

V. INSTITUTIONAL FRAMEWORK

The transition from a strongly centralized, command system towards a democratic nation based on the principle of decentralized power, presents special challenges with respect to institutional structures, systems and practices. The successful application of decentralized powers requires the existence of institutions with qualified staff at regional and local level within the public sector. A further requirement is that the State level should also push through a real decentralization of responsibility, authority and efficient implementation tools. Furthermore, the operation of a decentralized democratic system requires skills and attitudes that are quite different from those of a centralized system. The formal creation of new institutional structures must therefore also go hand in hand with staff training. The efficiency of institutions is totally dependent on their human resources.

These general needs for new institutions, skills and attitudes are particularly critical in the housing sector. In a market-oriented society, housing services are produced and delivered locally, mainly in cooperation with municipalities and the private sector. Although central legal and financial frameworks must remain the responsibility of the State, creating efficient institutions at lower levels is one of the most important means for securing a functioning housing sector.

A. Distribution of responsibility for housing

The *Principles of the Reform of the Housing Policy in the Slovak Republic* produced by the Government in 1991 formulated a policy of severely reduced State involvement in the housing sector. The State would concentrate on applying incentives to stimulate the private sector. This policy change included a formal transfer of responsibility for housing from the State to municipalities and to the private sector. Neither of these parties was prepared or equipped to shoulder this responsibility.

In particular, the municipalities were facing formidable obstacles in formulating and implementing relevant and efficient local housing policies. Continued strong centralization of policy tools, e.g. rent control, lack of adequate legal and financial frameworks, and non-existence of local political and administrative structures to handle housing issues, effectively prevented the municipalities from carrying out their intended role according to the above-mentioned "Principles" of 1991. So the policy of State withdrawal from housing, combined with the lack of possibilities for municipalities and the private sector to take over the role vacated by the State, was a major contributing factor to the collapse of new housing construction after 1991.

The *Conception of the State Housing Policy by 2000* laid a new foundation for a structured approach to the development of the Slovak housing sector. Within this nationally accepted housing policy framework, the responsibilities of the main participants in the housing sector are clearly defined.

The State has responsibility for:

- Preparing and implementing a national housing policy;
- Creating an institutional framework with clear distribution of responsibility and authority;
- Creating a legal framework;
- Creating financial and economic tools to support housing development;
- Creating and administering social security systems.

The new roles of municipalities are:

- Preparation, implementation and monitoring of local housing policies;
- Indirect (via the private sector) responsibility for new housing development within their boundaries;
- Securing necessary land for housing development within municipal land-use plans;
- Coordination of and participation in infrastructure development;
- Encouragement of private sector development projects;
- Coordination of and participation in social housing development;
- Encouragement and participation in maintenance and upgrading of the existing housing stock;
- Improvement of management and administration of local housing resources;
- Implementation of national technical programmes;
- Information and assistance to the private sector;
- Financing of new construction through a municipal housing development fund financed by revenues from the sale of municipal housing.

The private sector has responsibility for the financing, planning, construction and sale of new housing development.

Individual households are expected to take responsibility for:

- Financing and purchasing of new flats (private ownership);
- Financing maintenance and renewal (private owners and cooperative members);
- Administrating, managing and maintaining buildings (condominium owners/cooperative members).

This distribution of responsibilities contained in the Government's "Conception of the State Housing Policy by 2000" can, however, be implemented only to a limited extent within the existing, overall framework conditions for the Slovak housing sector.

B. National public sector institutions

An overview of the main public sector institutions responsible for housing in Slovakia is shown in figure XII.

The National Council, consisting of 150 representatives elected for a four-year period, is the supreme legislative authority within Slovakia. The Council has so far not established a permanent committee or subcommittee with direct or indirect responsibility for housing and housing-related matters. It is, however, a national policy objective to establish such a committee.

Government institutions

At ministerial level, responsibility for housing falls within the authority of *five separate ministries*:

- Ministry for Construction and Public Works (main responsibility for housing policy and management of the housing stock);
- Ministry of Environment (spatial and urban planning, the Building Code, environmental improvement of municipal infrastructure);
- Ministry of the Economy (State programmes on energy, subsidies to producers of heating and hot water);
- Ministry of Finance (State budget, rent control, taxation, financial policy instruments);
- Ministry of Labour, Family and Social Affairs (the planned housing allowance system).

The responsibility for central elements necessary to formulate and implement a national housing policy is thus spread among a high number of ministries.

The Ministry of Environment has a responsibility for the Acts on Spatial Planning and on Building Regulations, both of which provide important framework conditions for the housing sector.

The Ministry for Construction and Public Works as the government body with the main responsibility for housing has established a *housing sector division containing two departments*:

- The Department of Housing Policy:
 - Housing Policy Unit (5 employees);
 - Housing Fund Management Unit (5 employees);
- The Department of Economy and Housing Development:
 - Unit for Housing Development (5 employees);
 - Unit for Economic Instruments (5 employees).

The limited number of personnel working permanently on housing issues within this Ministry reflects both the existing decentralized structure of State institutions, and the expressed transfer of responsibility for housing from the State level to municipalities and the private sector.

Decentralized governmental institutions

Government institutions are decentralized to the regional (8) and district level (79). Responsibility for coordination of State activity at these levels lies with the Ministry of the Interior.

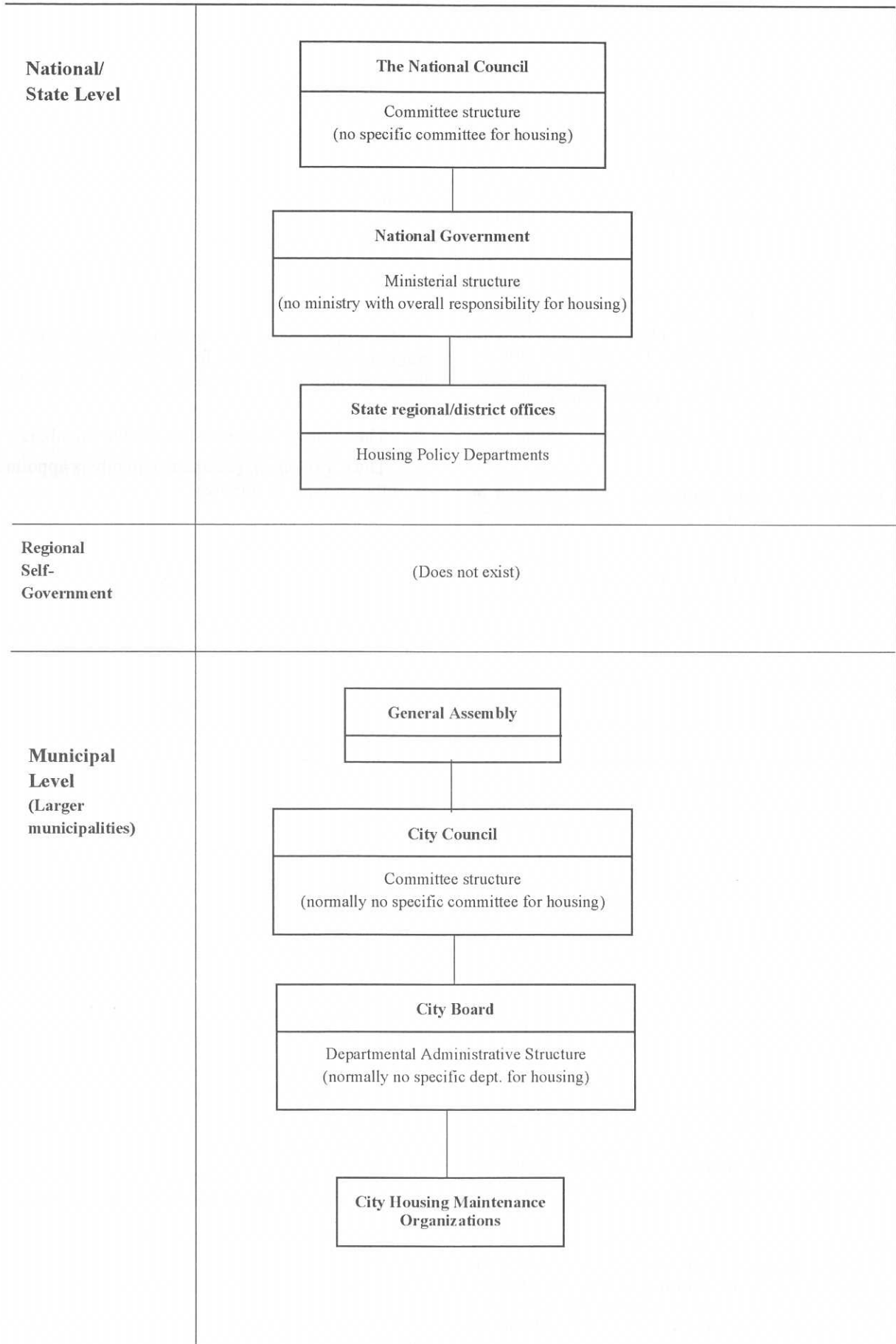
The State Regional and District Offices (Okres) contain *Housing Policy Departments*, whose main responsibilities are to:

- Cooperate with municipalities on the implementation of State housing policy;
- Coordinate and monitor municipal activity to:
 - Implement municipal housing policy;
 - Provide land for new housing development;
 - Provide infrastructure and municipal housing construction;
- Administer the State Housing Development Fund:
 - Provide information to municipalities and developers;
 - Accept, verify and certify applications for financing from the Fund;
 - Assist developers in preparatory work and construction;
 - Inspect and approve execution of contractual terms;
 - Control the overall efficient application of State resources.

The regional and district State administrations exert strong influence on municipal activity. In particular, this is the case for the small and medium-sized municipalities with very limited professional capacity within their administrative systems. Although the Offices are primarily concerned with matters outside the normal activity of municipalities, they are nevertheless empowered to set policy agendas for them.

Regional self-government institutions have not been established in Slovakia. There is, however, an ongoing discussion on this aspect of local government.

FIGURE XII
Slovakia: the housing sector—a simplified overview of public sector institutional structures



C. Local government institutions

The Constitution defines the municipality as "... an independent territorial and administrative unit ... (which) ... shall finance its needs primarily with its own funds and also with national subsidies. Taxes and duties to be raised by the municipality shall be determined by law ...". Local self-government is regulated by the *Act on Municipal Community Structure* from 1990. The Act defines municipalities as independent, self-governing territorial units serving citizens with permanent residence within their territory. Municipalities are governed by Councils whose members are appointed through municipal elections.

The present methods for funding municipal budgets, however, severely restrict municipalities' independence and their possibility for strategic planning. Approximately 90 per cent of municipal budgets are financed with direct State grants and subsidies. The only taxation income remaining totally with the municipality is the real-estate tax. All other income from taxation is transferred to the State, which returns block grants and subsidies to the municipality based on allocation criteria which may change yearly.

The process of "municipalization", which started in 1993, involved the transfer to municipalities of State ownership of housing stock, vacant land, service properties, local enterprises operated by State institutions, and local infrastructure. Slovakia's municipalities have, theoretically, wide responsibilities and powers in housing matters. In practice, however, municipal possibilities for independent housing policies are severely limited. This is partly caused by the remaining centralization and direct State involvement, and partly by the lack of municipal policy tools and institutional structures to adequately address housing issues. Although municipalities have formal responsibility for social and housing issues, central housing policy issues such as rent regulation and privatization of the municipal housing stock are still the responsibility of the State. In addition, the present method of yearly State financing of municipal budgets severely weakens the independence of municipalities.

The large number of small municipalities (approximately 2,700 with fewer than 5,000 inhabitants) further complicates the distribution of responsibility for housing. Small municipalities do not generally have resources to establish a professional capacity for housing. The absence of regional self-government, combined with strong State regional and district organizations, means that there is a danger that the majority of municipalities will merely implement State housing policy.

The transfer of responsibility from the State to municipalities has not been paralleled by the *necessary political and administrative changes in the municipalities*. In general, neither the committee structure under the municipal council, nor the municipal administrative organization has been changed to reflect the new and important role of housing at local, self-government level.

In Slovak municipalities the main responsibilities for administration, operation and repair of the municipal housing stock lie with the **municipal housing maintenance organizations**. These remaining elements of a public-sector-dominated housing service still operate as virtual monopolies. However, there are also some private

housing maintenance organizations for privately owned dwellings.

The institutional structure of Bratislava

Slovakia regulates the self-government of the two cities with a population of over 200,000 by special laws. The *Act on Bratislava* (1990), together with the *Covenant of Bratislava*, regulate the special status, spatial arrangements, and structure of the Slovak capital. The Act places a clear mutual obligation on the State institutions and the municipality to discuss all strategies for social and economic development deemed important for the needs and interests of the capital. In accordance with the Act, Bratislava is governed by a two-tier political/administrative system.

The upper tier: the municipal government (the magistrate) is responsible for the overall development of the capital under the control and subject to the approval of:

- The *General Assembly* (80 elected members); and
- The *City Council* (28 elected members appointed by the General Assembly);
- *Nineteen Committees*, chaired by Councillors elected by the General Assembly, responsible for issuing recommendations to the City Board, the City Council and the General Assembly.

The *City Board*, consisting of the Mayor and four Deputy Mayors, is appointed by the General Assembly and has responsibility for the operation of city activities.

The main responsibilities of the city are:

- Approving the master plan (spatial development) of the capital;
- Approving city-wide sectoral policies (e.g. housing);
- Approving and controlling the city budget.

The lower tier: 17 districts within the city with considerable autonomy and distinct responsibilities. Each district is governed by a *District Board* with full responsibility for the operation of all district activities. The District Boards have authority to propose policies and resolutions to the City Board for approval, and can present recommendations to the City Council and General Assembly. The main responsibilities of the districts are:

- Managing property and financial resources transferred from the city;
- Managing their own property and resources, e.g. selling municipal flats;
- Discussing and making city-wide and district-limited land-use proposals for residential purposes;
- Approving land-use plans for all or part of the district;
- Approving development plans for the district.

There is a clear potential for conflict between the city and its districts. In an attempt to limit such conflicts, a

Generally Binding Ordinance has been approved. It sets out procedures for resolving such conflicts. This ordinance can only partly remove the causes and effects of conflicts. The lack of institutional structures to tackle the new challenges and opportunities presented by housing is reflected in the fact that housing is a part-responsibility of the City Department of Social Affairs, and that the Department of Maintenance is responsible for leases for municipally owned housing.

D. The private sector

The private sector is a critical element in a market-based housing system. Early in the reform process Slovakia defined a new distribution of responsibilities within the housing sector as a strategic element in the transition from a centrally planned to a market-based system. The private sector has been defined as the real producer of housing "products" and services within this national strategy. Private sector participants in housing, and their efficient institutional structures and networks, must in the main be created by the private sector itself. It is, however, of crucial importance to the emergence of such private institutions and networks that the State and the municipalities should provide the necessary framework conditions, and actively encourage private sector participation and growth. Figure XIII presents a simplified overview of the main institutions involved in housing in Slovakia.

I. NATIONAL NON-GOVERNMENTAL INSTITUTIONS

Nationwide non-governmental institutions with direct or indirect interests in housing are gradually emerging. The new structures are mainly concentrated at the com-

mercial supply side of products and services. More slowly the consumer side of the housing market is also establishing organizations and interest groups.

Employers organizations in the construction industry

The Federation of Employers Unions and Associations of the Slovak Republic is the national umbrella organization of employers. The Federation has participated actively in public and political discussion on problems and solutions in the housing sector, and must be considered a strong participant in the further development of the housing sector.

The Association of Construction Entrepreneurs of the Slovak Republic represents three-quarters of employers in the national construction industry. The majority of former State construction companies with long experience in the construction of multi-family housing belongs to it. The Association is considered to have considerable influence on Government housing policy.

The Association of Private Construction Contractors of Slovakia brings together the remaining quarter of employers in the national construction industry. This Association, which now concentrates on developing public-private partnerships in housing development, has contributed a number of position papers and documents on problems in and solutions for the housing sector.

The Union of Building Development in the Residential Sector is a newly established organization with mixed membership (individuals, municipalities, consultants, contractors). Its main activity is to support developers in public-private housing partnership projects.

FIGURE XIII
Slovakia: main private sector institutional structures
in the housing sector

<i>Employers and producers organizations</i>	<i>Professional organizations</i>	<i>Consumers organizations</i>	<i>Financial institutions</i>
* The Federation of Employers Union and Associations	* The Society of Slovak Architects	* The Union of Home-owners Associations	* The National Bank of Slovakia * 24 national banks
* The Association of Construction Entrepreneurs	* The Chamber of Slovak Architects	* The Slovak Union of Housing Cooperatives	* 5 branches of foreign banks
* The Association of Private Construction Contractors	* The Chamber of Civil Engineers	* 175 individual housing cooperatives	* 12 representative offices of foreign banks
* The Union of Building Development in the Residential Sector	* The National Association of Real Estate Agencies		* 2 specialized Building and Saving Banks
* 33,500 construction and building companies (1996)	* Increasing number of private professional and services companies		

Consultancy and services

The *Society of Slovak Architects*, the *Chamber of Slovak Architects* and the *Chamber of Civil Engineers* are national professional organizations.

The *National Association of Real Estate Agencies of the Slovak Republic* is a relatively new organization representing the national real-estate industry. Its main focus is the creation of a housing market and the development of a national standard for the valuation of real estate.

An increasing number of private professional companies offer various services within the housing sector, such as: research and planning, expertise on energy conservation, management of property.

Owners and tenants organizations

The *Union of Homeowners Associations of the Slovak Republic* represents the condominium associations that are emerging as a consequence of the privatization of housing. Although the Union today concentrates on the problems of administration and maintenance of multi-family, private housing, it could develop into a strong representation of private ownership interests. The Union also has the potential to become a central partner for the public sector in maintaining the standard of the existing housing stock and reducing energy consumption in housing.

The *Slovak Union of Housing Cooperatives* represents approximately 370,000 flats with 1.2 million residents.

There are no national organizations to represent *tenant interests* in the Slovak housing sector. The creation of such organizations would probably require very active encouragement and assistance both from the State and from municipalities. *A central element in west European housing is the existence of various forms of non-profit housing organizations.* Such organizations, which exist within both the private and the public sectors, are normally owners of rental housing, often concentrating activity on specific social groups such as young people, the elderly, low-income households. There are no such non-profit housing organizations operating in Slovakia at present.

2. THE COOPERATIVE HOUSING SECTOR

The system of cooperative housing has a long tradition in Slovakia, with the first housing cooperative societies established in 1918. This form of ownership gained particular importance during the communist period. The Slovak Union of Housing Cooperatives was established in 1968 as an umbrella organization for the housing cooperative movement. Due to the strong position of housing cooperatives in general, and the Union in particular, during the communist period, both lost credibility and political priority at the start of the transition period. Today 130 individual housing cooperative societies belong to the Union, which is about 75 per cent of all housing cooperatives in Slovakia. The Union is one of about 30 bodies in Slovakia entitled to submit comments and proposals on laws affecting their field of interest.

The Slovak Union of Housing Cooperatives is today a democratic organization. Its *Assembly of Delegates of the Member Cooperatives* elects a *Board* and a *Control Commission*. The Assembly and the Board together establish supplementary commissions for time-limited periods. At present three such *Commissions* cover legal, energy and economic matters. The Union provides specialized advice and training schemes for its members. All activities are internally funded, and membership is totally voluntary.

The average size of individual housing cooperatives in Slovakia is 2,400 housing units. Although covering a wide variation in size, the larger end of this scale presents obvious problems with regard to identification and participation of ordinary members, and therefore with regard to active, democratic development of the cooperative housing movement. Each housing cooperative forms an independent, self-governing unit. Self-government exists on two levels:

- The entire housing cooperative (full independence);
- One or more buildings within the housing cooperative (limited independence).

Each self-government building or group of buildings elects representative(s) to the cooperatives' *Assembly of Delegates*. The voting rules are set out in by-laws, e.g. one delegate per 10 members/flats. The Assembly of Delegates elects the *Supervisory Council* and the *Board* of the cooperative. The Board elects its own *Chairman* (president/deputy director). The Chairman is normally a full-time employee and has responsibility for hiring all headquarter staff, and for all day-to-day management of the cooperative.

There are two forms of membership of housing cooperatives:

- Owner-occupier members;
- Tenant members.

Owner-occupiers have paid the full construction cost (or market sales price) of the flat. It is not obligatory for owner-occupiers to be members of the cooperative. If they choose not to be members, they have to sign a management agreement for the flat with the cooperative. Owner-occupier status is rare in cooperatives established before 1989. Such status can be obtained if tenants in cooperatives want it. *Tenants* have no ownership rights, only "right-to-occupy" based on the payment of an initial fee, and monthly rent covering the remaining capital costs and operating expenses. It is compulsory for tenants to be members of the cooperative.

3. THE CONSTRUCTION INDUSTRY³⁴

The Slovak construction industry has gone through massive restructuring since 1990. In 1980 the country had a total of 88 construction companies employing approximately 200,000 people. The number of companies had risen to 10,200 by 1990 and to 34,500 by 1994. It declined slightly to 33,500 in 1996. This period of rapid growth in the number of construction firms also experienced a decline in the total number of employees in construction

³⁴ The information for this section was provided by the Association of Private Construction Contractors of Slovakia.

from approximately 200,000 in 1980 to 180,000 in 1990 and 150,000 in 1996.

This dramatic change in the number of construction companies of course reflects a total move away from large, State-owned construction entities to small and medium-sized private construction and building enterprises. In 1980, 85 per cent of the total number of construction employees worked for the 40 companies employing more than 1,000 employees. In 1996, 50 per cent worked for companies employing fewer than 50 people, whilst only 12 per cent worked for companies employing more than 1,000 people.

This creation of a large amount of small, private construction and building businesses over a very short time also creates specific problems and challenges with regard to the possible rate of increase in new construction or renovation. A suspected weak capital basis and limited access to modern construction equipment can severely limit the ability of a large number of new, small companies to accept commercial risk and increase their production capacity. The construction industry has been largely

privatized. The interests of the private sector are represented by the newly established national associations.

4. FINANCIAL INSTITUTIONS

Based on Amendment No. 58/1996 to the Banking Act of 1992, the National Bank of Slovakia, as regulatory body, has pursued a policy of attracting investors to the existing banking structure. At the end of 1996, there were 24 national banks, 5 branches of foreign banks, and 12 representative offices of foreign banks operating in Slovakia. Of the 24 national banks, 20 are joint-stock companies and 2 are registered as State financial institutions. Foreign capital participation in the equity of the 24 national banks is substantial. Five banks are 100 per cent owned by foreign entities, nine banks have more than 10 per cent foreign equity participation, and in three banks foreign participation is less than 10 per cent of equity capital. Two specialized building savings banks are operating in an increasingly active financing system based on the German/Austrian system of *Bausparkasse*.