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**TECHNICAL ASSISTANCE FOR HOUSING SECTOR REFORM  
FOR ARMENIA**

**March 1992**

**Prepared for the Office of Housing and Urban Programs  
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# ARMENIA

## TECHNICAL ASSISTANCE FOR HOUSING SECTOR REFORM

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### 1 REPUBLIC LEVEL ISSUES

#### 1.1 Population

Armenia has a population of about 3.5 million, of which about 90 percent are Armenian. The Azeris represent the largest minority group, making up slightly more than five percent of the population.

More than 70 percent of the population resides in urban areas; about 35 percent resides in Yerevan, which has a population on the order of 1.25 million inhabitants. The next largest city is Khumairy (Leninakon) which has a population of about 200,000.

The combined effects of the December 1988 earthquake and refugee in-flows from neighboring Azerbaijan have resulted in a displaced population on the order of 750,000.

#### 1.2 The Economy

Armenia's centrally planned industrial development is concentrated on chemicals, plastics, textiles, and wineries. Armenia's industrial sector was dependent on Soviet pricing policies and the inputs and markets of other republics in the former Soviet Union.

Armenia is still suffering from the effects of the December 1988 earthquake which wreaked severe damage on housing and infrastructure in northern Armenia. Armenia has also been hurt by its ongoing conflict with Azerbaijan and the latter's blockade. Seventy percent of goods, including petroleum, natural gas, and building materials are normally imported through Azerbaijan from other CIS republics. The blockade and the conflict have placed Armenia in a severe economic crisis.

Effectively, predominantly Christian Armenia is isolated, while its closest regional ally Georgia is beset with internal troubles. To offset these difficulties, the Government of Armenia is promoting an open economic system and alternative trading arrangements.

According to Armenia's Department of Economic Reforms, the GOA's goals in the broader macro-economic arena include stabilization, privatization, foreign investment incentives, and elimination of quotas. The goal is to open the country to foreign investment and trade. They noted that they could use the advice of a macro-economist, particularly on matters of inflation.

### 1.3 Finance

Armenia's financial sector is seriously constrained. Foreign exchange is scarce, and high inflation and restricted credit are major problems. Armenia signed the Economic Union Treaty in October 1991, but its aim is to set up a Central Bank and introduce its own currency. A suitable governor is being recruited and discussions are underway with the IMF to identify and implement needed reforms.

The former Gosbank, now the State Bank, is monitoring banking institutions, including about fifty cooperative "banks" operating at the district level. The State Commercial Bank, which managed government funds for housing, was recently privatized, with the government maintaining 20 percent of the shares. Only short-term loans (primarily commercial) are being made available at the present time.

The cooperative loan system, which permitted members to collectively make a down-payment of 30-40 percent in order to receive a long-term loan over 25 years, is not operational due to the economic crisis and monetary instability. Movement towards longer-term loans and mortgage financing are improbable until current rates of inflation stabilize and privatization of property takes place.

### 1.4 Housing Stock

In the country as a whole, including both urban and rural areas, State housing represents about 44 percent of the total, cooperative housing 4 percent, and private housing 52 percent. In the four principal settlements (Yerevan, Khumry, Kirovakan, and Razdan), however, State housing represents 69 percent of the total, cooperative housing 10 percent, and private 21 percent respectively. An informal shelter sector has long been active in Armenia, but there are no data on this subject.

The 1988 earthquake caused significant damage to the housing stock in northern Armenia. Between 25 and 100 percent of the housing stock was destroyed in the northern urban centers.

Today, although much of the rubble has been cleared away, many damaged buildings stand as monuments to the disaster. While the oldest and best constructed buildings still stand, many of the buildings built in the 1970s were particularly hard hit. These prefabricated structures had poor joints between posts and beams, and prefabricated floor

slabs were not secure. During the 1970s, earthquake resistant construction standards were apparently downgraded, as was construction quality in general.

The period of reconstruction began on a positive note. A massive reconstruction effort was mobilized to plan and rebuild affected cities. Construction crews were brought in from all over the former Soviet Union; each took on a sector of the plan and began to build turnkey operations. Unfortunately, the vast majority of these buildings were not completed mainly due to the dissolution of the Soviet Union. Dormant cranes dominate the skyline.

In Leninakan alone, more than 40,000 units were left incomplete. Most open spaces in the city, including former parks and creek areas are occupied by hundreds of small, poorly constructed, temporary shelters made out of shipping crates, storage tanks for petroleum, railroad cars, and other structures. At this time, small extensions have been made, usually of stone.

### **1.5 The Institutional Framework for the Provision of Housing**

Formerly, housing construction in Armenia was centrally planned and controlled by the U.S.S.R. All industry requirements and standards were set by Soviet agencies in Moscow. These bodies also served as the primary sources of financing and procurement. Since independence, the Ministry of Construction of Armenia has assumed responsibility for these functions. However, due to the economic crisis it is virtually out of funds.

For all practical purposes, the Ministry's 80,000 employees are now out of work. In addition, many of the Ministry's construction enterprises in the north of the country were damaged by the earthquake. The Ministry estimates that it needs 300 billion rubles to meet the country's housing and infrastructure needs, including planned reforms. The Minister is seeking external loans for either the public or private sector, and says the government is ready to provide all necessary guarantees.

The former urban housing delivery system may be described as follows:

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- Project funding was requested at the local level by either cities and/or cooperatives and programs were formulated on the basis of annual budgets.
  - The City Architect's Office, e.g. in Yerevan, identified appropriate sites in accordance with the master plan and granted variances if needed.
  - The Armenian Design Institute or Yerevan Design Institute prepared necessary building designs and engineering on behalf of the cities or cooperatives.
  - The Central Building Department approved all building plans and technical documents.
  - The State housing bank managed government housing funds and made disbursements as necessary at the request of the Ministry of Construction.
  - The Ministry of Construction arranged for housing construction, disbursements, and the provision of all building materials.
  - The Building Trusts operating under the Ministry of Construction executed all housing construction.
  - Building inspection and development control were the responsibility of the City Architect's office supported by the design institutes and the Central Building Department
  - The cities made allocations for public housing; the beneficiaries of cooperative housing were known.
  - The cities were responsible for maintaining the existing housing stock and collecting rents.
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Planned reforms already underway include the privatization of the design institutes, construction enterprises, the "housing bank", and utilities; creation of a central bank out of the State Bank; and increased revenue generation at the local level (decreased dependence on State subsidies).

## **1.6 The Legal Framework for Housing Delivery**

Since it became a republic, Armenia has started drafting and obtaining Parliament's approval for a variety of laws that establish the legal and regulatory framework for a market economy (company law, tax law, etc.)

At the present time, Armenia has no laws governing housing and planning, nor does it have a local government code. Both are viewed as high priorities.<sup>1</sup> The government desperately wants assistance in the formulation of an appropriate legal framework based on a private real estate market—a legal and economic framework for buying and selling land and housing units, provision of mortgage finance, insurance, etc. The government also desires assistance in the elaboration of a local government code and appropriate public and private roles.

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<sup>1</sup>The 1982 Soviet Housing Law is no longer applicable.

Desired options for a local government code are being debated. Government officials would appreciate technical assistance that could expose them to several options (English law, French law, etc.). They wish to examine a system of taxation for large and small cities and to sort out inter-governmental functions and authority.

### **1.7 Housing Policies and Strategies**

The Department of Economic Reforms acknowledges that it does not yet have a well articulated housing strategy or policy and would appreciate assistance in this regard. For instance, they are not sure how compatible their goals for privatization of housing stock and construction enterprises are with their interest to provide future housing for those households still on waiting lists.

Furthermore, they acknowledge a general lack of understanding about how land and housing markets function. They do not fully understand the effect that location, transportation, infrastructure, and other factors have on land and housing prices. They would like some training in this area in addition to valuation and tax mapping.

Fundamentally, the government intends to function in a regulatory capacity, with the private sector engaging in the financing, construction, and management of new housing.

### **1.8 Privatization in the Housing Sector**

The Supreme Soviet of the Republic of Armenia passed a resolution on privatization including goals, principles, and an outline of privatization programs: ownership, objects of privatization, sources, and uses of funds. It places no restrictions on ownership but gives preference to Armenian buyers.

Guidelines for the implementation of the privatization program are being prepared by the Department of Economic Reforms (Council of Ministers). Committees have been formed involving participation of other ministries and departments.

Armenia has moved forward with the privatization of rural land. In the fall of 1991 land reform laws and guidelines were enacted to privatize nearly 80 percent of collective farms to interested cultivators. Land privatization apparently led to about a 35 percent increase in production for 1990-91. Most other privatization initiatives have involved small businesses that were either turned over to workers or sold at low prices.

The government is keen to privatize all State housing, construction enterprises and utilities. In 1989, a Soviet Decree was issued allowing the sale of rental housing to owners. A further Soviet decree was issued in 1990 making rental housing free for the military and handicapped. With the dissolution of the Soviet Union, the government does not have a legal framework for privatization of housing. Based on a 1989 decree, 6,770

units have been sold since 1990 out of a total housing stock of 365,000 units. More did not sell because the households did not see the advantage in doing so.

The government would appreciate assistance in creating disincentives to continue to rent property and incentives to buy. For instance, the only incentive to buy presently is that households would be able to sell their units legally. However, they note that illegal transactions occur in any event. Since mortgages are not available, the use of property as collateral for loans would not be perceived as an incentive at this time.

Effectively, tenants in State housing have implicit property rights including inheritance. Individuals are identified by the address on their identity cards, providing a basis for passing on a unit from one generation to another. Eviction and foreclosure (e.g., on loans to cooperatives) are not practiced.

The Parliament is currently considering two options for privatization. One would effectively grant tenants 12 square meters of housing per person free of charge (7 square meters living space, 5 square meters non-living space, etc.), yet charge the household for any excess over this amount. The second would be to grant the housing free of charge, and recover costs through a housing property tax to be assessed and levied. It appears that the second is the more politically expedient arrangement. For the latter, they are not sure how to structure such a tax legally and would appreciate assistance. Should it be a tax at the time of sale? collected annually?

The GOA has not abandoned its desire to provide housing to those still on waiting lists. They still would like to provide 6 square meters of housing free of charge to them. They do not know how they intend to do it. They suppose that such housing will be developed by the State system or in the form of a subsidy to households purchasing privately developed housing. The government intends to treat completion of earthquake reconstruction involving several hundred thousand units as a separate program.

Privatization of construction enterprises is another priority as the GOA wants to reform the construction industry. They need assistance to allow a private system to evolve. There are now about 100 large construction enterprises and a total of about 1,000 State enterprises in country. They expect difficulty in replacing the old school "managers" who are resistant to change and need advice how to do so.

Privatization of public utilities is also a priority. They want to know how to organize such systems and regulate private monopolies. They would like examples of legal and corporate documents so that they may establish similar systems in Armenia (e.g. C&P Telephone, Washington Gas, etc.).

## **2 THE MUNICIPALITY OF YEREVAN**

### **2.1 Demographic and Economic Trends**

The City of Yerevan's population grew from about 1.0 million in 1980 to 1.5 million today. Much of the recent growth resulted from an influx of earthquake victims (early 1989) and three separate movements of Armenian refugees out of Azerbaijan over the past four years.

- As a result of the December 1988 earthquake in northern Armenia, more than 500,000 people were rendered homeless. While most victims chose to remain in the vicinity of their homes, many came to Yerevan to find shelter.
- Approximately 260,000 refugees from Azerbaijan fled into Armenia and an additional 90,000 sought refuge in Russia and Nagorno-Karabagh. Of those who came to Armenia, there are about 70,000-75,000 in the City of Yerevan today. They are housed with relatives, in modest hotels, in shelters, and in squatter settlements. There was also a refugee flow from Armenia to Azerbaijan. About 167,000 Azerbaijanis left Armenia for their own country.
- Armenian refugees were able to take over the dwelling units vacated by the Azerbaijanis. This reduced the demand on the existing housing stock somewhat.

The economic profile of the City parallels that of the country as a whole. However, as the national capital and largest city, it has a broader range of commerce and services than is found in the other cities of the Republic. However, like the rest of the country, Yerevan is in a severe economic crisis brought on by the lack of power, Azerbaijan's trade blockade, and the lack of government revenue. The vast majority of State employees are effectively unemployed due to a lack of funds to pay salaries.

### **2.2 Housing Shortage**

The Mayor of Yerevan estimates that there are approximately 42,000 families in the City badly in need of housing. These are households which have less than 5 square meters per person. There is a waiting list of 4,600 households for municipal housing.

### **2.3 Housing and Infrastructure Characteristics**

Given the earthquake, there is general concern about the quality of the housing stock built during the past two decades. In addition, according to the minimum Soviet standard of 6 square meters per person, at least 50 percent of the housing is overcrowded.

Infrastructure systems are being allowed to deteriorate due to a lack of funds. Any available capital is being spent for new housing construction. As a result, streets are inadequately maintained, the water supply system is experiencing losses on the order of 40 percent, and there are inadequate resources to complete an important trunk line to

the sewage treatment plant. Transport and communications are not up to western standards, but appear to meet basic needs.

#### **2.4 Institutional Structure of City Government**

Mayor Galustian has been in power for 18 months and is a member of the Council of Ministers. He was appointed by the Chairman of Parliament, who was elected President in October 1991 by a wide margin. The Mayor is a member of the Council of Ministers. There have been no local government elections yet in Yerevan, or elsewhere in Armenia. In addition, there is not yet a local government law. The Mayor expects there will be new legislation defining local government functions and direct elections for Mayor and City Council within one to two years.

The current City Council has 200 members. It is cumbersome and unmanageable. The Mayor expects that new laws will enable them to reduce the Council to no more than 12 members. Under the Mayor there are also eight Districts. At the present time, there is some duplication of functions between the Mayor and Districts. In the future, the Mayor hopes to delegate more responsibility to the Districts and retain only supervisory authority over them.

The Mayor has eight deputies (or Vice Mayors). Each looks after a department as shown in the organization chart. The Secretary of the Executive Committee coordinates all functions and is in effect a "City Administrator" as shown in the organizational chart attached.

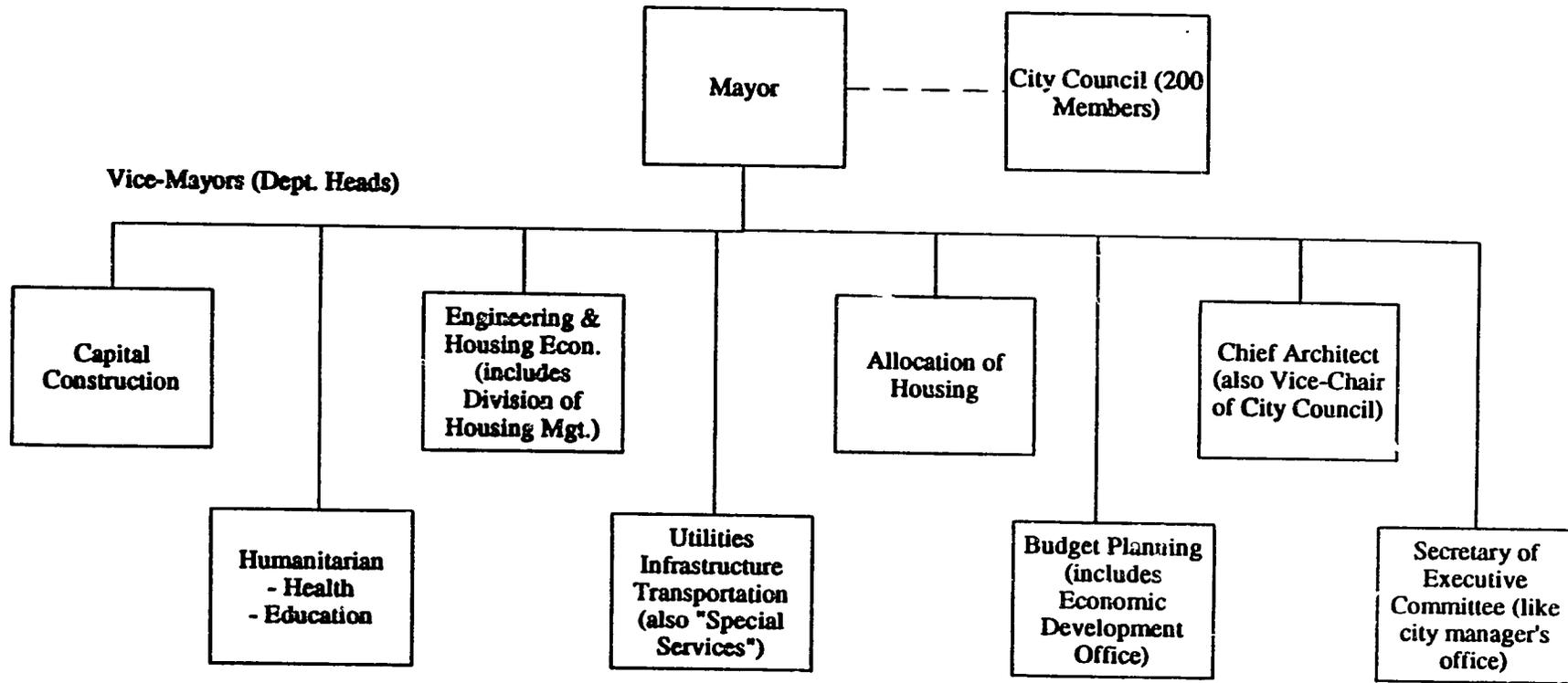
The City has a staff of about 25,000 employees, not including those working for schools and hospitals (all schools and most medical facilities are operated by the City government).

The planning office is responsible for allocation of the budget subsidies that come from the Republic to the various City departments and programs. Almost all of the City's budget (over 90 percent) comes from the Republic level.

The top Deputy Mayor (Mr. Bayburatian) has had five years experience on the City Council and five years in the City Administration. He is knowledgeable about overall City operations and is the person in charge of internal management. There is no management training provided for City staff. Computerization seems to be at an embryonic stage (e.g. the finance department has a computer, but uses it just for word processing). Payrolls are not computerized; they are done manually by the various departments—not centrally.

There is no mechanism for training local government administrators in City management. The Mayor and his deputies have learned on the job. Despite this, the individuals

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appear generally qualified. More important is the need for a local government code, administrative reform, and the computerization of records and bookkeeping.

## **2.5 Constraints to the Private Provision of Housing**

- **Land management**

The City has a registry for all land within City limits. Another registry goes back to pre-communist times, and requests for restoration of private property rights to these previous owners are now forthcoming. The City has maps of land parcels, but the land registry has not been computerized. Land management systems will become an increasing constraint to private shelter development when land is privatized and the general economy improves.

- **Land titling, registration, transfer**

Land surveying and "condominium" records as we know them are not in practice. Technically, land and housing units cannot be sold without the approval of the City. However, some units have been transferred illegally. Privatization of housing, land, and construction enterprises in a stabilized economy will lead to unprecedented property transfers. It is unlikely that existing cadastral systems would be able to cope with these needs.

- **Transfer of State land**

The City of Yerevan, via the City Architect's office, has engaged in the transfer of land to both individuals and public and private entities. However, there is now little available land within the City's boundaries. The City urgently needs to identify sites for future residential expansion to be executed by the private sector.

- **Regulatory framework**

The City Architect's office prepares the master plan, with the assistance of the Yerevan Design Institute. The City Architect then plays a regulatory role in granting land for development, providing development approvals and controls, and granting variances where appropriate. The regulatory framework is not perceived as a major bottleneck to private housing delivery at this time.

- **Valuation of land and dwelling units**

The City does not have a mechanism for valuation of land and dwelling units, and has requested assistance in this regard.

## **2.6 Finance**

Virtually all of the City's budget comes from the Republic level. However, due to the changed political system, and rapid inflation, the City now has much lower budget support from the Republic than it once had. It is anxiously seeking new sources of revenue that can be raised directly by the municipality. The Mayor said that their construction budget has been so diminished by inflation that this year they are dedicating all construction funds to housing. This is because of the urgency of housing problems, exacerbated by continuing refugee flows. Investment in infrastructure has been put on

hold—streets, water supply, etc. Notwithstanding, according to the City Architect, this year's total budget for construction is 50 million rubles (\$500,000), which when adjusted for inflation is less than previous years.

The Municipality is trying new revenue sources such as taxes on street vendors and licenses for casinos and gambling establishments. But the legal basis for enlarging the City's tax base is not in place yet. City officials would like assistance on this matter. They are especially interested in revenue potential from selling municipal land, and from real estate taxes, but their experience with land valuation and transactions is nil. This is another area where U.S. assistance would be helpful.

The Municipality is responsible for the provision of most urban services. However, cost recovery through user fees is less than 50 percent of the costs of providing these services.

## **2.7 Construction and mortgage financing**

The City (and State) has effectively provided construction financing and long-term loans to households either through the State housing or cooperative programs. The City recovers the price of land for cooperative housing through recovery of one third of the rent. The City carries the burden of financing off-site infrastructure investment.

## **2.8 Project Planning/Design**

Project Planning/Design is carried out for the City by the Yerevan Design Institute. Effectively, the institute does not carry out any market analysis or feasibility studies and has little incentive to economize on construction costs, since it received between 3-4 percent of the costs for its services. All building designs and engineering also required the approval of the Central Building Department.

## **2.9 Building Technologies, Materials, Manpower Availability**

Building technologies have essentially been set forth by the design institutes and the Central Building Department. These primarily involved pre-fabricated and (more recently) monolithic construction. The quality of building elements has suffered due to a variety of problems: transport, over-utilization of cement, etc. Gaining access to building materials has always been problematic, but the situation is now virtually impossible. Steel and wood must be imported from other CIS republics and costs have sky-rocketed for those materials that manage to be procured despite the Azerbaijani blockade.

There is no indication that Armenia suffers from an unqualified workforce.

## **2.10 Construction of Housing**

In 1989 and 1990, the annual target for new housing construction for the City of Yerevan was 500,000 square meters per year (about 10,000 units). They built about 85 percent of their target for these two years. It usually took between 10 and 15 years to get a State housing program constructed.

In 1991, due to a series of problems (price inflation, lack of building materials, lack of power, etc.), the City met less than 5 percent of its previous annual target. At the present time, the City only has about 50 million rubles for housing. Costs of construction have risen steeply: 1 square meter of construction cost about 250 rubles a few years ago. Now the same construction costs about 10,000 rubles.

The current housing stock in Yerevan consists of State housing—67 percent; cooperative housing—12 percent; enterprise and union housing—3 percent; and private individual housing—18 percent.

Cooperatives represented an alternative solution to State housing and the number of cooperatives has increased in recent years, representing about 10 percent of housing construction. Normally, the City provided the land to the cooperative, which in turn gave the City one third of the rent collected for the units.

Plots of land equal to 400-500 square meters were provided for individual housing construction. However, for all practical purposes, there is no longer land available in Yerevan for this purpose.

## **2.11 Allocation, Management and Privatization of Stock**

The housing department maintains a waiting list for State housing, and manages and maintains the existing stock. The City is working closely with the Department of Economic Reforms to formulate a privatization of housing program. Assistance has been requested in this regard.

## **2.12 Priority Areas for Technical Assistance**

The assessment team determined that it would be useful to provide technical assistance at the Republic level and City level in Yerevan. Some overlap exists because of common interest.

**Republic Level:** Technical assistance would be provided to the Department of Economic (and Housing) Reforms.

- Housing policy and strategy formulation.
- Legal and regulatory reform—housing and planning law (including privatization and the sale of land and housing) and elaboration of a local government code.

- Preparation of guidelines for the privatization of the existing housing stock, construction enterprises, and utilities.
- Development of a private land and housing market: land economics, property valuation, tax mapping.
- Macro-economic advisory support (short-term, particularly on issues relating to inflation).
- Eventual support in housing finance.

The government would appreciate immediate short-term assistance in housing and planning law, the privatization of the existing housing stock, and land economics and valuation.

#### **Yerevan Technical Assistance Needs**

- Valuation and sale of Municipal land
- Privatization of the existing housing stock
- Privatization of management of the existing stock
- Promotion of privately developed housing
- Enhancement of the Municipal tax base
- Improved technology in infrastructure and housing (e.g. loss detection for water supply)
- Support for special housing problems: refugees, squatters, earthquake victims
- Development of a new local government code with functional alignments of authority (Republic, City, District)
- Earthquake resistant construction and disaster mitigation.

#### **2.13 Living and Working Environment for Americans**

The U.S. Embassy in Armenia is increasingly concerned about the conflict between Armenia and Azerbaijan over Nagorno-Karabagh. While the Embassy has not gone so far as to recommend suspending future missions to Armenia, this is a distinct possibility if the situation deteriorates.

- **Living Accommodations**

Housing is found by word-of-mouth. There are usually 5-6 suitable apartments available on the market at one time. These are usually homes of Armenians traveling to the United States. A three bedroom apartment, possibly furnished, costs about \$200 per month. Private individual houses may be rented for \$400-\$500 per month. They are not readily available and may require a one to three month search to find.

- **Schooling**

There are no international schools in the country. Education is either in Russian or Armenian. Home education is probably the best option.

- **Health Care Facilities**

Health care in country is very poor and not up to U.S. standards. American personnel in Armenia use physicians working for Project Hope or the American Red Cross.

- **International and Domestic Telecommunication Links**

International telephone and fax communications are excellent. Communications within Yerevan are adequate, but calls within country can be problematic.

- **Intra- and Inter-City Transportation**

A private official or personal vehicle is the best means of transportation. There are few taxis within Yerevan.

- **Office Space, Interpreters/Translators and Bilingual Secretarial Support**

An eight person office would cost about \$600-800 per month. Office space would take about one to two months to find. Interpreters are available on a daily basis at \$20-\$25 per day and around \$200 per month for regular duty.

An AT&T line costs \$4,000 to hook up and \$3.00 per minute for calls. Hook-up is possible within one month.

Heating and air conditioning are required. Given irregularities in power required for heating, air conditioning, and lighting, a diesel generator is recommended. The cost is approximately \$5,000.

Vehicles can be purchased with no delays. The costs are:

Niva (4 passenger jeep)	\$4,000.
LADA (small sedan)	\$4,000
Volga (large sedan)	\$10,000

- **Recreation Facilities**

In proximity to Yerevan are mountains for skiing and lake Sena for fishing. Tennis is a popular pastime. There are also Armenian theater, symphony, and cinemas.

- **Overall Environmental Quality**

The quality of the overall living environment in Armenia will be generally poor until the Armenian-Azerbaijani conflict is resolved and power and heating are restored. Nevertheless, Americans living in Armenia report that Yerevan is a pleasant place to live. The general quality of urban fabric is quite good and the Armenians and small expatriate community are extremely friendly and hospitable. Produce and other food items are abundant and inexpensive in dollar terms.

Importantly, the long-term advisory positions will be very professionally rewarding given the nature of the assignments and the receptiveness shown by counterpart agencies.