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Community Driven Development Approaches in Housing Sector Projects in Transition Economies

This note is part of a series that considers the linkages between of Community Driven Development (CDD) and urban operations. The objective of this note is to identify the role of CDD in the housing sector in transition economies, to highlight the varied CDD approaches that have been used thus far in World Bank projects, and to develop recommendations for emerging issues. We would welcome your feedback on this note.

Background

A majority of the housing stock in transition economies consists of multi-apartment buildings (Table 1) where most of the residential units have been privatized. This has resulted in a major change in the ownership structure of these multi-apartment buildings, wherein apartment units are owned by individual households, while common areas (such as staircases, roofs, basements, internal infrastructure, land, etc) are owned either by local governments or collectively by all apartment owners.

However, despite privatization and the development of relevant legal frameworks, little has changed in the way buildings are managed and maintained. Private activity is low, housing communities of apartment owners are weak, and only a fraction of buildings are managed by homeowners associations (HOAs) – formal community organizations established by apartment owners for the management of their building.¹ Thus, local governments continue to service the majority of the housing stock at highly subsidized maintenance fees.

Due to insufficient funds and inefficient management, maintenance of buildings is negligible and performed in an ad-hoc manner in

Box 1: What is CDD?

Poor people are often viewed as the target of poverty reduction efforts. CDD approaches, by contrast, treat poor people and their institutions as initiators, as collaborators and as resources on which to build. CDD is broadly defined as giving control of decisions and resources to community groups. CDD frameworks link participation, community management of resources, good governance and decentralization (World Bank, 2003). With a view to generate sustainable and wide-ranging impacts, CDD operations and regional strategies have increasingly embraced two important pillars of sustainability and scale: linking communities to private sector and local governments.

Table 1 – Basic characteristics of housing stock in selected transition economies *

Country	Estimated share of the total housing stock		Estimated share of multi-apartment housing with HOAs
	Privately owned (1999 – 2002) ^a	Multi-apartment housing ^b	
Armenia	96%	52%	41% ^d
Belarus	68%	96%	N/A
Estonia	93%	69%	50% ^e
Kazakhstan	97%	46%	N/A
Latvia	75%	72%	< 10% ^e
Lithuania	97%	85%	N/A
Moldova	91%	N/A	30% in Chisinau ^e
Russia	59%	75 – 80% ^c	<5% ^f

response to emergencies. As a result, buildings continue to deteriorate and a major share of household assets is being eroded. In addition, household access and affordability of basic utilities such as heating, gas and water is also impaired, particularly in countries such as Moldova, Armenia, Georgia and Azerbaijan. For example, in Armenia only 12 percent of households that have connection to the district heating and 17 percent of those that have connection to gas actually receive the services.ⁱⁱ

Key obstacles to community development

The World Bank has carried out a number of studies in Armenia, Moldova and Russiaⁱⁱⁱ that provide information on the current status of community development and, more importantly, identify key obstacles and impediments in promoting the active involvement of apartment owners in housing management and maintenance. While situations vary from country to country, as well as from location to location within a country, the following were identified as key areas of concern:

- (i) Heterogeneity of household interests in a single building resulting in high transaction costs;
- (ii) Inefficiency of the legal and regulatory framework and its ineffective implementation/enforcement;
- (iii) Inadequate awareness and capacity of communities in terms of understanding their roles and responsibilities in managing multi-apartment buildings, costs and benefits of different activities and investments;
- (iv) Restrictive local policy environment that hinders community development and crowds out private initiative;
- (v) Lack of access to financing.

One of the consequences of the way housing was allocated under the soviet regime is that any single multi-apartment building is inhabited both by the rich and the poor. This heterogeneity of income results in very different consumption priorities and financial capacities among the residents. Thus, the transaction costs in organizing and operating an HOA are very high, particularly in countries with high poverty rates. Inefficient and costly decision-making rules

imposed by the legal framework in many transition economies increases these costs. Little delegation of decision making from apartment owners to the building's manager, high requirements for quorum (up to 50 percent), high rates of required approval (50 – 100 percent of all apartment owners) are among such restrictive rules. In addition, bylaws often undermine the government's own attempts to encourage community development by imposing rigid guidelines and establishing unrealistic deadlines. As a result, there is not much room for the community to choose the way their HOA is operated.

International organizations and bilateral donors have provided extensive technical assistance for raising awareness and building capacity of housing communities and HOAs in Lithuania and Armenia. Experience in these countries demonstrated that awareness and capacity building are important drivers of housing community and HOA development. However, it also demonstrated that it is not enough. While 41 percent of the housing stock in Armenia has HOAs, only half of them are considered active. Results of Lithuania Energy Efficiency / Housing Pilot Project indicated that very few new HOAs were established during the project implementation. Further studies in Armenia, Moldova and Russia identified that an enabling policy environment is just as important, and is a precondition for active private initiative and community development.

These studies found that central and local governments have retained an important role in the provision of housing and communal services. The state continues to provide large subsidies to buildings and building maintenance and utility companies in the form of cash transfers, setting tariffs below cost recovery levels and weak payment enforcement. Often local governments also continue to own the common areas in multi-apartment buildings even if apartments are privatized. These policies have resulted in extensive free-riding and low collection rates. Thus, there are no incentives for housing communities to undertake the responsibility for their buildings. Quite to the contrary, government policies result in penalties to active communities as they lose access to a large share of subsidies.

Thus, service providers and apartment owners are caught in a vicious circle or low level equilibrium^{iv}: subsidies and weak payment enforcement provide no incentives for apartment owners to form HOAs and undertake building management; without HOAs it is difficult for the government to reduce subsidies and for service providers to enforce payments.^v

This situation also has negative impacts on the utilities sector, as resources such as heating and water continue to be wasted, residential collection rates remain low and service quality continuously deteriorates. Lack of enforcement of residential payments played a significant role in causing the recent distress in the power sector in Armenia as utilities (water, sewage and heating) accumulated large debts reaching 10 percent of GDP in 2002.

The studies also demonstrated that development of housing communities requires active work in three areas – establishment of an efficient legal framework, capacity building of communities and HOAs, and development of policies that support rather than discourage community activities.

Several countries such as Estonia, Slovakia and Kazakhstan and in some cases even individual cities such as Ungeni in Moldova appear to have overcome these obstacles as a majority of housing is managed by housing communities. However, very little is known about how the transition took place and what the crucial steps were in this process. More research is needed in order to learn

from the experience of these countries and to apply it to other transition economies.

CDD approaches in housing projects

Many international organizations, including the World Bank, USAID, CIDA, DFID, GEF and others, have implemented numerous housing projects in many transition economies. Most of these projects have predominantly focused on two aspect of CDD – enabling environment and community control^{vi}. Less attention, however, has been paid to working with local governments in developing an enabling policy environment, which plays just as important a role in successful community development.

This note reviews nine housing sector projects in six transition economies (see Table 2 below).

CDD related activities in Latvia, Lithuania and Armenia include both technical assistance and financial instruments for financing investments in common areas in multi-apartment buildings (sub-projects). In countries with more advanced financial sectors such as Latvia, guarantees for loans to HOAs to be financed by local financial institutions have been determined to be most appropriate. In countries with less developed financial sectors such as Armenia and Lithuania in 1995, long term credit lines to be on-lent to HOAs for undertaking such investments have been found to be more suitable.

Due to the low level of community activity in

Table 2 – Reviewed Housing Sector Projects

* - UI – under implementation, UP – under preparation

Country	Name of the project	Type	Status*
Armenia	Community Based Urban Water Supply Management Project	JSDF grant	UI
	Municipal Development Project, HOA component	Loan	UI
	Urban Heating Project	Loan	UP
Latvia	Housing Project Learning and Innovation Loan	Loan	UI
	Japanese Grant for the Preparation of the Housing Project	PHRD grant	UI
Lithuania	Energy Efficiency / Housing Pilot Project	Loan	Closed in 2001
Russia	Housing and Communal Services Project	Loan	UP
Tajikistan	Community Based Water Management Project	JSDF grant	UI
Uzbekistan	Proposed Community Based Urban Water Supply Project	JSDF grant	UP

these countries, the active involvement of community groups in project design and preparation requires extensive resources. Therefore, their involvement in project preparation so far has been limited to consultations through interviews, surveys and focus groups. However, implementation of individual sub-projects is solely demand driven. Decisions on the type and design of individual sub-projects and their financing are made by communities. Communities are also solely responsible for the implementation and supervision of sub-projects during both the construction and maintenance phases.

In order to strengthen communities and build their capacity in making efficient and educated decisions and implement sub-projects, extensive technical assistance programs have formed an integral part of the projects in Armenia, Latvia and Lithuania. While in Latvia, technical assistance work was directed towards improving the legal framework for HOA activities, the main focus in Armenia and Lithuania has been on raising public awareness, setting up HOAs and building their capacity. This has involved establishment of advisory centers and financing experts in organizing communities, legal issues, engineering and development of investment projects.

In parallel, extensive nationwide public information campaigns have been designed to raise public awareness about the new rights and responsibilities associated with the apartment ownership in multi-apartment buildings and the benefits of collective activities. Particular emphasis is being paid to energy efficiency measures as they have the greatest potential for savings and enhance household living conditions. Experience in countries such as Baltic States and Poland have demonstrated that savings from energy efficiency measures can be 20 – 80 percent.

CDD activities in Tajikistan and Uzbekistan augment water projects in the respective countries, and mostly cover technical assistance along the lines of that in Lithuania and Armenia. Some of these technical assistance projects also involve grants to HOAs and/or low income households for purchase of water meters. The

project in Russia is still at the early stages of preparation.

Most of the above technical assistance programs have been financed by different international organizations and donors such as the Danish and Dutch Governments (in Lithuania), GEF, OECD and USAID (in Armenia), and the Government of Japan (JSDF grants in Armenia, Uzbekistan and Tajikistan and PHRD grant in Latvia).

Concluding remarks and emerging issues

The above review of studies and projects highlights the importance of integrating CDD approaches in the housing sector in transition economies. CDD provides an opportunity for communities to come together for an easily identifiable and common immediate interest – management of the building's common areas. However, the involvement of individual community members and homeowners associations in the management of common areas and shared utilities of their buildings, has by and large been low.

A typical World Bank project in the housing sector in transition economies consists of technical assistance and/or financial instruments involving two aspects of CDD – fostering an enabling legal environment and building capacities of communities to make decisions, design and implement individual sub-projects. However, there have not been many initiatives that are aimed at working with local governments on the development of enabling policy environment and the establishment of the process of consultations and feedback between policy makers, service providers and communities.

This review suggests that an efficient legal framework, increasing awareness level of communities and an enabling policy environment all play an important role in development of active housing communities. Identification of country specific issues is also crucial in designing appropriate CDD approaches in housing projects.

In most projects, the entry point for CDD has often been the project implementation stage rather than the project preparation stage. In order to enhance the application of CDD approaches in the earlier stages of the project life cycle, additional

time and financial resources are needed so that communities can be mobilized and involved in the design and decision making of the overall project framework and components.

While management of multi-apartment buildings is among the most important issues in the housing sector in transition economies, there are other issues that may require community participation such as access to housing and choice of tenure (ownership / rental), housing assistance to socially vulnerable groups etc. It is important to consider ways in which CDD can support these other emerging needs in the housing sector in transition economies.

^{iv} Lampietti, Kolb, Gulyani and Avenesyan; 2001; Utility Pricing and the Poor. Lessons from Armenia; World Bank Technical Paper No. 497; World Bank, Washington D.C.

^v For more discussion see Hamilton and Vecvagare; 2003; Problem of Multi-family Housing in Armenia; World Bank.

^{vi} *Community Control* - Community groups make decisions on planning, implementation, O&M AND directly manage investment funds; and Community groups make decisions on planning, implementation, O&M, BUT do not directly manage investment funds; *Enabling environment* - Policy and institutional reforms oriented toward increased control of decisions and resources by community groups; *Local Governments* - Democratically elected local governments make decisions on planning, implementation, O&M in partnership with different community groups.

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* *Source*: ^a – SIMA, ^b – Statistical bureaus and interviews with country officials; ^c – “Urban Housing and Land Market Reforms in Transition Countries: Neither Marx Nor Market” by Buckley, Ellis and Hamilton (2001); ^d – “Condominium Development in Armenia. An Introduction” by Desilets and Vanoyan (2001); ^e – Association of HOAs; ^f – “Housing and Communal Services in Russia: competing the Transition to a Market Economy” by Ellis (2002).

ⁱ In most countries HOAs can be formed as common agreements or authorization of a manager signed by a majority of the apartment owners in a building, or a legal entity, i.e. co-operative, limited company or joint stock company. The most common forms are co-operatives, common agreements and authorization of a manager.

ⁱⁱ National Statistical Service of the Republic of Armenia (2000 official data) and Integrated Survey of Living Standards in Armenia (2001).

ⁱⁱⁱ Armenia – ‘Condominium Development in Armenia. An Introduction.’ by Desilets and Vanoyan (2001), ‘The Problem of Multi-apartment Housing in Armenia’ by Hamilton and Vecvagare (2003), Moldova – ‘Strengthening Community Based Organizations in the Housing Sector’ by Oikos (2003), Russia - ‘Housing and Communal Services in Russia: Completing the Transition to a Market Economy’ by Ellis (2002).