victims of political persecution, disabled persons, war veterans), with the exception of single parents, single pensioners and families with four or more children.

F. Land use and building regulations; development control

The former Soviet type of urban planning and development was governed by State ownership of land, by centrally planned practices and distribution of funds and by supply-driven housing development. After the creation of the Republic of Moldova and its market mechanisms, a new and comprehensive approach to planning was adopted. The *Law on Urban and Territorial Planning* (No. 835-XIII/1996) lays down the basic principles for efficient urban planning and management and the responsibilities of local authorities in the development of their respective administrative units (village, commune, town, municipality).

⁵ Current legislation on collateral results in strong underwriting practices: the majority of mortgages are at low loan-to-value ratios (30%-70%). Meanwhile, to avoid legal problems of foreclosure, many lenders want to obtain the title to a housing unit before issuing the credit. Having obtained the title, the bank can rent back the unit to the borrower, until full repayment of the loan (equivalent of leasing). To minimize risk, lenders often require substantial collateral in addition to the title to a housing unit.

⁶ Cadastre Law.

⁷ Law on Local Public Administration No. 186-XIV/1998, Section 2, art.13 (1), a, c, h.

⁸ According to the Ministry of Employment and Social Protection, many people who are eligible do not apply because of the very cumbersome procedures and because compensation does not cover their utility bills.

The Law distinguishes the following levels of territorial planning:

- National level – overall guiding documents to be approved by parliament
- County level – approved by the county councils
- Municipal level (i.e. villages, communes, towns and municipalities) – approved by the local councils.

General urban plans (master plans) are the main documents for guiding urban development and defining major land uses, including residential development. It is the task of the local authorities to:

- Commission and approve the urban development plans;
- Establish basic urban regulations to ensure the efficient use of urban land;
- Issue building permits that conform with the approved planning documents.

Current practice is still lagging behind the generous aims of the law, i.e. to give broad guidance to the development process and provide a basis for the development of a permissive system of development control mechanisms. Shortcomings are mainly related to the way public land is allocated, namely:

- The free allocation of land to citizens for private housing construction, with the later option of transfer into private ownership;
- The allocation of land to legal entities for the construction of multi-apartment structures, for an unlimited period of time or for long-term lease;
- Allocation to the relevant department of the municipality for the construction of municipal dwellings. With the end of municipal construction, this type of allocation is virtually inexistent.

While legislation allows for the sale of public land, bureaucratic problems and the reluctance of some local authorities to sell are hampering the process.

Despite the urban development mechanisms stipulated in legislation, housing development is haphazard, sometimes jeopardizing sustainable urban development. For instance, in Chisinau large districts of individual homes have been built over the last years, without the simultaneous and proper provision of basic public services (water, sewerage). Beyond the ecological consequences of such a situation, local authorities might soon be faced with residents' demands for compliance with the legal responsibilities of the administration to provide proper infrastructure.

A comprehensive *Law on Construction Quality* (No. 721-XIII, 2 February 1996) established the basic requirements for building activity, including housing construction. It makes provision for the rights and responsibilities of all actors involved in the construction process, including State institutions. Certification requirements are stipulated for all individuals and legal entities involved in planning, design, technical supervision and construction, as well as for building materials. Quality control is mandatory for all categories of construction (whether new, modernized or repaired), with the exception of one- or two-storey individual homes.

Chapter V

FINANCIAL FRAMEWORK

Introduction

Though the Republic of Moldova is still in the initial stages of its transition to a market economy, the Government is trying to keep the general direction of development in line with that of other economies in transition. As a part of its ambitious reform efforts, Moldova introduced a stable convertible local currency, liberalized prices, stopped issuing preferential credits to State enterprises, backed steady land privatization, removed export controls and freed interest rates. Yet these efforts could not prevent the housing-sector crisis - house prices are falling and there are few buyers. One of the features of the deep housing crisis is a lack of adequate financial mechanisms.

This chapter covers the following issues: financial principles, housing investment, national and local authority budgets, house construction financing, savings, incomes and purchasing power, financial institutions and mortgage market infrastructure, mortgage products, housing taxes and allowances, and the maintenance and improvement of the existing housing stock (including homeowners' associations). Special emphasis is placed on the development of the financial sector and mortgage infrastructure, as well as on mortgage products that facilitate the operation of the housing market. In addition, the chapter explores changes in housing demand, focusing on housing costs, affordability, housing subsidies and allowances.

Financial principles

The financial framework for any housing sector must promote:

- The economic and efficient use of physical and financial resources;
- Equity between households in similar circumstances and between housing sectors/tenures;
- Transparency.

The experience of other countries in transition indicates that these principles are easier to implement in financial frameworks which favour:

- A stronger general-purpose commercial banking system rather than special, closed circuits for housing capital;
- Continuing revenue subsidies (where they are required) through personal, household and means-tested allowances rather than credit subsidies or supply-side subsidies. Where capital subsidies (including land price subsidies) are used they should seek to lever in private-sector contributions;
- A clear enabling role for the State (including the provision of seed funding for the innovation, development and strengthening of financial institutions) rather than a direct State supply-side role.

In short, the Moldovan housing finance system should seek to:

- Reduce to a minimum the direct intervention of the State;
- Provide sustainable, market-based finance;
- Integrate the housing finance system into national and international capital markets;
- Channel more household savings into housing investment and seek additional extrabudgetary sources to support housing.

A. Housing investment in the macroeconomic context

The dissolution of the Soviet Union had a very negative effect on the Moldovan economy and real GDP declined by 66% between 1989 and 1997. At the same time the Government and the National Bank of Moldova succeeded in achieving a modicum of fragile macroeconomic stabilization, although only very limited progress was made in structural reforms.

Major indicators characterizing the economic situation of Moldova and trends for 1993-2000, as outlined in chapter I (table 2) describe the environment which influenced and defined the main changes in housing investments during this period.

Investment in housing

Although nominal GDP steadily increased from 1993 to 2000 its real value continued to fall and, consequently, housing investment decreased dramatically both in absolute terms and as a percentage of GDP. It fell to almost one fifteenth of what it had been before 1993. In 2000 real GDP grew slightly and investment in 2000 totalled 1,511.1 million lei, with investment in construction reaching 558.1 million lei (37% of total investment). During the same period housing investment as a share in total investment in Moldova also decreased, as was the case in most countries in transition, mainly due to the collapse of public investment in housing (table 16).

Table 16. Housing investment

Year	Housing investment	
	As a percentage of GDP	As a percentage of total investment
1991	2.7	21.2
1992	5.05	34.3
1993	2.75	35.5
1994	5.2	34.9
1995	4.0	30.0
1996	2.6	19.2
1997	0.35	2.6
1998	0.39	..

Source: Department of Statistical and Sociological Analysis.

Investment by type of investor

The overall reduction in the volume of housing sector investment was accompanied by significant changes in its structure (table 17). The economic crisis resulted in a drastic reduction in government subsidies to the construction sector. In 1991, government investment in housing construction was 2,017 million lei, by 1999 it had fallen to 2.8 million lei.

Table 17. Sources of funding for housing construction, 1970-2000 (In per cent)

Source of funding	'70	'75	'80	'85	'90	'91	'92	'93	'94	'95
State and municipal budgets and State companies	65	61	59	53	55	60	54	17	14.1	6.8
Collective farms	4	8	6	6	5	1	7		6.1	0.1
Cooperatives	31	31	35	41	40	39	39	9.2	6.3	5.2
Individual developers								73.8	73.5	87.9
Total	100	100	100	100	100	100	100	100	100	100

Source: Department of Statistical and Sociological Analysis; NAHRES and PADCO Europe Ltd., Construction Industry and Building Materials Study: Final Report (1997).

Similarly, investment by cooperatives dropped sharply from 39% in 1992 to only 5.17% in 1995. In many respects, such a marked reduction in cooperative construction was caused by the phasing-out of concessionary finance to cooperatives, which used to be subsidized by the State.

At the same time, private investment in new housing units in 1995 increased to 87.8% from almost zero in 1992. It is worth mentioning that, because of the extensive privatization of industry, State enterprises have largely become either wholly private or joint-stock companies with mixed ownership, which obviously has had an impact on the distribution of investment in housing construction, i.e. a large share of enterprise investment that was previously considered government funding was classified as private investment in 1996. The sharp increase in private investment can be also explained by the lifting of the ban on the construction of single-family units in large cities.

Under the former system, the State effectively assumed all risks associated with the construction sector. In the new market economy, new mechanisms are needed to facilitate private investment in the sector, such as insurance services and private guarantees.

Housing investments trends

It is worth mentioning that profitable enterprises have adapted a rather cautious policy of profit distribution; almost half of them plough back into production more than 35% of net profit. Table 18 presents the data on the distribution of net profit (after tax) in 1995 and 1996.

Table 18. Use of companies' net earnings (In per cent)

Uses	1995	1996
1. Reserve fund	1.8	1.4
2. Production development	21.2	23.3
3. Social development	34.4	15.8
4. Employee bonuses	20.3	7.8
5. Dividends to outside shareholders	1.0	2.4
6. Charity contributions	2.0	0.9
7. Others (including fines and penalties)	19.3	48.4
Total	100.0	100.0

Source: INMACOM trade association; NAHRES and PADCO Europe Ltd., *Construction Industry...*

The data lead to the conclusion that positive changes have recently occurred in corporation taxation. Thus, in 1995, 44.1% of a company's profits were taken in taxes; in 1996 this figure was only 17%. The surveyed companies clearly capitalized on some tax deductions.

Payments into the production development fund accounted for only 17-20% of companies' internally generated financial resources. Amortization is another important source of financing production and new assets. In 1996, the internally generated financial resources of building materials enterprises (amortization plus a share of profit allocated to production development) allowed a 5-6% renewal of fixed assets, which is not sufficient. A rapid depreciation of fixed industrial assets demands recourse to external sources of funding such as bank loans and equity investments.

Comparison with other economies in transition

Although the crisis in the apartment construction sector is not yet over, some positive changes have been observed over the past two or three years. They can be interpreted as encouraging results of the reform process. Investment is starting to stabilize and, in 1997, for the first time in many years, the total area of habitable apartments increased by 8% as against 1996, giving hope for the future.

The State has almost completely ceased to be involved in housing construction, its share in this activity now varying between 2 and 5%. All investments in housing are now private; banks do not accept land as collateral and will accept an apartment as collateral only after all tenants have been evicted.

B. Financing new housing construction

Significant changes in the structure of sources of housing finance and an overall shortage in volume mean that it is very important to focus on the development of new financial mechanisms which will help meet the demand for various financial services in the restructured housing sector. Financial services for contractors and the development of commercial construction and mortgage finance lending systems should become the central elements of a market-based housing industry. At the moment the Republic of Moldova is still very far from having such a financial system but, nonetheless, the Government has taken some significant initial steps towards creating it.

In the National Housing Concept approved in 1994, the Government adopted the following general principles:

- The Government would no longer be involved in direct housing construction financing;
- It would focus on creating better conditions for the development of the real-estate and housing market in order to stimulate financing of the housing sector, it would continue the privatization of apartments, and use market-economy mechanisms in the construction and the construction materials industry;
- It would abandon the huge general State housing support and move towards strictly targeted housing subsidies for very limited categories of vulnerable people.

As a result, budget resources for residential construction shrank. At the same time, the Government was not successful in creating adequate conditions for attracting significant extra funds to the housing sector, particularly from institutional investors.

The housing market is still not considered to be an attractive capital investment, so there are very few market-oriented financial instruments available for housing construction:

- Housing finance is still predominantly cash payments by individuals – owner-occupiers using their personal savings (table 20).
- There is the equity of new shareholders of privatized former State enterprises. It was very common for completed dwellings to be allocated to employees, frequently free of charge. Rarely was the housing completed for the purpose of future sales.
- Housing cooperatives organized to obtain State-subsidized construction loans to complete already existing buildings.
- Finance for condominium construction is not yet developed and there is no regulation for such loans.

Table 20. New housing construction according to type of developer (Percentage)

Year	Public	Cooperative	Private
1993	23.3	12.2	64.5
1994	21.1	15.3	63.6
1995	12.5	20.7	66.2
1996	7.2	13.4	78.3
1997	7.2	8.2	82.3

Source: Department of Statistical and Sociological Analysis.

In general, free capital resources are not being channelled into the housing sector. As a result, the largest constraint on housing-sector development is currently a shortage of capital.

The fact that the main resources are in the hands of owner-occupiers makes it very difficult to raise the capital needed to increase housing production, especially when average household income is still very low (see below). Increases in individual housing investment have been unable to compensate for reductions from other sources. Consequently a decline in government funding and a lack of working capital in housing construction companies has led to deferred investment in the housing construction industry with the result that much equipment, with an average remaining service life of three to five years, is rapidly ageing. A high proportion of equipment is imported, and much equipment is under-utilized. The leasing of equipment is very unusual.

Leasing is a highly recommended way to finance the acquisition of construction equipment and machinery. The key advantage of leasing is that it enables a construction company to have access to specialized construction equipment when needed on a short-term basis without freezing its capital for the long term. Leasing also offers innovative ways to make small construction firms highly competitive regardless of the size of their fixed working assets. It is highly recommended that the Government encourage the development of construction leasing firms by providing legislative and tax incentives for leasing operators and the users of such services.

Construction loans

Before 1993, it was not uncommon for cooperative housing loans to carry an interest rate of 1 or 2%. Now, with the high cost of construction, inflation and high interest rates, and scarce domestic savings, loans for residential construction have become risky and very expensive. The result is that, in cases where banks are willing to provide such loans, they are well beyond the means of cooperative members.

Often the new institutional developers emerging after privatization do not consider themselves as effective commercial organizations. Many are not willing to borrow for construction and are not interested in more effective financial resources management. On the other hand, many banks do not offer construction loans to legal entities due to the lack of a developed market infrastructure, experience and adequate funding.

A similar situation exists with construction loans to individuals. Most people do not know how to deal with the loan and do not apply to banks because their income is very low. At the same time few banks offer such a product on the market.

Although the official statistics on housing construction and purchasing loans were not available, according to the National Agency for Housing and Real Estate Services (NAHRES), until 1997 commercial bank activities in the sector were very limited, typically involving two- to five-year loans at a 30-40% interest rate. Loans are usually financed in local currency. Currently lenders are very cautious about extending credit for construction projects. Among other reasons they do not yet see sufficient developers capable of meeting lenders' underwriting criteria. The lack of a secure legal framework, economic uncertainty and the lack of experience result in underwriting procedures with typical loan-to-value ratios of 30%-70%. Currently lending is limited to households with an affordability gap of 30-40% and incomes that can meet payments of \$200-250 per month.

At the same time the survey carried out by NAHRES shows (table 20) that many households firmly expect to solve their housing problems by borrowing from banks, employers or friends. There is a clear demand for bank loans as the most popular form of housing finance for individuals after cash payments.

Table 20. Expected forms of payment for housing

City	Number				Per cent			
	Chisinau	Balti	Orhei	Total	Chisinau	Balti	Orhei	Total
Using cash/ savings	217	24	6	247	25.6	30.4	17.6	25.7
Loan from a bank	172	19	8	199	20.3	24.1	23.5	20.7
Loan from employer	49	5	1	55	5.8	6.3	2.9	5.7
Sale of personal household assets	12	3		15	1.4	3.8	0.0	1.6
Sale of land (other housing unit)	22	3	4	29	2.6	3.8	11.8	3.0
Credit from friends	49	4		53	5.8	5.1	0.0	5.5
Combination of the above	98	7	8	113	11.6	8.9	23.5	11.8
Others	66	10	1	77	7.8	12.7	2.9	8.0
N/a	163	4	6	173	19.2	5.1	17.6	18.0
Total	848	79	34	961	100.0	100.0	100.0	100.0

Source: National Agency for Housing and Real Estate Services (NAHRES).

In spite of the current situation, all banks see large potential in construction lending particularly for completion of unfinished buildings in Chisinau.

In general, the economic environment is becoming more conducive to competition in housing construction. Some contracts are now procured through competitive tendering. Housing construction depends more and more on market demand and less and less on State or economic enterprise capacity. The local market has become more open to foreign construction firms as well; construction firms from Romania, Bulgaria and Greece have been involved in local residential construction thus attracting some element of foreign investment.

Land acquisition and development financing

Chapter II discusses the market for housing land. There remain a number of barriers to land purchase and development financing and local experts confirm that the existing legislation still does not meet emerging land market demand, especially as concerns land-use regulations, independent valuation and registration. Land was only recently included in the Government's efforts to gear the economy towards market conditions. For example, land plots underneath residential buildings were previously allocated free of charge to households or homeowners' associations – now a nominal price is charged.

Local experts stress that the first land auctions were quite successful but that later they slowed down owing to the lack of financing available to buy land. There are no banking loan instruments for land purchase or development and land is considered to be unsafe and illiquid collateral by the banks. That is why, for example, in Chisinau land is reserved for housing construction but it cannot be used to this end because there is not enough finance to pay for the land and its infrastructure development.

Infrastructure development financing

Good quality infrastructure plays a vital role in the country's progress and is a precondition for housing-sector development. Currently, this infrastructure is in a critical condition in Moldova because finance is lacking for infrastructure development and modernization. According to the law, every legal enterprise undertaking construction has to pay an infrastructure development tax to the local authority. It

is evident that the present system is very inefficient, and the creation of a market-oriented infrastructure financing mechanism is well behind.

At present the local authorities are responsible for infrastructure development, but in fact they are not pro-active. They prefer to allocate land plots for residential construction free of charge or for nominal prices instead of dealing with the issue of infrastructure development in a commercial way. There are no private institutional developers who can raise the money for building infrastructure for future residential land.

Although responsible for infrastructure development, the local authorities very often devote less than half of one per cent of the local budget to infrastructure development. They have no strong incentives to get involved in this activity and have very limited revenues. In addition, the amount of money obtained by the Government from privatization (table 21) was very limited and was not used to develop a system to attracting extrabudgetary money into the housing sector.

Table 21. Privatization revenue

Year	1993	1994	1995	1996	1997	1998
Thousands of lei	1,090	2,110	6,018	1,153	13,883	15,067

Source: Department for Privatization and State Property Administration of the Ministry of Economy and Reforms.

The Law on the Budget System and Budgetary Process was adopted on 24 May 1996. The budgetary system comprises the State budget, local budgets, the social security budget and extrabudgetary funds. Of these, the combined State budget and the local budgets constitute the consolidated budget. The Law on Administrative and Territorial Reform is currently implemented, with the number of local administrations cut from 38 to 11. Every year a budget law is approved by parliament, setting the relations between budgets of different levels defining how much of overall governmental expenditures is to be transferred to county and local authorities. At the moment local government pilot projects on fiscal, property tax, land reform matters are being implemented by USAID in a few Moldovan cities. The aim of the proposed reform is to make local government autonomous, so that it will take responsibility for the needs of the people and provide them with adequate services. Local government should have some degree of fiscal autonomy and be accountable to local people. Under the current system there are no local taxes to compensate for the absence of subsidies provided previously by the State budget.

Beside the budget reform encouraging their financial independence, the initiatives of the local authorities in looking for and using non-budgeted finance for housing and infrastructure construction should be supported and strengthened. The Law on Public Administration and Law on Local Public Finances allow local authorities to borrow funds from the State budget and the banking system, but only where they can guarantee their repayment and do not already have out-of-schedule loans. Borrowing with a life of under a year should not exceed 5% of the forecast revenues for the year. Long-term borrowing by local authorities is also a possibility for financing capital investments. According to the Law on the Securities Market, local authorities can issue publicly traded securities denominated in local currency and they have the right to sell these securities to legal entities and individuals.

None of these instruments, except for loans from the State budget, has been used to attract funding to the housing sector.

Unfinished construction financing

The decline in the government share of funding left many apartment buildings unfinished. In 1997, there were 170 multi-storey buildings (around 10,000 apartments) with a total area of more than 500,000 m² at an average state of completion of 35%. Capital investment to the tune of 700 million lei, or \$152.1 million, is needed to complete them. There is also a lot of uncompleted individual housing due to difficulties in financing construction based on personal income stream only and a lack of cash-flow management tools.

To facilitate the completion of unfinished units previously financed from the budget or by governmental enterprises, the Government has passed special regulations authorizing the auctioning of unfinished construction projects to private entrepreneurs so that they can finish and sell them (see chap. II, sect. C).

The options for developers to become involved are limited. Sometimes it is better to demolish existing buildings and redevelop sites with a more efficient and economic design. For buildings more than half complete, it is better to execute investment agreements with potential apartment owners (legal entities or individuals). Banks should also provide loans to investors using incomplete constructions as collateral.

In 1998 the Government adopted a resolution adding a new form of housing subsidy for incomplete construction. This allows people on the waiting list and willing to solve their housing problem by personally investing a part of the required capital to receive a share of an uncompleted construction free of charge. After completion of the building, the individual who financed the completion becomes the owner of the unit. During the completion process the individual can sell his/her share according to a set procedure. Two residential buildings have been completed using this mechanism, four others are ready to follow suit.

There are also limited loans provided by the banks and subsidized by the National Bank of Moldova for cooperatives to finish construction (see below).

C. Purchasing power and housing expenditure patterns

Incomes

Wages have been rising even in real terms over the past years but remain extremely low and have not reached even the pre-1998-crisis level (see table 22). The population's disposable income has also increased in nominal terms but the difference between urban and rural areas has become even more pronounced. Income from employment is still low in rural areas. Table 23 shows that the main source of disposable income is still non-salaried activity, especially in rural areas. Social security benefits are the third most important source of income. Estimates of real income ignore the unencumbered equity value of privatized housing stock (table 24).

Table 22. Monthly wages

(Annual averages, year-on-year change in per cent in parentheses)

	1995	1996	1997	1998	1999	2000*
Nominal monthly wage	143.2 (32.1)	187.9 (31.2)	218.5 (16.3)	252.0 (15.3)	303.4 (20.4)	418.6 (Aug) (20.8)
Real monthly wage (Jan 1994=100)	75.8 (1.7)	80.5 (6.2)	83.8 (4.0)	89.7 (7.1)	77.5 (-13.5)	80.8 (est.) (4.3) (est.)

Sources: Moldovan Economic Trends; Economist Intelligence Unit, Country Profile (London, 2000).

* TACIS; Moldovan Economic Trends; Economist Intelligence Unit, Country Profile (London, February 2001).

Table 23. Breakdown of disposable income (In per cent)

	Total		Urban		Rural	
	1998	2000	1998	2000	1998	2000
Disposable income, lei per month per person	114.8	167.7	145.5	203.0	97.3	145.8
Share of disposable income						
From employment	35.8	39.3	59.3	64.3	15.9	17.9
Non-wage	44.0	41.8	11.1	12.1	71.9	67.4
From property	0.6	0.3	1.2	0.6	0.0	0.1
Social security benefits	8.3	9.1	10.3	9.3	6.6	9.1
Remittances	11.4	9.4	18.1	13.7	5.6	5.6

Source: Household Budget Survey, Department of Statistical and Sociological Analysis; *Economic Trends Quarterly Issue: Moldova* (July-September 2000).

Table 24. Value of privatized housing stock

Year	1993	1994	1995	1996	1997	1998
Thousands of lei	12,981	80,480	175,746	300,980	314,661	322,351

Source: Department for Privatization and State Property Administration of the Ministry of Economy and Reforms.

Usually official statistics do not reflect one typical phenomenon of countries in transition; there is a significant black economy, which allows some social groups to increase their income, thus further increasing social polarization. Some local experts estimate that about \$300 million per year enter Moldova from abroad in the form of unaccountable personal income. This factor may be important for the development of the real-estate market.

Savings

Special mechanisms to facilitate personal and other private savings and channel them into the housing sector are not effective. There are no housing-related saving schemes, no securities as instruments to raise money for housing, and no specialized institutions for accumulating housing-related savings. Nevertheless, by 2000 national savings accounted for 22.3% (1999, 22.9%) of GDP, higher, for example, than in Lithuania, but less than in more successful countries (30%).

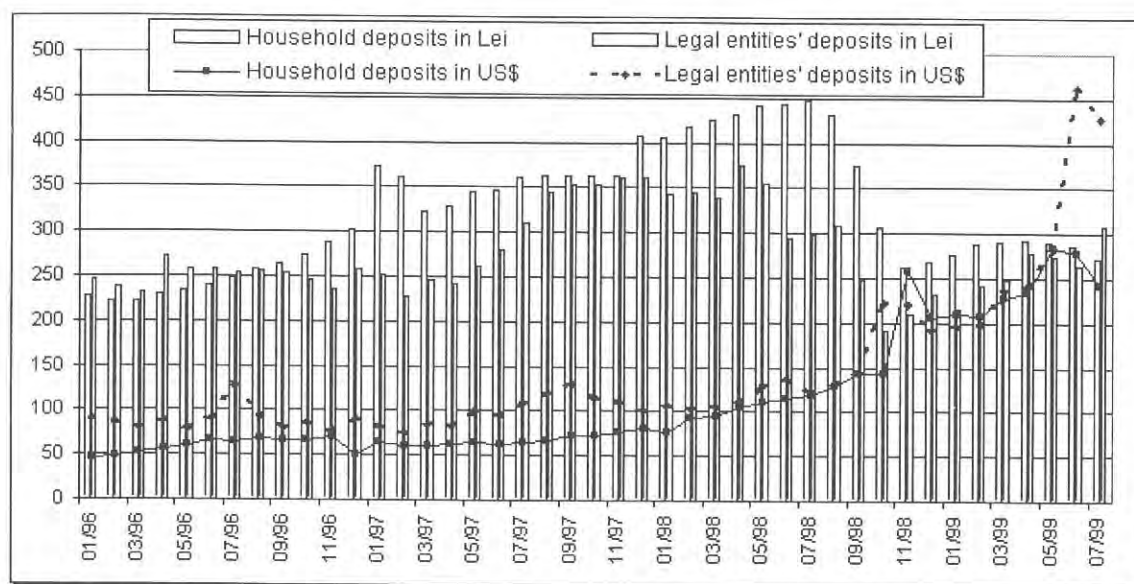
Despite an overall decrease in the savings share of GDP, due to the comparable strengthening of the banking sector, an inflow of private savings into banks proved possible. The volume of deposits in banks has been increasing continuously (the biggest share being of those in lei). During 1996 and 1997 confidence in the banking system grew, and this was reflected in a continuous increase of household deposits with commercial banks. Figure XVII shows deposits with commercial banks (in lei) in 1997-1999 and figure XVIII deposits in foreign currency as a percentage of total deposits in 1994-1999.

A rapid increase in the rate of inflation in the first two years of transition undermined household savings, most of which evaporated through inflation. Since then, however, the Government has made substantial progress in macroeconomic stabilization efforts, bringing the rate of inflation down to 11.2% in 1996 compared to 2,700% in 1992.

Foreign deposits in the commercial banks started growing sharply in the last quarter of 1998, although they had gradually increased throughout the first three quarters of 1998. However, this increase was mainly due to changes in the exchange rate; in dollar terms foreign deposits were relatively stable throughout the first five months of 1999, at \$48 million. A sharp growth, even in dollar terms, was registered in June to \$64.5 million. The volume of foreign deposits, expressed in lei, increased by 68% in July 1999 compared with the beginning of 1999. In dollar terms, the increase was only 27%.

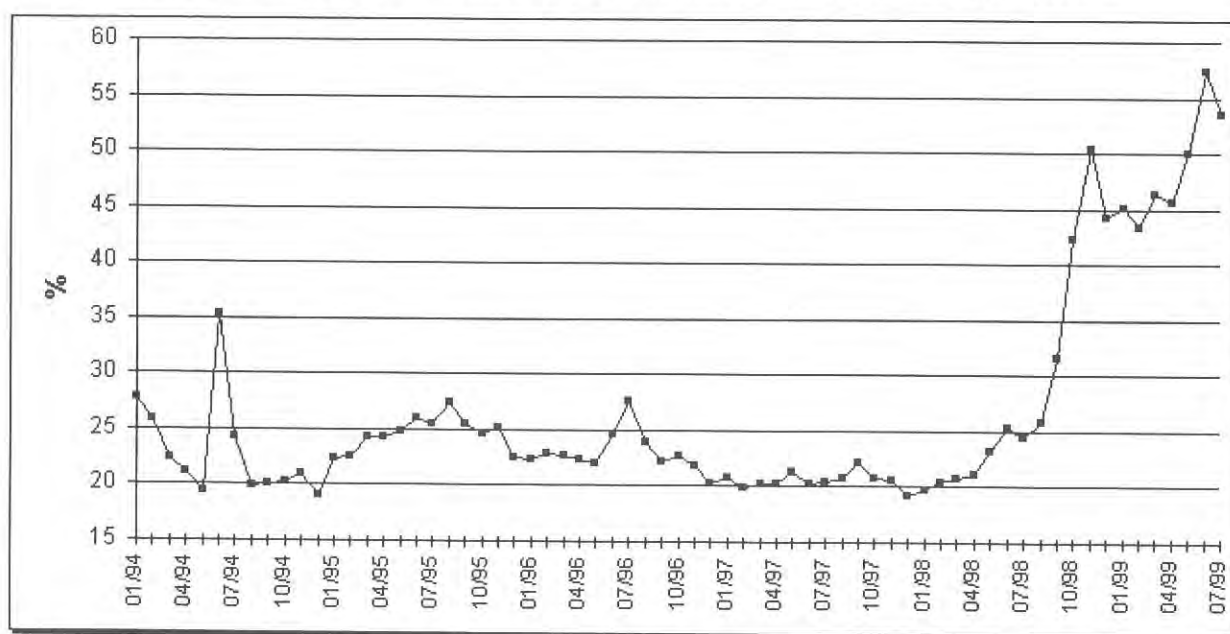
Figure XXI. Deposits with commercial banks, 1997-1999

(In millions of lei)



Source: National Bank of Moldova.

Total household deposits, after dropping in December 1998, followed a persistent upward trend, reaching 564.3 million lei in July 1999. The proportions of foreign deposits held by physical persons increased from 43% in January 1999 to 47% in July 1999. The same trend was observed for deposits held by legal entities, which increased by 32.6% while dollar deposits rose by 122.1%. An unexpected sharp growth in foreign deposits held by legal entities took place in June 1999, when they increased by 63% or by \$16 million compared with May. This growth was due to the \$16 million credit received by Voxtel, the mobile telephone operator, from abroad and put in one of the commercial banks. Thus, the dollarization of legal entities' deposits reached 63.6% in June and 58% in July 1999.

Figure XXII. Deposits in foreign currency as a percentage of total deposits, 1994-1999

Source: National Bank of Moldova.

It is clear that even limited personal and other private savings may be a sound basis for the development of new financial instruments to encourage an increase in the volume of savings in general, and allow available funds to be channelled into the housing sector.

An analysis of statistical data on the housing market for the period 1995 to 1999 shows that:

- Annually only 5% of families needing to improve their housing conditions were able to use their income to buy dwellings requiring more than \$200 per person per month;
- A quarter of families with incomes of between \$75 and 200 per person per month improved their housing by using their own savings and borrowing from relatives, friends and very seldom either from banks or from specialized organizations. Because the interest rate was 30-42% per year with a very short repayment period, the role played by financial organizations in improving housing conditions was minimal;
- Three quarters of families with incomes of \$35 or less per person per month had no hope of improving their housing conditions. They either endured poor housing conditions or rented a dwelling.

An analysis of housing preferences obtained in the Housing Preferences and Affordability Survey (HPAS) shows that while people are very willing to pay for new housing, not many have the money to do so. At present, new housing is affordable by the top 1 or 2% of household incomes. This range might extend to the top 5 to 10%, depending on the extent to which the people who say that they can mobilize equity actually do so, and on the availability of long-term credit. The only significant demand for housing at present is in the secondary market, where, currently, prices are below those for new housing.

The ability of Moldovans to purchase or build new housing has declined. The indicator of access to housing in Chisinau, calculated as a ratio of the price of urban housing to income generated by a family from all sources, is 13.0. This means that a family living in Chisinau will need 13 years to save for an apartment, completely excluding other necessary expenses.

The HPAS shows the extent of the existing housing affordability problem in various ways. The median value of the ratio of housing expenditure to household income in the three surveyed towns, Chisinau, Balti and Orhei, is 0.19, (0.13 at the 25th income percentile and 0.29 at the 75th percentile). Thus it would appear that a quarter of Moldovan families spend more than the Western affordability standard of 30% of income on housing. However, it should be borne in mind that most of this expenditure is on utility bills and very little on maintenance. The ratio deteriorated further in 1997 with the introduction of further increases in utility charges, and this highlights the fact that the primary housing affordability issue in both the Republic of Moldova and other countries in transition is the rapid rise in housing utility expenditures as a proportion of income.

Table 25. Breakdown of household consumption expenditure

	Total		Urban		Rural	
	1998	2000	1998	2000	1998	2000
Consumption expenditure, lei per month per person	123.9	173.1	154.4	205.3	106.6	153.3
Share of disposable income (in per cent)						
Housing rent and utilities	6.5	8.5	10.6	10.9	3.1	6.5
Housing furnishings and equipment	2.0	2.6	2.6	2.1	1.7	3.0

Source: Household Budget Survey, Department of Statistical and Sociological Analysis; *Economic Trends Quarterly Issue: Moldova* (July-September 2000).

An analysis of the population's purchasing power by the structure of overall consumption expenditures shows that the expenditure on housing (11%) occupies second place in total expenditures.

Unlike in most other countries with a more developed housing market, there is no correlation in Moldova between family income and apartment size. There is an affordability mismatch between household income and housing conditions, mainly because of the inertia of the former housing allocation system. However, when analysing the situation of households who have moved recently, there is evidence of a positive link between income and housing consumption, which may reflect the beginning of an allocation of housing by market principles. While families who have moved recently are somewhat

younger and smaller than the wider population, they are, in fact, buying about the same quantity of housing per person, a result of the very limited choice of housing types at present, although the quality may be somewhat better.

At present, families who are unable to maintain their dwellings from their own earnings, rent out surplus living space as explained in chapter I.

In order to assess affordability it is necessary to study the structure of consumption expenditures per dwelling obtained from the household budget survey. The study offers the opportunity to trace tendencies and phenomena and their impact on standards of living. (See chap. I, figs. III and IV.)

From standards of living and affordability, it is possible to define three main population groups by their ability to enter the real-estate market:

- People with high cash incomes (holding circa 50% of total income) that are able to enter the market directly;
- People with average incomes that can enter the real-estate market with long-term and medium-term housing loans given acceptable interest rates;
- People who, due to their low incomes, will never enter the real-estate market.

Specific population groups suffer disproportionate housing problems. For example, the elderly find it hard to maintain their apartments and a minimum level of comfort, which they so need at their age, and there are other disadvantaged groups, for example, young families and people with disabilities, who live in very difficult conditions.

D. Housing subsidies and taxes

Capital subsidies

During the reform process, the Government was not able to use the resources obtained from housing privatization for a system of targeted housing subsidies. So far the subsidy system is very costly, obscure and not very efficient. However, some positive changes have been already introduced. Over the past few years, traditional capital subsidies have almost disappeared.

Most of the remaining capital subsidies are used to finish uncompleted construction. At the moment there are two major schemes.

- Highly subsidized long-term loans provided by the National Bank of Moldova to housing cooperatives to finish the construction of incomplete buildings.
- Subsidies to individuals on the waiting list in the form of dwellings in uncompleted constructions.

Under the first scheme the Government decided to support thousands of families who invested their savings in construction cooperatives and who, because of the changed economic situation, can neither continue the construction work nor get their money back.

The National Bank of Moldova provided designated commercial banks with long-term funding at below-market interest rates. These funds were passed on by commercial banks to housing cooperatives to finish construction. Local authorities acted as guarantors for such loans. During 1992-1998 the loans totalled 100 million lei. All of the buildings have now been completed or are in the final stage of construction.

The other type of capital subsidy takes the form of an unfinished apartment, free of charge, transferred to an applicant on the housing waiting list. Some participation by people with personal finance allows the completion of these dwellings. The mechanism applies only to the houses previously funded from the State budget, local funds or State enterprise funds.

There are only very limited opportunities for people with low incomes to benefit from dwellings built with public funds. For example in 1999, 3.9 million lei (\$325,000) was planned for the construction of 11 houses. Capital investments are mostly directed toward the construction of houses for vulnerable categories of the population and the reconstruction and strengthening of emergency constructions.

Revenue subsidies

The legislative framework for benefits and subsidies comprises more than 100 legislative acts and is not adequate for present needs. Until 1998 the subsidies for electricity, thermal energy and natural gas were based on family income. Although the system operated for more than one year it did not work well. The procedure for estimating household income was too bureaucratic and rigid, and the subsidies too small. Social benefits were not focused on the most vulnerable groups but rather on a wide sector of the population through numerous privileges, subsidies and benefits linked to energy consumption, which led to huge over-consumption. For example, policemen, firemen, teachers, doctors, etc. all benefited from this subsidy system.

The most important reform in this area was the elimination of large numbers of non-targeted privileges and the rationalization of energy subsidies. In 1999 measures were taken to reduce subsidies for heating and energy. More fundamental reform was introduced in 2000, when a new law annulled various privileges, such as public service, energy and transport privileges that cost about 600 million lei annually (about 20% of 1999 budget revenues). Instead of these general privileges, parliament passed a separate law on targeted cash benefits available only to the most vulnerable groups: disabled adults and children, Second World War veterans, pensioners, the victims of Soviet-era political repression and families of victims of the Chernobyl disaster. The aggregate cost of these benefits represents just one fifth of that of the previous privileges and will be available to some 225,000 people (while there are more than 700,000 pensioners living in Moldova). The reform supports the strategy to tackle poverty through targeted social benefits and at the same time reduce the extent of the non-payment culture.

Even so, the social benefit schemes need to be thoroughly reviewed, and future spending should be determined on the basis of explicitly assumed priorities and not be a renewal of appropriations from previous budgets. The State should stop any kind of implicit subsidies to households and enterprises. Such subsidies tend to impede real restructuring. Restructuring prices for utilities and public services will reduce the waste of energy and resources. The remaining subsidies should be made explicit and transparent. At the same time, social benefits should be channelled directly to the poorest in order to offset the negative impact of higher prices.

Designing a social benefit system that is transparent, fully funded, fiscally sustainable, and well targeted will be the focus of the next phase of social security policy development. The modification and establishment of various policy parameters (e.g. minimum wage and subsistence minimum) need to be based on the financial and economic analysis of their link to and impact on social benefit programmes. The lack of a reliable income certification process means that a future social benefit system would need to rely on a combination of targeting mechanisms and would consist of a mixture of national and local programmes.

In its reform of the pension system the Government remains committed to strengthening the link between contributions and benefits, eliminating privileged pensions and tightening eligibility criteria, making the system more transparent, with a clearly specified benefit formula and establishing an individual pension record for everybody.

Taxes

Moldova's taxation system is currently being restructured. Parliament has already approved three sections of the new fiscal code: general provisions, income tax and value-added tax. The remaining three sections, excise tax, tax administration and property tax, are being prepared. In 1998 value-added tax was introduced in Moldova. The rate for construction is 38%. At the moment there is a VAT exemption for the construction of specially selected buildings (those 40% financed from the budget or with charity funds), which finally reduces the level of VAT to 3%.

In general, heavy taxation hinders economic development and drives many economic actors into the black economy. By the end of 2001, bills on local taxes and fees as well as the valuation of real estate property will have been considered by parliament. At the moment property taxes depend on location and on the Bureau of Technical Inventory's valuation (the maximum rate is 0.3%; the minimum is 0.1% for 100 m²; for more than 100 m², the rate doubles; for more than 200 m² the rate increases sixfold). Real-estate sales tax is equal to personal income tax, namely 28%. Capital gains tax is 50% of income tax.

A comprehensive collection enforcement programme and a reporting system by which the State Tax Inspection can monitor the collection of arrears at all levels of the tax administration will be developed with the assistance of USAID. An audit strategy for the State Tax Inspection that includes improved coverage of taxpayers, automation and audit selection techniques, as well as more comprehensive audit methods, will be also designed.

Under the current system municipalities have no incentives to raise more local tax revenue since it results in a reduction of the money transferred from the central budget. The strict limitation of tax exemptions, unifying tax rates across various tax categories and the elimination of sectoral differences in tax treatment are needed. More transparency should be introduced into the tax system, which is currently too complicated and provides opportunities for serious misconduct. A sound, clear, uniform and predictable taxation system for the construction industry is another prerequisite for a successful construction sector.

E. Mortgage-lending system

The core element of any developed housing finance system is residential mortgage lending. The national strategy for such a system in Moldova has not been put into practice. There are still only the odd case of residential lending and some examples of the use of instalment payment instruments. The main reasons for the failure to develop a mortgage system were low effective demand and high interest rates. In addition there are still numerous infrastructure drawbacks to the development of mortgage lending, including: the absence of a mortgage law, inadequate collateral procedures, inadequate remedies available to lenders in cases of default, and the difficulties experienced by banks in matching longer-term assets with short-term liabilities. The institutional and legal barriers to mortgage lending are dealt with in chapters III and IV, respectively.

The first apartment building financed through a mortgage arrangement was completed in December 1999. Individuals make an initial payment of 45% of the planned cost of housing to the Chisinau Municipal Mortgage Agency (Amic S.A.), while the remaining 55% is paid on a pro rata basis for a period of up to ten years. The interest rate for the unpaid amount is 8%. The second apartment building financed through this novel arrangement was completed in April 2000. The mechanism is being further developed, for example, by taking property as an initial deposit, and opening special savings accounts. In two years, more than 1000 people have registered for this scheme.

The banks will be interested in the larger housing-finance sector if longer-term funds become available and legal changes are made in the form of a mortgage law, improved procedures for foreclosure, etc. It means that the Government should focus on developing an adequate infrastructure for

residential mortgage lending. Although some significant achievements have been already made in Moldova's financial sector, more reforms and strengthening are still required.

Banking system

The domestic banking system was created in the early 1990s as a two-level system: the National Bank of Moldova (NBM) and the commercial banks. The National Bank of Moldova was established in 1991, and modelled on the Central Bank of Romania. It is an autonomous legal entity, answerable only to the country's parliament. The Bank's functions are as follows:

- To establish monetary and foreign exchange policy, as guided by the Bank's own economic analysis;
- To act as banker and fiscal agent to the Republic of Moldova;
- To license, supervise and regulate the activity of financial institutions. Banking supervision is completely in line with Basle Committee standards;
- To act as banker to the banks, providing them with credit facilities;
- To supervise and facilitate the payments system;
- To be the sole issuer of currency;
- To hold and manage foreign-exchange reserves;
- To settle the country's balance of payments.

The NBM supervises the commercial banks and acts independently of the Government. The banks' regulatory system was developed with technical assistance from the International Monetary Fund (IMF) and USAID. Its main norms are in line with, or – as far as capital adequacy and loan provisions are concerned – even stricter than Basle prudential norms. The combined capital of all the commercial banks in Moldova amounted to about \$104 million at the end of 2000.

The largest members of the banking system are the four former State banks, privatized in 1994-95, which account for about 54% of total banking assets. All four belong to the group of banks with assets of over 100 million lei (about \$8 million.) Except for Agroindbank, the largest bank in Moldova, which is in a relatively stable financial position, banks in this group were facing problems even before the Russian crisis.

There are also four or five private banks, established in 1993-94, which have become significant members of the banking sector and have foreign investors among their shareholders. This group is likely to lead the future growth of Moldova's banking sector.

In July 1998 the National Bank of Moldova stopped setting the refinance rate for credit to commercial banks, making the interest rate subject to supply and demand in the credit market and hence the Bank no longer controls money supply and monetary aggregates.

The World Bank considers the consolidation of the banking sector in a smaller number of stronger banks and the presence of foreign banks that will increase competition and provide a beneficial influence on banking markets to be steps in the right direction. However, the current situation in Moldova's banking market would suggest the opposite. Today the banks are holding \$70 million, which are not being used effectively. That is why the majority of commercial banks do not find it profitable to increase their own capital. Moreover, small and medium-sized banks tend to be more aggressive, more lenient on qualifications, much friendlier and more personalized in the service they offer. The competition that they face forces them to be more flexible.

Banking opportunities are scarce, which prompts most banks to avoid specialization. Corporate banking is the main source of revenues, whereas retail banking plays primarily a funding role. The involvement of banks in financial services such as capital markets, leasing, factoring, or insurance is low. Weak IT systems hinder the development of the range and the quality of services available. The top-tier private banks have been able to gain some advantage over the ex-State banks in this area.

Moldova's commercial banks are still not used as much as they could be. As in other countries in transition, tax evasion and a lack of trust in the banking system are partly to blame. Loan risk in Moldova, exacerbated by the continued poor financial situation of many enterprises and a still vague legal framework, for example for bankruptcy, adds a significant premium to lending rates charged by commercial banks.

The outlook for personal banking looks more promising, although many potential investors continue to mistrust Moldova's banking institutions. Because of the financial crisis starting August 1998, people began converting their lei deposits into hard currency ones and some withdrew all their funds from the banking system.

In general, the Republic of Moldova's banking sector is very stable. However, most of the leading banks face similar problems:

- A continuous struggle with insufficient capitalization;
- Overdue credit;
- Rules and regulations that limit competition;
- A lack of adequate strategic plans;
- A lack of experience in credit-risk evaluation;
- Poor management;
- A lack of cheap credit resources.

At present, nearly all licensed banks in the Republic of Moldova are involved in some form of housing finance activity, including housing loans typically for two to five years at interest rates of 20-40%, and construction and building materials loans. Such activities constitute only a very small proportion of their lending portfolios. According to the National Agency for Housing and Real Estate Services (NAHRES), up to 1997 commercial bank activity in the housing sector was very limited, usually involving two- to five-year loans at rates of 30-40%.

There are no training programmes for residential mortgage lending based on mortgage industry standards and commercial banks involved in some housing lending neither have nor use approved underwriting standards.

It should be stressed that there is the problem of the availability and cost of credit, partly resulting from insufficient development and limited competition in the commercial banking sector. This continues to keep the real cost of credit high. Generally speaking, the low share of long-term loans in bank portfolios is a typical problem in economies in transition.

Other elements of the financial system

Non-bank financial institutions remain underdeveloped. The **government securities market** suffered significantly due to the Russian crisis, as commercial banks switched funds from treasury bills to foreign currency. Demand for treasury bills fell short of supply throughout 1999 with the exception of one-week to one-month paper. The volume traded on the stock exchange during 1999 was roughly one third of that in 1998.

The **Moldova Stock Exchange** (MSE) was established in December 1994 as an electronic, screen-base, order-driven system. The MSE is one of the youngest in Eastern Europe and is largely undeveloped with most trades involving swaps of shares issued during privatization. Nevertheless, through USAID support, the MSE has a modern technological infrastructure and enjoys favourable legislation. The legislative framework broadly complies with international standards for investor protection, information transparency and fair competition among professional securities market

participants. The shares of more than 1000 privatized enterprises and commercial banks, including 840 registered joint-stock companies, are registered at the MSE.

The **insurance industry** is at a very early stage of its development in terms of the range and quality of its products, its legal framework and its size. In June 1999 the Law on Insurance was changed to allow 100% foreign-owned companies to sell insurance in Moldova (previously restricted to companies with no more than 49% foreign ownership). Despite the increased importance of insurance services in the new market economy, the sector remains small and fragmented.

Not much has been done in developing the mortgage insurance system including obligatory real estate and title insurance.

F. Financing maintenance and reconstruction

Chapter II analysed the condition of Moldova's housing stock, a considerable part of which is seriously dilapidated. This is largely owing to the lack of adequate maintenance and renovation finance, bearing in mind the low income of the majority of the population. The difficult financial situation of most households is the main cause of the deterioration of the housing stock. The maintenance and renovation of existing housing stock, including the introduction of energy-conservation measures, is needed. There is also a need to look further ahead to the more comprehensive reconstruction and modernization of apartment housing, as was recommended by the Programme for Maintenance, Renovation and Energy Conservation in the Housing Market Report prepared by NAHRES.

Unfortunately, none of recommended steps for improving the maintenance system has been fulfilled up till now. The failure during the transition to create the necessary conditions for the financial support of housing maintenance and reconstruction had a significant negative impact. The existing housing maintenance and reconstruction finance system was not changed and is still based on State-regulated tariffs (fixed in the end by the local authorities), which do not reflect the real cost of the necessary maintenance and reconstruction improvements. It is evident that housing maintenance is significantly underfunded. Experts estimate that it would cost 1.04 lei/m² to ensure a normal quality of maintenance. The standard tariff is only 0.19 lei.

At the same time no specific financial instruments for housing maintenance and reconstruction have been developed. The banking system was neither able nor willing to offer any financial means or instruments to finance housing maintenance or reconstruction. No specific regulation has been developed to allow the banks to finance new homeowners' associations (PHOAs) or other private companies.

The lack of maintenance and renovation of the housing stock is perhaps the most serious weakness facing the housing market today. The reasons are complex, involving problems of institutional responsibility for the upkeep of apartment buildings, the financial problems of municipal maintenance companies and local governments and a lack of resources on the part of residents. The problem will get worse as buildings continue to depreciate.

The housing maintenance and servicing system should receive sufficient fees to cover the cost of its services. On the other hand, it should ensure that the money meant for maintenance is used to that end, and its income and expenses should be transparent.

Housing stock maintenance and servicing can be an attractive proposition with an adequate tariff policy and the reorganization and privatization of maintenance companies. However, it is necessary to develop special instruments for housing maintenance and reconstruction finance, including the creation of special reserve funds for future repairs, commercial home-improvement equity loans and targeted home-improvement and repair subsidies.

Without an integrated and consistent reform of relations within the sector, both administrative and economic, the efficiency of funds spent on upgrading will be insignificant and the sector will fail to attract more investments. Unlike the previous situation (three to four years ago), most people (owners of dwellings, residents) are now more aware of the need for large-scale changes. In many cases people are taking the initiative by associating and finding highly effective solutions for dwelling maintenance, the metering of water and energy consumption, etc. There are private maintenance companies interested in maintenance or refurbishment services. However, their services are non-complex and fragmented.

A major problem for heating, water and natural-gas supply systems is the absence of any integral record of production and consumption. This fact encourages defalcation, one of the causes of the exaggerated service costs. The general state of the economy and the delay in institutional reforms in the dwelling sector only exacerbate the situation. The high cost of services together with the mentality of most people who are used to paying only symbolic prices for services have generated huge consumer debts.

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