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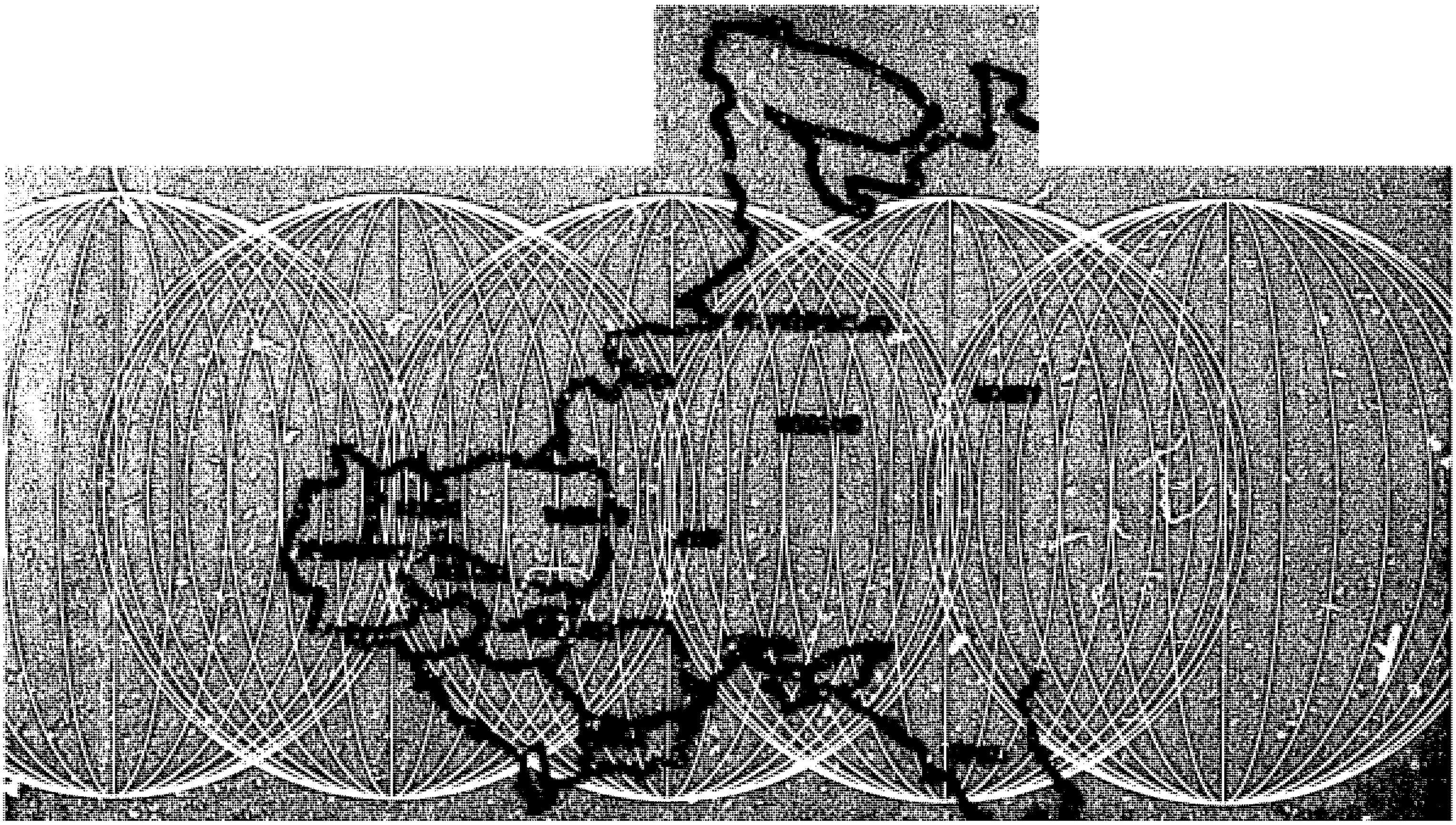
FROM PLANNING TO MARKETS

HOUSING IN EASTERN EUROPE



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HOUSING PRIVATIZATION: WHAT SHOULD WE ADVOCATE NOW?

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ABSTRACT

The purposes of this paper are to briefly review the alternative strategies that have been suggested and the actual track record of privatization to date, and to then to recommend some guidelines for AID advisors to follow in today's environment.

The earliest papers on housing privatization concluded that Eastern European governments should "proceed with caution". They emphasized that a number of policy and institutional changes will be required for the transition to a market-oriented housing system. Later views noted that local governments (now in control of the communal stock) have recognized that with enormous current operating deficits, communal housing is today a financial liability. More important, the paper reflected the growing recognition of the costs of slow privatization in perpetuating the inefficient institutions of the old order.

While these theories are instructive, it is important to understand that the governments of Eastern Europe and the NIS have gone ahead with housing privatization without following either the "go slow" or "go fast" approaches in their ideal forms. Advice given in any country today must reflect that country's actual privatization history and the differences in processes and outcomes.

Given these theories and experiences, what should we advocate now? Our conclusions are as follows:

- Going fast wins—AID advisors should advocate rapid privatization of communal housing everywhere.

- Popularly elected local governments are appropriate units to decide about the scope and staging of communal housing privatization.

- AID should give special priority to policies that place resident-owners truly in control of their buildings and develop their skills as managers. Privatization that only transfers title without fully transferring management responsibility and control is a sham.

- AID should strongly support the adoption of a national housing allowance program in all countries in the region.

- There is no need to give the housing away. While prices should not be set so high as to slow the privatization process, charging prices somewhat below that level does provide benefits: e.g., giving buyers more stake in ownership and adding political legitimacy to the process.

- There is a need for special programs to deal with the "unsalables".

HOUSING PRIVATIZATION:
WHAT SHOULD WE ADVOCATE NOW?

Introduction and Purpose

AID has funded technical assistance to the countries of Eastern Europe in housing privatization since 1990. All of this work has confirmed the conclusion that large scale government ownership of rental housing in these countries has been disastrous and that transferring a large share (if not all) of this communal housing to private ownership is an appropriate goal (see, for example, Kingsley and Struyk, 1992, Buckley et al, 1992). The experience has shown, however, that the topic is indeed complex and advisors have disagreed as to the most appropriate strategy for reaching this goal.

The purposes of this paper are to briefly review the alternative strategies that have been suggested and the actual track record of privatization to date, and to then to recommend some guidelines for AID advisors to follow in today's environment. It is not expected that the ideas offered here will be accepted immediately—the intent is to stimulate another round of thought and discussion. Nonetheless, it is important for AID's technical assistance teams to reach closure on a workable and internally consistent approach soon; not only to provide sharper and more coherent guidance to the ongoing privatization programs in Eastern Europe, but also to offer sensible advice to the countries of the NIS that are closer to the start of the process.

Basic Alternatives: "Go Slow" or "Go Fast"

The earliest papers on the issue concluded that Eastern European governments should "proceed with caution" in housing privatization (Katsura and Struyk, 1991, Struyk and Telgarsky, 1991). They emphasized that a number of policy and institutional changes will be required for the transition to a market-oriented housing system: rent increases, reductions in unreasonable tenants rights, means-tested housing assistance that focuses subsidies on the poor (housing allowances), the availability of housing finance at market rates, effective property appraisal and land titling procedures, and the introduction of private housing management. It was judged that political and administrative constraints would prevent all this from being achieved rapidly.

With regard to selling government owned (communal) housing, they argued that this stock is an extremely valuable asset. Giving it away to tenants or selling it to them at large discounts would be inequitable (creating major windfalls for a select, and largely undeserving, group of households), and it would also rob governments of substantial potential revenue at a time when their traditional revenue bases were shrinking. Governments should sell the stock but hold out for prices at or close to market, even though, given incomes now available, this would imply that the privatization process would take a considerable period of time.

A different view was expressed in Kingsley and Struyk (1992), based on an examination of actual housing privatization experiences in Eastern Europe to that point. The paper noted that local governments (now in control of the communal stock) have recognized that with enormous current operating deficits, communal housing is today a financial liability. They have been among the strongest advocates of privatization, calculating that selling apartments more rapidly, even at a substantial discount, would be necessary to avoid fiscal trauma in the short term.

More important, the paper reflected the growing recognition of the costs of slow privatization in perpetuating the inefficient institutions of the old order. This is particularly true when the reforms necessary to make privatization at market prices possible—available housing finance, higher rents—do not quickly materialize. If the residents of a building become owners—with all the attendant rights and responsibilities—they have strong incentives to spend money wisely and respond to true priorities in maintenance and management; i.e., the incentives so tragically lacking in the old bureaucracies. The danger of holding out for high prices was clearer by then:

> Preventing (or even substantially slowing down) further sales in this (or any other) manner could diminish popular expectations about the certainty of the evolution to a market system, and that, in itself, would retard the positive adaptations of past behaviors that now seem to be taking place. While higher sales prices can enhance municipal treasuries, those benefits must be offset against the economic cost of perpetuating an intrinsically inefficient system—of postponing the day when a new and workable framework of incentives is in place.

While this paper shifted to a "go fast" approach it still suggested that local governments should sell for the highest prices they could without slowing down the process overall. Buckley, et al (1992) go even farther, advocating that governments literally give away their communal housing. They come down even more strongly on the benefits of shifting ownership rapidly to get the bulk of the stock into private hands and, thereby, create market-oriented incentive structures well before all of the other needed policies (removal of rent controls, etc.) can be implemented.

They believe that the fact that communal housing is "potentially" a high-value asset is not relevant. What is important is its value today: "real estate values depend on expectations of future cash flows" and until there is "bonefide rental reform, real estate has a trivial value (current cash flows are negative)". They argue that the communal housing stock has already been paid for by the region's households (through implicit wage taxes in the past) and, therefore, giving them title to it now at no cost is not unfair.

They do recognize that since some units are potentially much more valuable than others, some households would benefit unfairly if all current tenants were simply given their same apartments. To avoid such inequities, they suggest a voucher approach to disposing of the stock—vouchers would be issued to households in an equitable manner and they could then use them to purchase apartments. They also remind us, that there are serious inequities in the current system that will be eliminated when titles are transferred; i.e., middle- and upper-income residents of communal housing have benefitted from huge rental operating subsidies for decades.

Actual Housing Privatization—The Record to Date

While these theories are instructive, it is important to understand that the governments of Eastern Europe and the NIS have gone ahead with housing privatization without following either the go slow or go fast approaches in their ideal forms. It is too late to start from scratch. Advice given in any country today must reflect that country's actual privatization history. And there are substantial differences in processes and outcomes.

The most important fact to keep in mind is that in almost all countries in the region, the ownership of communal housing has been transferred to local governments. Thus, even though central rules still affect pricing and other conditions of sale in some cases, decisions about the timing of housing privatization now rest with the Mayors—they are no longer a matter of national policy. The experiences in each country are summarized below (drawn from Kingsley and Struyk, 1992, with a few updates).

Poland

Sales of government owned housing units to their occupants were first permitted in Poland in 1970 but the national housing survey indicates that by 1986, tenants who purchased their units then represented only about three percent of all residents in communal buildings. The most frequent explanation for the lack of volume is the lack of incentive: there was no clear indication then that the system as a whole was going to be reformed. Anecdotal reports are consistent on one point: sales seldom led to private control. The new unit owners were normally in the minority in their buildings and government management agencies found it impossible to deprive them of the operating subsidies that continued to benefit their fellow residents.

It appears that the volume of sales did pick up dramatically for a few years, although by 1991 sales had almost stopped because terms were made much more stringent (discounts reduced to 15-20 percent of market value). An estimate based on the 1989 household budget survey indicated that the ownership share by then had grown to around ten percent nationwide. Independent data for Krakow indicates that 17 percent of that city's social housing units were sold to their occupants between 1985 and 1989 (Matras, 1991). The Ministry of Construction has estimated that the share may have reached around 18 percent by 1991. This increase in sales was no doubt motivated by expectations of reform; in particular, many tenants wanted to obtain clear security of tenure and take advantage of the old, highly favorable, terms and conditions of sale before they were changed. A number of observers believe that the best units have already been sold and that local governments are left with those in the worst physical condition.

Prices of units sold during 1986-1990 were set by pricing formulas developed by the Ministry of Construction. Those prices were far below market value—so low in fact that most purchasers were able to pay in cash. For example, the average 1989 price in Krakow was Zl. 107,770 per square meter, estimated at about 5 percent of market value in the area.

A new "Land Use and Expropriation" bill is now before parliament that would give the newly established local authorities more autonomy in privatization, in particular, allowing them to set prices above those determined by the Ministry's formulas. It would also revoke a prior restriction prohibiting resale within five years of the initial purchase. Sales volumes have slowed down dramatically of late, reportedly because municipalities are holding back applications pending action on this bill. The bill has been under discussion for some time, however, and its passage appears far from certain at this point. There has been discussion of another bill that would restore the title to previously confiscated buildings now in the social housing stock to their original owners, but no drafts have yet been submitted to parliament.

Czechoslovakia

Czechoslovakia is the only one of these countries that does not yet have a law permitting the sale of individual social housing units. To date there has been little interest in sales of whole buildings although a 1964 law does allow such sales.

A draft condominium law that would permit the sale of individual apartments has been presented to parliament, and support for it appears widespread. The law adopts the U.S. condominium model whereby an association of unit owners is formed to control management with an individual owner's voting weight and ownership of common spaces proportional to his unit's share of the floor space in all units (Schreiberg, et al, 1992). In late 1992, however, with the split-up of the country dominating the legislative calendar, it is difficult to predict when this issue will be addressed.

At least one municipality (Prague District 3) has begun to sell buildings through an alternative approach: city officials help the tenants of the building form a cooperative and the building as a whole is then sold to the coop. The number of such transactions has been small, however, and other municipalities seem to be waiting for the new condominium law before they initiate sales programs. It is worth noting that:

- Many municipalities do have tentative plans to sell units quickly as soon as the law permits; and

- Most of these plans anticipate deep price discounts and seller financing at rates much below market.

Yet even without sales, Czechoslovakia has privatized a substantial amount of its communal housing through another mechanism: *restitution.* In 1990, the government passed a restitution law promising to transfer ownership to apartment buildings confiscated by the state after World War II back to the original owners or their heirs, providing that prior ownership could be adequately documented. Although as noted above, Poland is considering doing so, Czechoslovakia is the only Eastern European country to actually implement this approach to date. Claims started to be submitted soon after the law was passed—the final deadline for submission was September 30, 1991.

National data on the number of claims submitted are still not available, but officials responsible suggest the process is proceeding rapidly and more smoothly than was originally anticipated. An informal survey of district officials in Prague in January 1992, indicated that of the 18,569 residential buildings owned by governments in the districts reporting, restitution was already complete for 7,460 (40 percent). It is doubtful that restitution has gone as far outside of Prague. Nonetheless, this represents a impressive transfer in a short period of time.

It must be remembered that the restituted buildings are still occupied by tenants under rent control and with strong tenants rights. Law requires the new owners to provide adequate maintenance regardless of rental revenues received. The fact that so many private individuals have been willing to reclaim their properties is these circumstances suggests considerable optimism that a more complete reform process will eventually succeed.

Hungary

Legislation permitting the sales of government owned units was passed in Hungary in 1982 and sales have become active, particularly over the past two years. A recent survey indicates that 20 percent of the units in Budapest were sold in 1990 and 1991 (and that another 20 percent of the tenants would be interested in buying on the terms currently being offered—Hegedus, Mark, and Tosics, 1992). Fewer units have been sold in 1992, as local governments await the passage of the Housing Act which may alter the terms under which units can be sold.

Currently, sales prices are based on an appraised market value but a standard 85 percent discount has been given on prices for government owned units being sold (60 percent if the building has been rehabilitated in the past five years). Governments have provided seller financing under a standard agreement—the loans have carried a 3 percent interest rate for 35 years with a maximum loan to value ratio of 90 percent. Market interest rates, in contrast, are around 35 percent. Thus, as in Poland, the local governments have almost been giving away their housing stock.

Provisions of the Transfer of Property Act, which came into effect in September 1991, have made an important change in this system. Local governments are now free to determine the size of the discount to be provided. The draft Housing Act would further modify the terms, requiring that local governments offer low-interest seller financing and preventing the from setting sales prices above what they determine to be market value.

As in Poland, it appears that the highest quality apartments have already been sold. Alm and Buckley (1992) estimate that a very large number of apartments in Budapest (on the order of 100,000 to 150,000 units) will not sell even with the steep discounts. These are in older, substandard buildings in the central part of the city.

Bulgaria

Bulgaria represents a strong contrast to the other three cases in that it:

- Permitted the continuing existence of private rentals;
- Has always relied primarily on local governments to own and operate communal housing; and
- Has allowed both the sale of whole buildings to investors and individual units to residents since 1958.

Government owned rental housing is now proportionately much smaller than in the other countries (only 9 percent of the total stock) because much of the housing in multi-unit structures produced by state enterprises has been sold to the inhabitants on a unit-by-unit basis.

In 1985, the state rental sector had represented about 15 percent of the total stock, but because the elimination of operating subsidies and increases in sales prices were anticipated as that decade drew to a close, many households took advantage of their right to purchase their rental units at the old prices and loan terms. It has been reported that, in the larger cities and towns, over half of the rental units were sold in 1990 and the first quarter of 1991 (Hoffman, et al, 1992).

Sales of state rental housing have traditionally been highly subsidized. In 1989 and 1990, government units were selling in a price ranging from 136 to 170 leva per square meter, substantially below the private sector averages of about 400 leva per square meter in 1989, and then 950 leva per square meter in 1990. Mortgage loans were available from the State Savings Bank at a two percent fixed rate over a 30 year term.

In March 1991, the government dramatically altered its policies to reduce the direct and implicit subsidies in these sales. Sales prices were substantially increased to a level that is supposed to be based on production costs—the typical figure is 1,200 leva per square meter, much closer to market values, now estimated in the range of 1,800 to 3,000 leva per square meter in September 1991). The State Savings Bank also increased rates for these mortgages to the market rate (now 54 percent, or 49 percent for families with housing-linked savings accounts). Given current incomes and liquid asset holdings, these increases have all but terminated further purchases of communal housing units by their occupants.

The NIS

The countries of the NIS have just begun to consider privatizing their communal housing and evidence about what has occurred remains sketchy, but at least two republics are moving more boldly in housing privatization than the countries of Eastern Europe. Russia has passed an enabling law that permits local governments to give away their communal housing (tenants need only to pay a small processing fee to receive title). Moscow and some other municipalities are moving rapidly to implement privatization consistent with this law, although it appears that many municipalities are not taking it on as rapidly. As of November 1992, Moscow had privatized 340,000 apartments (8.5 percent of the 4 million total state and enterprise owned units in the city); 1.3 million apartments had been privatized in the Russian Federation as a whole (5.2 percent of the 25 million total nationwide).

The Ukraine is going even farther. It has recently passed a law that will make it mandatory for all local governments to follow the same basic approach: tenants will be able to acquire title to units up to a standard size free of charge but will have to pay a modest amount for additional floor area in excess of the standard). It is expected that the implementation of this law will occur in the next few months. Unfortunately, in both of these countries the laws are unclear about who has responsibility for management and maintenance of common areas after sale.

General Guidelines for Advisors

Given these theories and experiences, what should we advocate now? Our conclusions are as follows:

1. *Going fast wins—AID advisors should advocate rapid privatization of communal housing everywhere.* Holding on to the communal stock as government owned and operated rental accommodations inevitably perpetuates inefficiency. Getting it into private ownership quickly (even well before many other reforms have been fully implemented) means that market oriented motivations will appear sooner as new owners feel both the responsibilities and opportunities of ownership. They understand their own priorities, resources, and opportunities better than the bureaucrats and are in a better position to make decisions about building repair, maintenance and management. They are also in a stronger position to influence the behavior of fellow-residents who might try to renege on their obligations. The opportunity for resale, even when adequate financing is not yet available, will at least permit the highest priority locational adjustments to occur, and should create pressures that will accelerate the development of a market oriented housing finance system.

We do not believe that Buckley et al (1992) have demonstrated that giving away the stock implies no inequities—quantitative analysis of the history of wage taxes paid, home owner subsidies, rental subsidies, etc., assigning appropriate weights, simply has not been performed to prove the point. But we do think their position is essentially correct. While giving away the stock, or selling it at heavy discounts, may imply some inequities, those inequities are not likely to be of major importance for public policy.

Experience to date (Poland, Hungary, Bulgaria) indicates that even though sales at low prices to sitting tenants have implied inequities, those inequities have not been viewed as serious enough to cause much popular resentment. While adequate analyses have not been performed, considering the financial liability communal housing represents for almost all local governments at present, our guess is that rapid sales even at quite low prices make more sense for most local governments fiscally than holding out for high prices at a later time. Furthermore, local government in a city where 70 percent of the voters are owners is likely to be subjected to quite different (and healthier) political pressures than one where 70 percent of the voters are renters.

2. *Popularly elected local governments are appropriate units to decide about the scope and staging of communal housing privatization.* In almost all of the region, it is too late to propose national privatization programs. The communal stock now belongs to local governments and there is no chance it will be turned back to central bureaucracies. It appears that, almost everywhere, financial and political

expectations provide strong incentives for local governments to privatize rapidly when they are empowered to do so. Different local circumstances, however, have led to differing strategies. Mayors try to balance equity and economic considerations in a way that will achieve their ends without generating major political resistance. We think this is just the way it should be. Elected local officials are much closer to the people than central officials, and they face clear sanctions if they set the balance incorrectly. To be sure, their judgements could be improved by better analytic support to help them assess the impacts of alternatives more sensitively and clearly this is an area where AID advisors can make an important contribution. Nonetheless, local officials are in the best position to assess the tradeoffs and make the judgements that have to be made and AID should recognize this in its policy statements.

3. *AID should give special priority to policies that place resident-owners truly in control of their buildings and develop their skills as managers. Privatization that only transfers title without fully transferring management responsibility and control is a sham.* We have argued that the main reason for privatizing communal housing is to shift its ownership to institutions (resident-owners or private landlords) that have strong incentives to operate it efficiently. Perhaps the greatest tragedy of the communal housing sales programs in the region to date is that this transfer of institutional control has not always occurred when the units have been sold. In many of the sales so far in Poland, Bulgaria, and Russia, title to the apartments has been transferred to the residents but government either continues to operate and control the building as before or the responsibility for ongoing operation remains ambiguous.

Two issues deserve emphasis: First, when sales are being made to residents, an essential feature of the program should be to explain to them ahead of time how they can set up a cooperative or condominium association to run the building after sale. This is a serious need. In Budapest, for example, purchasers of privatized units often do not receive a copy of the condominium foundation document which spells out their rights and responsibilities.

Second, the local government should then to assure that such an entity is in fact created and assumes full responsibility. In several countries, unorganized groups of new resident-owners in privatized buildings have been turning to the city or its management agency to solve what by then are their own problems (e.g., asking the city for repairs or subsidies). The point is to get governments out of the business of managing large amounts of housing. In a number of countries, AID assistance in this area may be the highest priority in helping governments to truly achieve their privatization objectives.

4. *AID should strongly support the adoption of a national housing allowance program in all countries in the region.* Housing allowance programs cover any gap

between what a household can afford to pay for housing (based on its income) and the rent needed to operate a modest unit in good condition. As such, they focus subsidy resources tightly on poor households and eliminate subsidies for those in communal housing that can afford to pay market rents. Analysis for Czechoslovakia, for example, showed that many middle- and upper-income families—not just the poor—live in communal housing. If rents were increased by 400 percent, 82 percent of all tenants could afford to pay them without spending more than 20 percent of their income. Housing assistance for the remaining 18 percent would cost just Kcs. 600 million per year (only 13 percent of the current operating subsidy for communal housing which could then be eliminated altogether—see Telgarsky et al, 1992).

Kingsley and Struyk (1992) argue that the existence of a program like this may be a political prerequisite to a serious program to phase out rent controls—when rents go up, the poor will be protected. They note that while it is understandable for the new macroeconomic reformers in the region to be suspicious of any new subsidy program, the reformers miss the point in this case: "a housing allowance program is a way to legitimize and gain political acceptance for a massive net reduction in subsidy outlays".

We have argued that local governments, because they are closer to the people and actual circumstances, are in the best position to make the complex tradeoff decisions entailed in staging housing privatization. Because of the need to maintain national equity, however, it makes more sense for the central government to design and administer housing allowances. Most policy researchers now agree that the spatial distribution of poverty in any country is a function of the national economy and the given spatial allocation of resources. It is not a result of the actions of local governments and they should not have to bear its burden. Housing allowances focus assistance directly to the poor regardless of where they are located.

Means tested housing allowances should also be provided to eligible families in privatized communal housing. It is likely that in all countries, apartments in the best quality buildings in the best locations will be easiest to sell and there will be a residual of buildings that will be very difficult to sell. These will represent major financial liabilities for localities (see discussion of implications in Alm and Buckley, 1992). To the extent that those buildings have heavy concentrations of poor families, a national housing allowance program would focus support to those buildings. In addition, housing allowance program that is "portable" (i.e., the household can move to any other unit and still continue to receive the subsidy) would make it less likely that the poor would become concentrated el

5. There is no need to give the housing away. While prices should not be set so high as to slow the privatization process, charging prices somewhat below that level does provide benefits: e.g., giving buyers more stake in ownership and adding *political legitimacy to the process.* While we believe the arguments of Buckley et al (1992) against holding out for market prices are valid, they do not convince us that the price has to be zero. Sales experience in Eastern Europe so far indicates that charging discounted prices for communal housing has not slowed down the privatization process and charging a nontrivial amount for this housing does have benefits. First, we judge that there would have been more political resistance to privatization (particularly from those who do not now reside in communal housing) if governments had not charged anything for it. Second, the purchasers would have felt less like true owners if they had obtained their units free of charge.

It is difficult to set general guidelines about prices and staging of sales because of differences in local circumstances. However, our general principle is that they should be set just below levels that would substantially slow down the sales process—obviously such levels would have to be determined based on analysis in each locality. Ideally, to reduce inequities, sales prices should be a function of market value; i.e., the market value of communal units subject to sale should be determined in a city and then a uniform discount rate should be applied. Furthermore, if possible, the discount should be roughly the same as is being offered in the privatization of enterprises to avoid distorting investment either for or against housing.

But we would compromise the market-value orientation where it is not feasible in the short term. In Czechoslovakia, for example, sales of government property are still controlled by central formulas which are based on physical aspects of a property and virtually disregard the influence of location—clearly at variance with market values. A number of officials recognize that the formulas should be changed, but that is not likely to happen for a year or so. In this case, we would not hold back privatization in the interim.

6. There is a need for special programs to deal with the "unsalables". What should local government do when the first wave of privatization slows down and tenants appear unwilling to buy apartments in the buildings that remain. Should privatization stop then? While most local Mayors in Eastern Europe appear to favor privatization they generally assume that they should retain ownership of some portion of the stock, most often citing experience in Western Europe where governments typically own 10 to 30 percent rather than 2 percent as in the United States. But they have seldom thought through a rationale for what they should retain and why, and they often do not recognize that the direction of change in Western Europe is also to further decrease the proportion of all housing that remains in government ownership. We believe that while local governments in the region should be actively concerned about the housing circumstances of their city's inhabitants, they are likely to find that they can achieve their housing goals for them more effectively by means other than direct public ownership; i.e., the percentage they retain should be reduced to a very small number.

This means that when sales begin to slow down, the Mayors should mount special programs to try to sell more. There should be analysis of the remaining buildings (characteristics of tenants as well as the building and its location) to pick the most promising candidates and then teams from the city should talk with the tenants to encourage them to purchase (they would offer technical assistance and training and possibly other inducements, such as reduced prices where there is justification for doing so). Here, obviously, the existence of a income-based housing allowance program will make a great deal of difference; i.e., it can bring all tenants in a building up to the point where they can afford the basic costs of ownership, if not renovation in the near term.

At some point, however, this process will run out of good candidates. There will be buildings where tenants simply do not want to be owners and others (e.g., concentrations of pensioners) where they may not have the capacity. At this point, there may be other options. Some buildings may be salable as a whole to private firms. It may be possible to sponsor the creation of community and other non-profit corporations in buying others to meet special needs. With buildings inhabited mostly by elderly tenants, for example, it might be appropriate to transfer the building to a non-profit specializing in combining services (health care, etc.) that would meet the needs of that population. In yet other cases, the building may be so deteriorated as to be economically unsalvageable and the right course of action may be to phase tenants into other accommodations while the city considers alternative plans for reuse.

There may be a case for a separate national subsidy program to help address the problems of physical deterioration in unsalable properties, where that is appropriate given the circumstances at hand. More analysis should be given to this idea, with the understanding that any such program would have to be extremely well targeted and efficient.

Guidance for Individual Countries

To promote understanding of the general principles discussed above it should be helpful to indicate the assistance priorities we think they imply for individual countries in the region, based on what has happened in those to date.

Poland has sold a considerable number of units but local governments should be encouraged to sell more. One priority is therefore to provide assistance to selected individual cities with their continuing privatization plans (and to disseminate the ideas and results broadly through Associations of Cities and other means). Equally high priorities should be given to establishing a national housing allowance program to focus subsidies where they are rally needed and vigorous programs to assure that resident-owners associations take over control and management of buildings once privatized; i.e., get local governments out of residual management responsibilities in as many buildings as possible as soon as possible. Poland also needs a condominium law to facilitate clarity in post-privatization responsibilities.

Hungary has also sold a large number of apartments but no doubt needs to go farther in many cities. Assistance priorities are generally the same as for Poland. Hungary already has a workable condominium form of ownership, but emphasis still needs to be given to establishing condominium associations in privatized buildings and assuring that they assume the full responsibilities of ownership.

Bulgaria has a quite different set of problems. A much larger percent of its government housing has been sold but not truly privatized: i.e., resident-owner associations have not been formed to take over control and management. This, along with the establishment of a national housing allowance program should be the highest housing assistance priority for Bulgaria.

Czechoslovakia is just at the starting point in privatizing communal housing, and the task has been unambiguously allocated to local governments. There is nothing we would change about this arrangement. The highest priority at the moment is passage of the condominium law which is currently holding back the entire process. Once that is out of the way, we would suggest priorities similar to those noted for Poland: work with individual cities to develop sensible strategies (with discounted prices as noted above and serious dissemination efforts to encourage a sense of urgency and broad adoption by local mayors); the adoption and full implementation of an allowance program; facilitating and training associations of resident owners.

Russia and Ukraine. Here we would probably try to convince central leaders to allow local governments to choose sales prices above zero, although we would not advocate that they stop privatization while they rethink the issue. Nonetheless, the giveaways imply that ownership will change in some buildings where the tenants are clearly not able to afford the costs implied. Extremely high priority should be given to establishing a national housing allowance program and, because post-privatization responsibilities are ambiguous, to establishing and training resident-associations and assuring that they assume control of subsequent management and investment decisions.

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