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Shelter Sector Reform Project Newly Independent States of the Former Soviet Union

An ICMA Report

Prepared for the Office of Housing and Urban Programs
Agency for International Development



**Development of an Action Plan on Housing
Policy Reform in the Republic of Armenia**

17-31 March 1995

Prepared for the U.S. Agency for International Development
Bureau for Europe and the Newly Independent States
Office of Environment, Energy and Urban Development
Urban Development and Housing Division

By

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INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION

USAID Contract No. CCS-0008-C-00-2056-00

Project No. 110-0008

Task Order No. 72

Shelter Sector Reform Project for
the Newly Independent States of the Former Soviet Union

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ABSTRACT

Pursuant to ICMA letter of 13 March 1995, issued under Task Order 72, the Consultant traveled to Armenia during the period of 17 March through 31 March 1995 to render assistance in the following areas:

- Development of an Action Plan on Housing Policy Reform;
- Assistance in drafting the Law on Housing Policy; and,
- Advising on the compilation of statistical data for monitoring housing reform objectives on an ongoing basis.

I. INTRODUCTION

Consultant traveled to Armenia during the period of 17 March to 31 March 1995 to undertake the following activities (See Annex 1):

- To render assistance in the development of an Action Plan on Housing Policy Reform;
- To provide needed assistance in drafting the Law on Housing Policy; and,
- To advise on the compilation of statistical data for monitoring housing reform objectives on an ongoing basis.

II. LAW ON HOUSING POLICY

The Draft Law on Housing Policy contains five chapters:

1. General Provisions;
2. Ownership in the Housing Sphere (which governs the rights of Armenian citizens to housing);
3. Provision of Citizens with Dwelling (which specifies the means by which citizens may obtain housing, including the structure of the social safety net);
4. Conduct of Housing Construction (which contains provisions regarding the sale, lease and allocation of land for construction, the permitting process, the classification of "illegal" dwellings, mortgages and tax privileges); and,
5. Management of the Housing Stock.

Consultant attended two meetings of the SRCCM Group which was drafting the law with the help of ICMA Consultant Richard Winnie. These meetings dealt primarily with Chapters 1 and 2 and part of 3. I met with the SRCCM Group on two additional occasions to discuss with them the basis for provisions in Chapters 3, 4 and 5. In general, the original draft of these three chapters was more detailed and restrictive than a policy law needed to be. Within this context, articles relating to the social safety net (housing subsidies) and to mortgage finance would have proved counter-productive to Armenia's transition to market-based housing sector.

With respect to Chapter 3, Article 19, I suggested that paragraphs b), c), d) and j) simply be omitted to remove the troublesome subsidy provisions.

With respect to Chapter 4, Article 28, we discussed the provisions regarding "illegal" housing at some length. I suggested that some mechanism should be available to legalize housing units that satisfied codes and standards within a reasonable amount of time following notification of the owner/occupant. With respect to Articles 30 and 31, I suggested that they be omitted.

With the exception of these specific recommendations, I attempted to communicate to the SRCCM Group the reasons for a particular policy structure supporting a market-based housing system, rather than attempt to re-draft provisions word-by-word. We discussed certain elements of the structure at length and the SRCCM Group felt that they understood what I was suggesting. The Group indicated that they would use this understanding to redraft the various provisions. (See Annex 2)

III. HOUSING POLICY ACTION PLAN

The World Bank and the Ministry of Economy agreed (MOE letter of February 8, 1995) to present an Action Plan on Housing Policy Reform on or about March 31, 1995. According to this agreement, the Action Plan presents statements on "Policy Intent," summarizes policy "Achievements," "Ongoing Activities and Short-Term Actions" (next 6 months) and specifies planned "Mid-Term Actions" (6 months to 2 years). Thus, the Action Plan is both a review of the status of housing sector reform accomplishments and a statement of priorities for planned actions leading to a housing policy that will help the Republic of Armenia apply in practice the strategies for transition from a state-based to a market-based economy.

A draft of this Action Plan was not available in English upon arrival in Armenia, but together with Peter Epstein, I met with the World Bank Representative in Armenia (Vahram Nercissiantz) to determine whether the deadline of 31 March was firm and what sort of a document the Bank was looking for. When the draft Action Plan prepared by the State Department of Architecture and Urban Planning of the Republic of Armenia was received in English, it was felt that the World Bank would not find it responsive. Consequently, Epstein and I initiated work on a draft Action Plan that would follow more closely with outline of the World Bank Terms of Reference.

A revised draft of the Action Plan (in English) was delivered to Andranik Andreassian on 31 March. Andreassian seemed satisfied with the effort, though he was anxious to have the Armenian translation. (See Annex 3 for relevant documents).

IV. HOUSING FINANCE SYSTEM

In work on both the Housing Policy Law and the Action Plan, it was clear that thinking about a housing finance system has not progressed very far. Moreover, Andreassian had been asked by the State Minister of Finance for a briefing on what kind of housing finance system Armenia should have. In response to Andreassian's request, I therefore prepared a short briefing memo covering the main aspects of such a system. (See Annex 4).

V. USAID DEVELOPMENT STRATEGY FOR ARMENIA

During my debriefing with USAID Development Officer Ray Norton, we discussed at some length what USAID's development strategy should be for Armenia. Morton asked that I do a memo on the points I had raised. (See Annex 5).

VI. DATA DEVELOPMENT

Very little was accomplished toward developing an improved statistical system for monitoring housing sector performance. Completing a draft of the Action Plan in approximate time to meet the World Bank deadline commanded highest priority for this mission and that proved to be a fairly time-consuming task.

VII. PERSONS CONTACTED

Andranik Andreassian

Director

Government Department of Urban Policy and Earthquake Zone Issues

Arteses Arakelian

Director

Scientific Research Center for City Management

Haik Karapetian

Legal Counsel

Scientific Research Center for City Management

Kajik Nurijanian

Deputy Director

Scientific Research Center for City Management

Giovanni Caprio

Senior Economic Advisor

KPMG

Nicholas Brenthall

IMF Advisor

Central Bank of Armenia

Vahram Avanesian

First Deputy Minister of Finance

Vladimir S. Badalian

Chairman of the Board

Armeconombank (Armenian Economic Development Bank)

Vahram Nercissiantz

Resident Representative (Armenia)

The World Bank

Simorieum Anooshavan

Head of the Department of Housing

Ministry of Economy

Vardan N. Movesian

First Vice Minister

Ministry of Economy

Keith Holt
Midland Bank

Arsen Bagratian
Head, Yerevan Real Property Inventory

Fred Winch
Director
USAID/Yerevan

Ray Morton
Development Officer
USAID/Yerevan

ANNEX 1

Scope of Work

BEST AVAILABLE COPY

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ATTACHMENT A

SCOPE OF WORK Short-term Housing Economist

This Task Order describes a program of technical assistance in national housing policy development in Armenia and Kyrgyzstan to be carried out by housing economist James Christian. It also provides for oversight of the periodic compilation for ICMA/USAID of housing sector statistics by Cooperating Country National (CCN) consultants in each of the Republics being assisted by ICMA. In Kyrgyzstan, Elaine Weis (housing finance adviser to the Republic of Kazakhstan) will also participate to a limited degree.

Background

1. Housing Policy Development in Armenia

With ICMA assistance, a basic housing privatization law was enacted in Armenia in June 1993, and most of the implementing decisions anticipated by the law have already been prepared and adopted by the Council of Ministers. A complementary condominium law has been drafted and is expected to be acted on by Parliament in the session beginning in early February of this year.

ICMA's lead counterpart, Andranik Andreasian, Director of the Department of Urban Policy within the apparat, has recognized the need for the government to look more systematically at the state's role in the provision of housing in the context of the overall transition to a private market and the ongoing housing privatization effort. Prior to the creation of the Department last year, there was no government entity charged with looking at urban/housing policy as a whole. In particular, Andreasian appears to recognize that in order to complete the housing privatization process and introduce market pricing for housing services, there is a need to rationalize housing subsidies--most likely through introduction of some form of housing allowance program. Moreover, he feels it is timely to begin to address overall national policy regarding the introduction of a competitive, housing finance system--particularly in light of the progress Armenia made in reducing inflation during 1994.

Andreasian, through USAID-sponsored study tours to Hungary, Moscow, and the US, has been introduced to housing allowance experiments in Moscow and Hungary, the variety of housing programs run by the US Department of Housing and Urban Development, and the broad outlines of the American housing finance system.

Last fall, the Department of Urban Policy commenced work on a comprehensive revision of the Housing Code to bring it into consistency with the housing privatization law and to re-orient the code to the emergent market system. Andreasian also contemplates producing a more comprehensive housing policy law or government decree to provide an appropriate legal framework for the government's ongoing role within that market system. ICMA has been providing support to this effort, both through its CCN consultants from the Scientific Research Center for City Management ("SRCCM") and legal adviser Richard Winnie. However, there is need for ongoing input from a Western housing economist to help develop a broader policy framework for this and other legislative measures-in particular by helping to define and analyze housing policy options for re-orienting housing subsidies and encouraging a competitive housing finance sector.

Andreasian has expressed his strong interest in assistance from a housing economist with particular expertise in housing finance, to assist in the development and refinement of overall government housing policy in conjunction with the legislative drafting activities underway and contemplated for the near future. The consultant would work closely with the SRCCM in delivering this technical assistance. The Resident Adviser will also explore participation in the national housing policy process by Yerevan officials responsible for housing policy.

In addition, as a condition of the World Bank's Earthquake Reconstruction loan to the Government of Armenia, the government is to prepare a "Housing Action Plan". USAID/UDH has informally agreed to provide technical assistance as may be requested by the government in preparing this Action Plan.

2. Housing Policy Development for Kyrgyzstan

In Kyrgyzstan, an effort is underway to articulate a broad national housing policy to govern the transition to a fully privatized housing sector, apparently somewhat on the model of the Presidential Decree on a New Housing Policy promulgated in neighboring Kazakhstan. The primary momentum for this work comes from within Gostroi (the State Committee for Architecture and Construction) with some oversight from Mr. Alykulov, head of the group within the Presidential apparatus responsible for housing and construction. There also are a number of discrete initiatives originating with Gostroi including draft decrees on allowance subsidies for the purchase of housing, on issuing housing bonds, on housing credits, and on transferring uncompleted housing for completion and sale. Gostroi officials responsible for the housing policy initiatives have requested assistance from a housing economist with expertise in housing finance.

In addition, the Chief Architect of Bishkek has expressed interest in helping to organize input of housing experts from both

government and academia in the development of a comprehensive and consistent housing policy.

All parties are interested in the participation of a housing economist/housing finance expert to share international perspectives, help frame the policy discussion, and comment and advise on policy and legal documents as work goes forward.

3. Housing Sector Indicator Program

In both Armenia and Kazakhstan, the Resident Advisers have arranged with Cooperating Country National (CCN) consultants to compile housing sector statistics to help USAID monitor the sector. Early in this contract, ICMA (on direction from USAID/UDH) made plans to use the World Bank/UN Housing Sector format to structure this monitoring activity. The World Bank methodology was developed with financial support from USAID and has been used around the world. However, many of the key indicators are not really applicable to socialist economies in the early stages of housing privatization and introduction of private real estate markets and financing systems.

In 1993, ICMA arranged with the economists from the Russian Academy of Sciences, who had prepared an indicators report in English under contract to the Urban Institute, to translate their report into Russian to facilitate preparation of reports in the Republics where ICMA was working. The Academy's format represented an initial effort to adapt the World Bank methodology to the realities of the transitional economies of the former Soviet Union. Reports have been prepared once in Kazakhstan and twice in Armenia. More recently, ICMA's resident advisors in Kyrgyzstan, Armenia, and Kazakhstan have arranged for collection of basic housing sector data using a simplified, standardized format. It is expected that this data should be available by the end of January.

We understand that over the past year the World Bank has invested some effort in developing a housing indicators methodology specific to Eastern Europe and the NIS. It would be timely, therefore, to have a housing economist review the World Bank methodology and provide direction and quality control for ICMA's housing sector monitoring activities in the three republics in which it is working. A basic choice should be made between (i) investing in the degree of oversight that would enable data to be compiled in the World Bank format and integrated into the World Bank data base; or (ii) simply continuing to focus on data collection for the purposes of keeping ICMA and USAID Washington informed about the performance of the housing sector and status of privatization efforts.

Objective:

The primary objective of work authorized by this task order is, in both Armenia and Kyrgyzstan, to help structure and provide the policy analysis needed as input to national policy and legal measures aimed at redefining the government's housing role in a transition economy. More specifically, to:

1.1 Help clarify the objectives for government housing policy over the transition period and thereafter;

1.2 Help structure and define the empirical measures for defining the housing problem and for evaluating program options. The Adviser will provide formats and methodological guidance for compiling data; actual data collection and organization will be conducted by Armenian government staff and consultants;

1.3 Help define policy options for meeting housing needs and suggest analytic frameworks and methodologies for assessing program options--with particular attention to housing allowances and other demand side subsidies. Provide an analytical framework to enable the government to define and more clearly evaluate the magnitude and composition of its housing shortage, and to develop options for allocating scarce government resources among the needs of the housing sector;

1.4 Help define a process for translating policy decisions into legislation and pilot projects to test key concepts (e.g. housing allowances or other).

A secondary objective is to help CCN consultants and counterparts in all three countries to compile statistical data in a form suitable for monitoring progress towards achieving housing sector reform objectives and for defining/analyzing housing policy options on an ongoing basis.

Tasks:

Task 1. Armenian Housing Policy Development

1.1 The initial TDY will focus on clarifying the status and scope of work in progress, reviewing work products, clarifying government objectives and the quality of data available to inform policy choices, and sharing the Adviser's perspective on basic policy options with senior departmental staff through consultations and/or informal workshops.

During this visit, the Adviser will meet with government officials and executives of the central bank and other banking institutions. The Adviser will prepare a brief assessment of the status of the government's existing financial support for housing and of the housing finance system as presently constituted.

The Adviser will review the adequacy of data already compiled regarding:

- the magnitude of existing housing subsidies;
- the equity of housing subsidies;
- the affordability of housing in respect to both operating and capital costs;
- the gap between housing supply and need;
- the magnitude of serious structural problems in the existing housing stock.

The Adviser will advise the Department of Urban Policy on:

- defining and evaluating options for government housing policy with particular attention to (i) reducing the overall level of government subsidy and targeting assistance based on need; (ii) providing government assistance in ways that work through and strengthen market mechanisms; (iii) providing the legal/institutional framework for a competitive housing finance system that can mobilize private savings for investment in the housing sector; and (iv) encouraging and regulating other institutions and professions essential to an efficient housing market for the production, allocation, and servicing of housing. To the extent appropriate, policy design criteria such as cost effectiveness, ease of implementation, and equity will be addressed systematically.
- the additional data collection and analysis that may be needed to assess options and design housing policy measures.

As appropriate, this advice will be documented in outlines of options and briefing memos for discussion with counterparts, with possible expansion and elaboration from the United States in preparation for the next TDY.

Before departure, the Adviser will consult with Andreasian (and other counterparts as appropriate) to try to reach agreement on a program of work for the period ahead (6 months to one year) for the housing policy development program, including the role of SRCCM, other CCN consultants, and the advisory role of the Adviser. The Adviser will work with SRCCM to clarify additional data collection, quantitative analysis, and other work to continue in his absence and to generally help focus and clarify the six month SRCCM work program.

1.2 During the second TDY, the Adviser will work with counterparts with the aim of producing a consensus that, so far as possible, provides a statement of housing policy objectives, summary of the factual situation, and recommended policy principles and directions. As input to this process, the Adviser will prepare

outlines of policy concepts and fundamental design options (pros and cons) for educational and discussion purposes. It is anticipated that development of the consensus statement will be accomplished in part through a workshop(s) bringing together key policy makers concerned with the housing agenda.

In conjunction with the above workshops, the Adviser will seek agreement on a work program/process for moving from general policy declarations to legislation and implementation of pilot projects and actual programs as applicable.

1.3 The Adviser will be available to comment on and generally assist with policy studies and proposed legal measures (decrees, decisions, legislation). It is anticipated that over the period of this task order, the Adviser will make two follow-up TDYs.

1.4 During the initial TDY the Adviser will consult with the Resident Adviser and lead government counterpart on training events to support the development and political acceptance of the housing policy. It is anticipated that this might include a US study tour for senior officials later in the year and an in-country conference or workshop on housing policy directions. Training recommendations will be included in the Adviser's initial trip report.

The Adviser will assume the lead in the design and conduct of any such training events. As appropriate, this Task Order will be modified to provide for additional assistance directly applicable to such events.

Throughout the period of this Task Order, the Adviser will coordinate with Legal Advisor Richard Winnie in respect to the implications of this work for the legal reform agenda.

Task 2. Kyrgyzstan Housing Policy Development

Assistance in housing policy development for Kyrgyzstan will consist of a series of tasks essentially similar to those defined above for Armenia (Task 1 above).

The lead counterpart for this work initially is expected to be the housing policy group within Gosstroi and the Presidential Apparat.

STA Weis, currently working in Kazakhstan, will participate in the initial TDY in order to share perspectives gained from assistance on housing finance policy and institutional development and will be available to supplement the Adviser's efforts.

Task 3. Housing Sector Indicator Program

3.1 Prior to any field work pursuant to this TDY, the Adviser will:

- (a) review the housing indicator work products produced to date for the three NIS republics in which ICMA is working;
- (b) consult with the World Bank and Urban Institute on the status of efforts to adapt the World Bank/UN Housing Indicators methodology for use in the transitional economies of Eastern Europe and the former Soviet Union;
- (c) in a memo, provide preliminary recommendations to ICMA and USAID on an approach to housing sector monitoring for the duration of the contract, with particular reference to participation in the World Bank Indicator program.
- (4) consult with ICMA and USAID with the aim of agreeing on an overall approach to housing sector monitoring.

3.2 In the course of TDYs to Armenia and Central Asia pursuant to Tasks 1 and 2 above:

- (a) the Adviser will meet with CCN consultants performing the housing sector monitoring to:
 - review the work produced to date;
 - familiarize himself with the range and quality of housing sector statistics compiled by the government; the annual schedule on which such information is up-dated and available; and which information is available on a nationwide basis and/or for the capital city;
 - provide informal training in the recommended methodology; and,
 - develop a work program for housing sector monitoring for the life of the project.

The aim should be to achieve as much consistency as possible among the housing indicator reports being prepared for each country, taking into account variations in the scope and quality of available information and the frequency with which basic statistical information is revised. For each country, the work program should also clearly distinguish between data to be monitored on a national basis and/or for the capital city only (or another lead metropolitan area).

- (b) With the Resident Advisers for the respective republics, the Adviser will consult with lead counterparts on the possible institutionalization of the housing sector monitoring program, with a view to both improving the quality of statistical data available on an ongoing basis for market-oriented housing policy development and to formalize government participation in the World Bank UN

Indicators Program.

3.3 The Adviser will review and comment on the Housing Sector Monitoring reports produced by the CCN consultants, and provide general editorial assistance in adapting these reports for use by USAID and other prospective users.

Reporting:

1. Within 10 working days of completing each TDY, the Consultant will prepare a trip report to USAID ENI/EEUD/UDH and ICMA describing the work accomplished during the TDY, the extent to which the objectives were accomplished, any significant findings and advice not appropriate for inclusion in reports to Counterparts. The trip report will also:

- contain an exhibit identifying persons with whom meetings were held;
- include an exhibit for any training events. (At a minimum, the exhibit will outline the topic of the training, the date and location, the names/titles of participants, and the agenda for the event.);
- include an attachment outlining the scope of work and effort for the subsequent TDY to the country or countries visited, including specific work products. This scope will be reviewed and agreed upon by ICMA and USAID prior to the subsequent TDY.

The initial trip reports for TDYs to Armenia and Kyrgyzstan will include as separate attachments:

- a fairly detailed assessment of the current context for housing policy development (particularly housing finance institutional development);
- the recommended training program per Task 1.4, above, and the corresponding task under Task 2;
- any agreed work program materials.

Any memos prepared for counterparts as part of each TDY (and translations of any counterpart documents on which comments have been provided) will also be appended to each trip report.

The Adviser will also be available to meet with the USAID Mission in the Republics visited and to brief USAID in Washington on the results of each TDY (either en route back from the TDY or on another occasion). Brief exit reports (for inclusion or expansion in the final trip report) will be prepared for these briefings

2. The Housing Sector Monitoring memo per Task 3.1 above and any memos to CCN consultants or mark-up of CCN consultants draft reports will be provided to ICMA Washington.

3. Copies of any memos or other work products prepared in the US between TDYs will be promptly forwarded to ICMA in Washington, with translations of any referenced documents attached).

Candidates for this Assignment:

ICMA proposes that Mr. James Christian be the lead consultant for purposes of this assignment, supplemented by housing finance expert Elaine Weis. Mr. Christian is a well-known housing economist who has participated in numerous housing sector assessments and assistance programs for USAID and other international organizations. Ms. Weis has been actively involved in USAID housing finance reform efforts in both Eastern Europe and Kazakhstan. Resumes and biographical data forms for both Christian and Weis are attached.

ANNEX 2

Draft Law on Housing Policy

Draft Law of the Republic of Armenia on Housing Policy of the Republic of Armenia

This Law lays down the basic principles and guarantees for the right of the citizens of the Republic of Armenia to dwelling, declared by the Constitution of the Republic of Armenia under new social and economic conditions, and serves as legal basis for the formation and development of new housing legislation.

The Republic of Armenia's housing policy is directed at the promotion of: equal development and expansion of the Republic's housing stock based on all the types of ownership; development of housing construction; effective use and maintenance of the housing stock; creation of favorable conditions for provision of citizens with housing; and protection of rights and lawful interests of citizens, institutions, enterprises and organizations in the sphere of housing relations.

Chapter 1. General Provisions

Article 1. Definition of Main Terms Used in the Law

- widely known?*
- norm*
- needed?*
1. "House/Flat" means a structure which is designated for permanent residence of citizens and which complies with the sanitary and technical requirements established by legislation.
 2. "Immovable property in the sphere of housing" means immovable property including land plots and residential buildings as well as non-residential structures affixed to land, attached structures of economic use, green areas, residential buildings and flats, residential structures located either in residential buildings or in other structures and suitable for permanent or temporary residence, as well as structures and components of engineering infrastructure intended for operation and servicing of the housing stock.
 3. "Housing stock" means the aggregate of all the residential structures, regardless of their type of ownership, including residential buildings, flats, special houses for social use, dormitories, service residential structures, and other structures suitable for residence.
 4. "Social norm of residential space" means the size of residential space determined for one person, according to which housing allowances (compensations) are allocated to citizens.
 5. "Multi-flat residential house (building)" means a structure that has more than one separated flats.
 6. "Lease contract of a house/flat" means an agreement, according to which a house/flat (which, as a rule, should be separated) suitable for permanent residence and complying with the norm of residential space is transferred by its owner (lessor) to the tenant and his/her family members for use, and the tenant undertakes an obligation to use the house/flat as intended and pay, in a timely manner, the fees for the use of the flat and public services.
 7. "Lease contract of immovable property in the sphere of housing" means an agreement, according to which the owner (lessor) of immovable property in the sphere of housing, irrespective of its size, transfers it to the lessee for temporary possession and use or in return of a rent for its use, and the lessee undertakes an obligation to use the property in
- needed?*
- CF*
- CF*

compliance with the requirements of the contract and pay the rent in a timely manner along with the fees for public services.

8. "House-building cooperative" means a voluntary association of citizens, which is directed at the fulfillment of its members' housing needs through the exercise of house-building activities at their own expense, supported by credits of governmental or non-governmental loan institutions, provided the association obtains the right to operate those houses. A building constructed by an association is owned by that association, and its members act as shareholders.

9. "Condominium" means a multi-flat residential building where the flats, as well as non-residential premises not intended for common use are owned by separate titleholders, and common use areas along with other structures and facilities are owned by them as joint tenancy. *pro*

To provide the operation and servicing of a condominium building, its owners establish associations.

10. "Builder" means a physical or legal person who organizes construction, rehabilitation, or repair of residential buildings.

return to him

referred

Developer? ?

Article 2. Right to Dwelling *(intent)*

The citizens of the Republic of Armenia have a right to dwelling. *?)*

That right shall be ensured by:

- allocation, on the basis of lease ~~contracts~~, residential structures in the buildings of the state or municipal housing stock to citizens;
- acquisition or construction, by citizens, of their own residential buildings, or ~~rent~~ of residential structures owned by other persons;
- provision, by the State, of housing allowances or allocation of residential space in special houses of social use to the persons and families of certain categories; and
- provision of State assistance to the builders.

Q to me what this actually means

use defined from

The amount of flats owned by a citizen of the Republic of Armenia shall not be subject to any restriction. *why?*

The surface area of residential buildings (flats) built by the citizens or organizations of the Republic of Armenia may be restricted only pursuant to the provisions of urban planning legislation of the Republic of Armenia. *why?*

Article 3. Flat

"Flat" means a housing unit which is designed for permanent residence of the citizens and which meets sanitary and technical requirements placed on flats.

CHOP 2

why does this precede #4? 5+6

what if it is not? - see #2

The premises, which are not designed for citizens residence or which fail to meet sanitary and technical requirements set out for flats, shall not be used as flats.

An owner of a flat shall be entitled to use his flat for other purposes or reconstruct the flat as non-residential premises, in accordance with the provisions of legislation of the Republic of Armenia.

A tenant or other user of a flat may use the flat for other purposes or reconstruct the flat as non-residential premises in accordance with the provisions of legislation of the Republic of Armenia only with the permission of the flat owner.

An owner of a flat located in a multi-flat building (such as condominium, house-building cooperative or other flat) may be entitled to reconstruct the flat as non-residential premises in accordance with the provisions of legislation of the Republic of Armenia only pursuant to the charter of that multi-flat building (with the permission of the owners).

Non-residential premises may be reconstructed as a flat in accordance with the provisions of legislation of the Republic of Armenia without any restriction.

Article 4. The Powers of the Supreme Council of the Republic of Armenia in the Sphere of Housing Relations

The Supreme Council of the Republic of Armenia shall:

- 1) conduct legislative regulation of housing relations in the whole territory of the Republic of Armenia;
- 2) set forth general principles for granting housing privileges and subsidies;
- 3) set forth general principles for financing and crediting of housing construction;
- 4) establish procedure for privatization of houses/flats of the state housing stock;
- 5) establish rates for tax or immovables;
- 6) exercise other powers provided for by law, reserved to itself.

Article 5. The Powers of the Government of the Republic of Armenia in the Sphere of Housing Relations

The Government of the Republic of Armenia shall:

- 1) establish procedure for distribution (letting out) of houses/flats of the state housing stock;
- 2) specify the rates of rent for houses/flats of the state housing fund;
- 3) establish rules and norms for technical operation of houses/flats and rules for use of areas adjacent to residential houses;
- 4) establish rules for granting housing privileges and subsidies;
- 5) establish rules for financing and crediting housing construction;

- 6) establish rules for allocation of lands for housing construction purposes;
- 7) control operation and maintenance of houses/flats;
- 8) establish rules for purchase and exchange of state-owned houses/flats;
- 9) exercise other powers specified in this Law.

Article 6. The Powers of Local Councils of Deputies in the Sphere of Housing Relations

The local councils of deputies, within the limits of their authority and through their executive bodies, shall:

- 1) manage housing stock owned by them;
- 2) allocate lands for housing construction purposes;
- 3) distribute (let out) houses/flats of the state and municipal housing stock;
- 4) supervise the compliance with the rules and norms of technical operation of houses/flats and the rules for use of areas adjacent to residential houses;
- 5) grant housing privileges and subsidies in accordance with established rules;
- 6) organize collection of rents for houses/flats;
- 7) realize other powers specified in this Law.

Article 7. House/Flat Owners

The Republic of Armenia, its citizens, the Republic of Armenia's institutions, enterprises and organizations, as well as foreign states, legal persons of foreign states, international organizations, along with foreign citizens and stateless persons may be owners of a house/flat in the Republic of Armenia, keeping in compliance with the restrictions set forth by legislation of Armenia.

Chapter 2. Ownership in the Housing Sphere

Article 8. Right of Ownership to Immovables in the Housing Sphere

Immovables in the housing sphere may appear as state property, citizens' property, collective property or condominium property.

The legislation of the Republic of Armenia may provide for other forms of ownership.

State ownership to immovables in the housing sphere shall comprise the republic's ownership and ownership by administrative and territorial units (municipal ownership).

Citizens' ownership to immovables in the housing sphere shall comprise ownership by unincorporated organizations founded by such citizens in accordance with law.

not collective?

cf collective ownership

Collective ownership to immovables in the housing sphere shall comprise ownership by private organizations (including civic associations), which are legal entities, and joint or shared ownership by legal entities established on the basis of mixed ownership.

Condominium ownership to immovables in the housing sphere shall comprise ownership by several persons of the property, a number of whose parts is separately owned by such persons and the remaining parts appear as joint property of such persons. *use refer to land law*

In accordance with terms and conditions specified in the legislation or treaties of the Republic of Armenia, foreign states and legal entities, international organizations, foreign citizens and stateless persons may also own (keeping in compliance with the restrictions set forth by legislation) immovables (except for land) in the housing sphere.

Article 9. Housing Stocks

anyone?

what's the philosophy behind this exception?

1) State Housing Stock

a) Departmental stock owned by the Republic of Armenia which is subject to full disposal by state enterprises under national jurisdiction or operative management by governmental institutions.

b) Municipal (Local Self-Government Bodies) Housing Stock

2) Housing stock owned by administrative and territorial units, as well as departmental stock, which is subject to full disposal by municipal enterprises or operative management by municipal institutions subordinate to such administrative and territorial units.

3) Private Housing Stock

a) Housing stock owned by citizens, which comprises residential houses and flats built by them, privatized to them, or acquired by them in any other manner permitted by law, as well as the flats owned by a house-building cooperative, whose users has entirely paid up their shares in such cooperative.

b) Housing stock owned by the organizations that are established by private owners.

4) Housing Stock Which Is Collective Property

Housing stock owned by various persons, including citizens, legal entities, state or municipal authorities, civic organizations, as well as housing stock which is joint or shared property, and housing stock owned by house-building cooperatives, (whose member has not fully paid up his share.)

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what's this right?

5) Public Housing Stock

Housing stock owned by civic organizations.

Article 10. Condominiums

*ref
on to
multi-
house*

Condominiums, as a type of property in the housing sphere, are the multi-flat residential buildings, whose flats, other residential premises or other parts of immovable housing property are separately owned by various persons (citizens, legal entities, private organizations, municipal authorities, civic associations), and remaining parts are jointly owned by such persons.

Joint property shall comprise the parts which are not designed for individual use, such as foundation of buildings, walls, non-privatized cellars, basement, shelter, engineering communications and structures, yard amenities, other jointly used property, engineering equipment located outside the flats and territories adjacent to the building.

All the owners of a multi-flat residential condominium building shall join together and establish real estate owners associations, which shall be legal persons. Such associations shall conduct management, operation and provision of services for the multi-flat residential building. Condominium residential buildings and associations of their owners shall be registered with appropriate state bodies.

Relationship between the owners in respect of the management, operation and provision of services for residential buildings shall be governed by legislation and contracts.

Article 11. Right and Duties of the Owners

An owner of immovable property (or its part) in the housing sphere shall be entitled to possess, use and dispose of such property in accordance with the provisions of legislation (including lease, pledge in full or in part, sell, modify, reconstruct or destruct, perform other actions permitted by law).

The above actions performed by the owner may not prejudice *inherit* the interests of other citizens and organizations, or public interests.

Ownership by citizens to immovable property in the housing sphere shall not be restricted in quantity, size or value and shall enjoy immunity rights.

The state shall guarantee the protection of the rights and lawful interests of all the owners of immovable property in the housing sphere.

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Article 12. Grounds for Termination of the Right of Ownership to Immovable Property in the Housing Sphere, and Procedure for Transfer of Title to Such Property

Deprivation from an owner of his right of ownership to immovable property in the housing sphere may be permissible only in accordance with terms and conditions specified in the legislation of the Republic of Armenia.

Involuntary termination of any right of ownership in accordance with the provisions of law, without consent of the owner, may be conducted only by decision of a court, arbitrage or arbitration court.

Transfer of title to immovable property in the housing sphere may be conducted by mutual agreement of the owners or, in the event of a dispute between the parties, by decision of a court, arbitrage or arbitration court.

*how is
one
ended*

In the event of privatization of state or municipal enterprises or institutions, or dissolution of such persons, housing stock fully disposed by an enterprise or operatively managed by an institution (departmental stock) shall be transferred to a respective successor organization or to local self-government bodies of the respective administrative and territorial unit, provided that rights of citizens to privatization of flats and other housing rights of citizens shall be preserved.

In the event of dissolution of a civic organization and in the absence of successors, housing stock owned by them shall be transferred to local self-government bodies of the respective administrative and territorial unit, provided that all housing rights of citizens, including rights to privatization of flats, and other housing rights of citizens shall be preserved.

*Article - Exclusion
Article - SALE*

Chapter 3. Provision of Citizens With Dwelling

Article 13. The Methods of Provision of Citizens with Dwelling

The provision of citizens with dwelling shall be carried out by:

- a) acquisition by the citizen of a house/flat as private property;
- b) lease to the citizen of a house/flat of the social use housing stock;
- c) rent by the citizen of a residential unit (immovable property in the housing sphere);
- d) the citizen becoming a shareholder in a house-building cooperative or a member of a condominium association;
- e) allocation to extremely needy and precarious citizens of housing units in hostel-type houses conforming with technical and sanitary requirements or in special houses of social importance.

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Article 14. Acquisition by a Citizen of a Flat as Private Property

The citizens shall be entitled to acquire a house/flat as private property.)[?]

The houses/flats which may be acquired by the citizens as private property shall not be restricted in number, area or value. [?]

The citizens may acquire a house/flat as private property:

- a) by privatizing, in a manner specified by law, the houses/flats of the state, municipal or public housing stock, which they have occupied beforehand under a renting agreement;
- ?) (b) by conducting housing construction independently or through individual builders companies;
- c) as a shareholder of a house-building cooperative: by paying up in full their share;
- d) by purchasing a flat or a housing unit (immovable property in the housing sphere) pursuant to a sale and purchase agreement; *show minute volume?*
- e) by acquiring a flat or a housing unit (immovable property in the housing sphere) by virtue of donation, inheritance or in any other manner permitted by law.

Article 15. Allocation to the Citizens of the Houses/Flats of the Social Use Housing Stock

The social use housing stock shall be accumulated from the national and municipal housing stocks, and shall be disposed by the local self-government bodies. *mandatory?*

see text? *area?* *?*
The social use housing stock shall comprise the residential houses, flats, which, by a renting agreement and within the limits of a certain social norm, shall be allocated to the citizens of certain categories (servicemen, teachers, research assistants and so forth), who need improvement of their dwelling conditions.

A social norm of a residential area shall be determined on the basis of a level of the provision with dwelling at the given time, composition of the family and other circumstances.

The grounds for letting the flats/residential houses of the social use housing stock to the citizens, those of neediness for improvement of dwelling conditions and categories of the citizens who are entitled to receive, by a renting agreement, a flat/house of the social use housing stock shall be determined by the legislation of the Republic of Armenia.

The area of the social use housing stock shall be determined by the Government of the Republic of Armenia for each year.

Article 16. Lease of a Housing Unit

The owners of housing stocks shall be entitled to grant to the citizens, by a renting agreement, housing units (immovable property in the housing sphere) of any area and amount.

A renting agreement for a housing unit shall be concluded between the owner and the citizen.

A renting agreement for a housing unit shall lay down the procedure for renting a housing unit, period of renting, rights and duties of the parties, and other terms.

The quantity of the state and municipal housing stock, which are subject to allocation pursuant to a renting agreement for a housing unit, shall be determined by the Government of the Republic of Armenia for each year.

A housing unit may not be given by a renting agreement to other persons without the consent of the persons who reside in that unit on a lawful basis.

The special houses of a social importance and housing units located therein shall not be allocated by a renting agreement for a housing unit.

Article 17. Shareholding in a House-Building Cooperative and Membership in a Condominium Association

The citizens may join house-building cooperatives, as residential house shareholders.

A cooperative residential house shall be deemed in full as the cooperative's property.

The shareholder who has fully paid up his share shall become an owner of the appropriate flat, and the common use parts of the residential house shall remain as the cooperative's property. A shareholder who has fully paid up his share shall receive an ownership certificate.

The citizens may be members of an association of the owners of condominium residential houses. To become a member of an association, the citizen shall participate in the construction (financing) of a condominium residential house being under construction, or become the owner of a housing unit (housing units) in an already built condominium residential house, by purchasing or acquiring that unit in any other manner specified in law.

The residential houses of house-building cooperatives, in which all the flats (or part of them) have become the shareholders' property, may be transformed to condominiums by being registered as such in accordance with the specified procedure.

Article 18. Payment of a Rent for a Flat (Housing Unit) and of Municipal Expenses

A rent for a flat or a housing unit shall be fixed in the amount, by which maintenance and reconstruction of the house (flat, residential unit), as well as expenses for public utilities can be provided.

The rates of rents for a housing unit and expenses for public utilities shall be determined by the Government of the Republic of Armenia.

The amount of a rent for a housing unit and expenses for public utilities shall be stipulated by an agreement concluded between the owner and the tenant.

The norms of payments for rent of the housing units of the state and municipal housing stocks and public utilities shall be specified by the Government of the Republic of Armenia.

Article 19. The Measures of Social Security of Citizens in the Housing Sphere

a) For the citizens who reside in the houses of the state housing stocks, under a renting agreement, the right to rent the house/flat shall be preserved after the adoption of this Law, irrespective of a size of the occupied residential area.

b) The transition to the new system of paying rents and expenses for public utilities shall be carried out in stages during ... years. The terms of passing such stages shall be specified in the laws of the Republic of Armenia.

c) The Government of the Republic of Armenia, local self-government bodies* shall assist to the citizens in the form of housing (allowances) which provide payment of a rent and payment for public utilities within the limits of a house/flat social norm and public utilities normatives, taking into consideration a gross income of the family, acting privileges and approved budget. The sources of such allowances shall be determined by the legislation of the Republic of Armenia.

Local self-government bodies shall be entitled to grant to the citizens privileges in paying a rent and for public utilities, where the size of a residential area exceeds the social norm.

d) A vacant residential area in a communal (shared) flat shall be allocated by a renting agreement to the most needy family residing in that flat. In the absence in a communal flat of a person, who would like to occupy the vacant flat, that flat shall be allocated by a renting agreement to other citizens without special preferences.

* Note: The term "local self-government bodies" used in the Law, at present, is similar to the term "city/town, district councils".

e) The Government of the Republic of Armenia, local self-government bodies, institutions, enterprises, organizations, social associations shall be empowered to grant, at the cost of the appropriate budget or at the cost of their own assets, allowances to the citizens, who occupy a residential area under a renting agreement, taking into account a gross income of the family and acting privileges.

f) it shall be prohibited to sell flats/residential units of the municipal housing stocks to other persons without the consent of the major persons lawfully residing in such flats/residential units.

g) The Government of the Republic of Armenia and local self-government bodies may grant to the citizens that own a residential unit compensations (allowances) within the limits of a

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social norm of rent and public utilities normatives, taking into consideration a gross income of the family and acting privileges.

- h) Occupied houses of the state and municipal residential stocks may not be allocated by a renting agreement to other persons without the consent of all the major persons residing in such houses. (In addition, there may not be so allocated special houses of social importance and housing units located therein.)
- i) For certain categories of persons, there may be established privileges in the sphere of payments for public utilities and rental payments, irrespective of a gross income of their families.
- j) The state may grant privileges to those organizations and citizens, who let their residential unit at a relatively low rent.

The procedure and terms of state assistance (housing allowances) granted for rent of a flat (residential unit), all the state privileges granted in the housing sphere shall be set forth by the laws of the Republic of Armenia.

Article 20. Liability of Citizens in the Sphere of Legal Relationships Related to Housing

- a) The citizens, who grant the houses/flats rented by them to sub-lease, shall be deprived of a right to receive an allowance for rent and public utilities.
- b) If rental payments and payments for public utilities have not been made for more than six months (one year), the citizens shall be subject to eviction by a court, and they shall then be allocated a flat meeting technical and sanitary requirements placed on hostels. *with opinion*
- c) *minutes* If the rental and public utilities payments under a residential unit renting agreement have not been made for more than 6 months, the agreement shall be terminated by a court, and the tenant shall be evicted.
The tenant of a state or municipal housing stock shall be evicted by a court with allocation of another residential unit which meets technical and sanitary requirements placed on hostels.
- d) The citizens who violate the rules of common conduct in the flats (residential units) shall be subjected to administrative and other sanctions.

Article 21. Exchange of Flats/Houses - *how does this work?*

- a) A tenant of a flat (or residential unit) of the state and municipal housing stock shall be entitled to exchange his occupied flat or residential unit for another rented flat (residential unit) with the consent of the major members of his family residing together with him, irrespective of a place of location of that flat (residential unit).
- b) A tenant of a flat or residential unit of the state municipal housing stock shall be entitled, with the consent of the housing stock owner or a person authorized by the owner and the major members of his family residing together with him, to assign the rights and obligations stipulated by a residential unit renting agreement to an owner of a private or condominium housing stock in exchange for acquisition of an ownership title to a

residential house (flat, residential unit), or to an owner of a house-building cooperative in exchange for acquisition for the latter's rights.

Article 22. Privatization of Houses/Flats

Privatization of the flats/houses of a social use housing stock shall be conducted in accordance with current legislation.

The quantity of national and municipal housing stock to be privatized shall be determined by the Government of the Republic of Armenia for each year.

Residential units of special houses of social importance and other residential units provided for by law shall not be privatized.

Article 23. Mortgage of Houses/Flats

Mortgage of a flat (residential unit) is permitted for redemption of a loan granted for house (residential unit) construction or capital reconstruction.

The rooms which constitute a part of the flat may not be a subject of mortgage.

Only a flat (residential unit) which is owned by the mortgagor may be mortgaged.

A tenant of a mortgaged flat or the owner residing therein shall not be evicted in the case of a sale of the mortgaged flat (residential unit). In such a case, a residential unit renting agreement shall be concluded with the former owner, and the tenants shall preserve rights and obligations stipulated by the renting agreement.

[The procedure and terms for mortgage shall be set forth in the legislation of the Republic of Armenia.]

Article 24. Provision of a Flat/House for Extremely Needy and Precarious Citizens

The citizens who have been evicted from a flat/house of the social use housing stock due to their being unable to pay a rent or to pay for public utilities shall be allocated a residential unit that meets the sanitary and technical requirements placed on hostel-type houses. The allocation of such a unit shall be effected on the basis of decision of local self-government bodies.

To provide dwelling for certain categories of citizens (lonely aged persons, etc.), special houses of social importance shall be established.

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*Leave
tenant -
need not
be notified*

The procedure and terms of allocation of residential units in special houses of social importance, as well as categories of precarious citizens shall be set out by the Government of the Republic of Armenia.

Article 25. Occupation of the Housing Stock

The citizens shall occupy flats (residential units) on a lawful ground.) *renting?*

A warrant shall be deemed as a ground for occupation of a flat of the social housing stock under a renting agreement.

A renting agreement concluded between the landlord (owner) and tenant shall be deemed as a ground for occupation of a housing unit (immovable property in the housing sphere) under a renting agreement.

A document of title shall be deemed as a ground for occupation of a flat (residential unit) by its owner.

A warrant shall be deemed as a ground for occupation of a flat in a house-building cooperative. A decision of a local self-government body (owner) shall be deemed as a ground for occupation of a residential unit in special houses of social importance and hostel-type houses.

The procedure and terms of occupation of the housing stock shall be set forth by the Government of the Republic of Armenia.

Where a lawful ground for occupation of a flat (residential unit) is available there shall not be permitted any administrative restrictions for occupation of a flat (residential unit) by citizens, except as specified in legislation.

Chapter 4. Conduct of Housing Construction

Article 26. Sale and Allocation of Land for Housing Construction

Any sale, lease or allocation of land for permanent use for the purpose of housing construction shall be carried out in accordance with the provisions of the Land Code of the Republic of Armenia.

land?  Where the land is sold for housing construction to the citizens who need dwelling, the sale shall be effected at a 50 per cent discount. The payment of the price for land which is due to be paid by such persons may be paid in arrears during five years beginning from the fifth year of the purchase of that land.

The land acquired by the citizens who need dwelling in a manner described in the second paragraph of this Article may be alienated only upon expiration of ten years from the date of purchase of that land.

A rent for state-owned land leased to the citizens who need dwelling shall be collected beginning from the fifth year of the lease of that land. The tenants of land referred to in the third paragraph of this Article shall be prohibited from subleasing that land.

The procedure for sale or lease of state-owned land for housing construction to the citizens who need dwelling shall be set forth by the Government of the Republic of Armenia.

Article 27. Construction of Houses

The persons who are entitled to own residential houses (flats) in the Republic of Armenia shall have the right to build individual or collective residential houses and other structures required for their maintenance on the land owned or leased by them or allocated to them for permanent use, at non-prohibited sites and in a manner prescribed in the legislation of the Republic of Armenia.

The persons who are entitled to own residential houses (flats) in the Republic of Armenia shall have the right to build residential houses irrespective of the fact that they own another house (flat) or other circumstances.

For the purpose of improving dwelling conditions for the persons who need dwelling, the Government of the Republic of Armenia and the respective local self-governments bodies shall carry out housing construction, annually allocating for that purpose financial means identified in their budgets.

In the case of any construction of a residential house and other structures required for its maintenance, only a percentage of the area of a land-plot permissible for building, its location and permissible height of the house, which are determined by urban-planning documents and rules for the given populated area and the given territory, shall be set out. The space of a residential building and that of the structure required for its maintenance shall not be restricted.

A building permit for a residential house and other structures required for its maintenance shall be granted in accordance with the provisions of the legislation of the Republic of Armenia by executive committees of the respective district councils within one month (two months) from the date of the receipt of such an application. If no permit or rejection has been communicated within the stated period, the building permit shall be deemed as granted.

The rejection of an application to grant a building permit for a residential house and other structures required for its maintenance may be appealed against to a court.

Article 28. Illegal (Unauthorized) Construction

It shall be prohibited to carry on any construction of a residential house or structures required for its maintenance without permission or without a plan approved in accordance with established rules.

The builders of a residential house or structures required for its maintenance shall abide by urban planning, building and other rules and norms.

Illegal (unauthorized) builders of a residential house or structures required for its maintenance shall be subjected to material, administrative or criminal liability, as specified in the legislation of the Republic of Armenia, while the illegally built house shall be confiscated.

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The citizens and legal persons that have effected illegal construction before the enactment of this Law, may apply to the executive committee of the respective district council for legalization of the illegal construction carried out by them.

The executive committees of district councils shall legalize illegal buildings in accordance with the provisions of the legislation of the Republic of Armenia, or reject an application for legalization of illegal buildings within one month (two months) from the receipt of such an application.

Legalization of an illegal building may be refused if that building has been built in violation of the urban-planning, building and other rules and norms, or if that contradicts with the requirements of the general plan of that area.

The rejection of an application for legalization of a residential house or structures required for its maintenance may be appealed against to a court.

Article 29. Reconstruction and Extension of a House

Any owner or tenant of a house shall be entitled to reconstruct or extend his house (flats, residential houses and other structures required for their maintenance) in accordance with the provisions of the legislation of the Republic of Armenia.

Reconstruction and extension of houses shall be carried out in accordance with this Law.

Article 30. The Financing and Crediting of Housing Construction

Housing construction shall be financed by house-owners or, if so specifically provided for by the legislation of the Republic of Armenia, out of the state or local budgets of the Republic of Armenia.

Secured loans (on mortgage or guaranty) may be granted for housing construction.

Long term preferential loans may be granted for the reconstruction of houses for the persons who need dwelling, in accordance with the procedure set forth by the Government of the Republic of Armenia.

Article 31. Tax Privileges in the Sphere of Housing Construction

Any land acquired or leased for housing construction by the persons who need dwelling, as well as any structures built on that land shall be exempted from tax on land and immovables during the period of ten years.

The enterprises that carry on housing construction shall be granted profit-tax privileges in accordance with the provisions of the legislation of the Republic of Armenia.

Chapter 5. Management of the Housing Stock

Article 32. The Role of State Bodies in the Management of the Housing Stock

The Government of the Republic of Armenia shall:

- 
- a) establish the rules for the use, operation, and maintenance of residential buildings (flats) and surrounding areas attached to them, as well as the rules and norms for technical operation of facilities of engineering infrastructure intended for technical servicing of residential buildings (flats);
 - b) exercise supervision over the use and maintenance of houses/flats.

Local self-governmental bodies (Executive Committees of Local Councils) shall:

- a) manage the housing stock under their jurisdiction;
- b) exercise supervision over the maintenance of the rules for the use, operation, and maintenance of residential buildings (flats) and surrounding areas attached to them, as well as the rules and norms for technical operation of facilities of engineering infrastructure intended for technical servicing of residential buildings (flats).

Article 33. The Right to the Maintenance and Repair of the Housing Stock

The right to the maintenance and repair of the housing stock shall be held by the owner of a given residential building (flat), or, in a manner provided by law, by the physical or legal person to whom that building (flat) is allocated for use or leased, or by the buildet to whom the above mentioned right is transferred according to a contract.

Capital repair of a residential building (flat) shall be authorized by a construction permit issued by the appropriate local self-governmental body (the Executive Committee of the Local Council).

Article 34. Competitive Principle in the Sphere of Operation, Servicing, and Repair of the Housing Stock

Enterprises, institutions, and organizations engaged in designing, construction, and servicing, irrespective of their type of ownership and place of registration, shall be permitted to conduct the operation, servicing, and repair of the housing stock.

Selection of an operation, servicing, or repair organization shall be made by the owner of the housing stock (residential building).

Contracts for operation, servicing, and repair of the state housing stock shall be finalized by the appropriate local self-governmental body (the Executive Committee of the Local Council) or by the national and municipal institutions and organizations. Selection of an operation, servicing, or repair organization shall be made, as a rule, on a competitive basis and irrespective of the type of ownership.

Issues related to the servicing, operation, and repair of condominium residential buildings shall be regulated in a manner established by associations of condominium owners, in accordance with legislation of the Republic of Armenia.

Article 35. People's Participation in the Management of the Housing Stock

To protect and guarantee their economic and social rights and lawful interests, the owners and tenants of the Republic of Armenia's housing stock (irrespective of its ownership), non-governmental and public organizations, other voluntary associations and private citizens shall be entitled to participate in the management of the housing stock at places of their registration (residence).

27 February, 1995.

H. Karapetian

ANNEX 3

Draft Housing Policy Action Plan

ANNEX 2

Earthquake Reconstruction Project**Action Plan on Housing Policy Reform****TERMS OF REFERENCES****Background**

In 1993 the World Bank approved a credit amounting US\$ 28.0 million. The primary objectives of this loan are: a) to provide improved housing and living conditions to residents of the Earthquake Zone; b) to reconstruct basic infrastructure which will support employment creation; and c) to develop a longer term sustainable program for rehabilitation in the earthquake zone.

The project is completing the reconstruction of housing, factory shells and municipal infrastructure that could provide immediate assistance and employment to the needy population in the earthquake zone. It also supports some key reforms in housing policy (e.g. privatization, cost recovery, single family self-help housing, etc) and help develop the overall housing reform agenda for Armenia. Additionally, it has prepared a long term regional development strategy to rehabilitate the earthquake zone, and is preparing the regional infrastructure investment study.

During negotiations, the Government confirmed that the borrower will submit an action plan on housing policy reform (Action Plan in further text) as described in Annex 1.3 at the time of the Mid Term review (para 2.8) and Credit Agreement (Schedule 3, Part D, para 2; Schedule 4, para 3). A letter from the Minister of Economy to the Government Department for Urban Policy on February 8, 1995 has initiated steps for preparation of the Action Plan.

Goals and objectives

The goal of the Action Plan is to establish the stages of Housing Policy Reform development, and to set priorities for assistance in developing sound housing policy that would help the country apply in practice some of the strategies in the transition from the state to the market-based economy.

Work plan

The Government Department for Urban Policy will prepare the Housing Action Plan. The Ministry of Finance will provide all necessary information concerning financial components of the Action Plan. The State Administration for Urban Planning and Architecture will provide the necessary information on inter-fiscal relations between the Government and the municipalities, and on housing and construction codes. Technical assistance will be provided by the

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International City/County Management Association (ICMA) unit dealing with the reform on housing policy in Armenia funded by the US Agency for International Development (US AID).

The Action Plan will clearly define present achievements, ongoing activities and short-term and mid-term planned actions. The Action Plan will be presented to the World Bank by the end of March 1995.

Terms of References

1. summarize the achievements in the housing sector:

- 1.1. general housing policy issues (privatization, rent, targeted subsidies, land reform, cadastre, etc.)
- 1.2. regulatory environment (The Law on Privatization and Decentralization of State Enterprise and Unfinished Construction, Law on State and Public Housing Stock Privatization, Decrees on Land Cadastre, Law about Banks and Banking, Law on Land Privatization, The Mortgage Law, The Property Tax Law, etc.)
- 1.3. financial components (banking sector reform, lending mechanisms, cost recovery, etc.)
- 1.4. inter-fiscal relations between the Government and the municipalities (transfer of ownership in housing, urban land, infrastructure)
- 1.5. institutional framework (clear role of state and local government, private sector, etc.).

2. summarize the ongoing activities:

- 2.1. general housing policy issues
- 2.2. regulatory environment
- 2.3. financial components
- 2.4. inter-fiscal relations between the Government and the Municipalities
- 2.5. institutional framework

3. Short-term actions (next 6 month) and mid-term actions (1-2 years):

- 2.1. general housing policy issues
- 2.2. regulatory environment
- 2.3. financial components
- 2.4. inter-fiscal relations between the Government and the Municipalities
- 2.5. institutional framework

4. In the reference to the overall housing policy priorities for assistance should be presented.

the state's interference for the purpose of protecting the rights and interests of residents and consumers. That experience also proves that the development of market economy depends on effective state management to be effected through the organized framework of services and mechanisms, and that only a civilized market can functionate within the framework of the existence of such services and mechanisms.

the adoption of the Law on Privatization of the Housing Stock and the development of the privatization process have begun modifying the structure of the housing stock according to the types of ownership, reviving and forming a spontaneous housing market, where, however, a primitive mechanism of sale and purchase of finished flats is acting, and that market is not regulated by systematized legal and economic rules, and it has no firm organizational and structural mechanisms.

The housing reform requires to change the structure of new housing construction according to investments, sources of capital investments and forms of ownership, and to involve that sphere and the extremely complicated sphere of flat leasing and rents in the field of market relations as well, and to form a diversified and fully functioning housing market. Staying of any of such spheres outside the market will hinder the market regulation of other spheres.

This all dictates the necessity of the consecutive conduct of the housing reform and the necessity of elaboration and implementation of a new state housing policy on the principal and long-term aimed basis.

The designed state housing policy can be classified into the following main components:

- creation of legal and legislative bases for the housing sphere;
- the state policy in the sphere of housing construction;
- the state policy in the sphere of operation of the housing stock; - state policy in the sphere of urban planning.

These directions must be elaborated and implemented altogether: as mutually connected and accorded, in order to have an opportunity to promptly reply and adjust to the changes, because the lack and non-equivalence of any of them immediately entails disproportion and counteraction in the market, and hinders the effectiveness of the realization of other components.

1. Creation of Legal and Legislative Bases for the Housing Sphere

Here, first of all, it is required to form an ideology of the new state's housing policy, whose main principles must be the right of private ownership to land and immovable property and the right of a citizen (individual) to determine the size, price and location of his house (flat) on the basis of his desire and possibilities, and the state must use its best efforts to assist and help the citizens to exercise that right. On the basis of that

ideology and constitutional rights, there must be drafted and adopted civil legislation, commercial legislation (regarding regulation of dealing with immovable property), and, especially, housing legislation. Then, on the basis of the adopted laws, a number of important subordinate legislative acts must be adopted. That legal field will give an opportunity to realize the constitutional right of the citizens to own a house (flat) under new social and economic conditions, to ensure legal regulation of housing relations in the course of the formation of new types of ownership.

The law must lay down strict classification of the types of the housing stock, delimit the rights and duties of different types of owners of the housing stock.

2. The State Policy in the Sphere of Housing Construction

The housing construction in Armenia has been strongly reduced along with the total economic collapse. The following are the indices of new residential space accepted for operation during the last three years (expressed in 1000 square meters):

	1991	1992	1993
State Construction	889.0	215.0	243.9
House Building Cooperative	66.2	6.9	15.8
Private Individual	954.1	136.9	110.6
Total:	1909.3	359.7	370.3

Such a process of construction is strongly insufficient, especially if taking into account that 120.2 thousand families and hundred thousands of refugees wait for their turn to receive a flat.

The construction of a large number of unfinished residential buildings has been suspended (especially in the disaster zone), and they are expected to be spoilt or to lose capital investments because of they not being laid up.

Under such conditions, the capacity of the state budget to finance housing construction is strictly limited, and inflation processes and free increase of prices for building materials and goods, not regulated by anything, further reduce them.

The attempts of reducing the costs of housing construction by reducing the standards for provision of amenities and equipment cannot give considerable results, and the reduction of such standards also has allowed limits.

The housing reform and the present critical situation require to involve in investing and financing of that sphere any private financial resources of various form of ownership, including allocations and contributions of the population's family assets for the housing needs, to revive individual housing construction, to assist to the development of commercial housing construction. To achieve these goals, the housing construction must become economically profitable and competitive. Whereas, presently the incomes of the most of the families have been reduced in comparison with the value of flats and, in general, with the minimal living standards, and these allocations which may be sufficient for the housing needs have become impossible and meaningless.

fun In the case of calculation of a ratio of the value of flats (houses) to average family income, it should be considered that the value of a flat should not exceed a family's 12-15 annual salaries. It means that if 1/3 of the family income is used for payment for a flat, its full redemption, together with interest on housing loan amounts, should be made during 30 -35 years. *(at what i?)*

*(income
amount of \$
to see = 15/mo)*

However, presently (as of July, 1994) the value of a three-room flat located in a 4-storey building amounts to 920,000 - 960,000 Drams, and the most unpretentious 3-room detached house, excluding the value of the land plot, amounts to 1 million and 100 thousand Drams, and together with interest on loans: for 1 million and 430 thousand to 1 million and 520 thousand, and 1 million and 706 thousand Drams respectively. It is clear that the present level of the population's incomes, prices of flats, money inflation, unstable financial situation, the present financial and credit system cannot contribute to the increase of the volumes of individual, cooperative and condominium house construction.

Under these conditions, only one per cent of the Republic's population can independently pay expenses necessary for satisfaction of their housing needs.

Thus, it is necessary for the state to interfere with the situation existing in the housing market, on the basis of a premeditated policy.

The following may be the forms of such state participation and interference:

- target additional payments and allowances aimed at the solution of the population's housing problems, by reducing the state's share in housing construction;
- state guarantees for housing construction loans in financial and credit transactions, state compensation for a part of loan interest, promotion of the first payment in case of purchase of a flat through loan;
- establishment of income-tax privileges in respect of the funds assigned for housing construction, reduction of rates of value added tax on building materials and goods, reduction of rates of income tax on crediting activity aimed at housing construction;
- sale of a part of the unfinished residential buildings owned by the state (even at a symbolical price) to legal and natural persons, upon the condition that they must be finished and then be used according to their purpose.

By limiting its direct participation in housing construction, the state, however, must carry out a certain volume of housing construction to satisfy the housing needs of military servants and other public needs, thus eliminating the tension in that sphere. In addition, through such state and, especially, municipal construction, the state must influence the supply and demand existing in the housing market, the price for sale and lease of flats.

All the arrangements to be carried out must be directed to the provision of economic profitability of housing construction, drawing of private financial assets and investments to this sphere, and participation of as higher percentage of the population in financing of housing construction and conduct of individual housing construction, as possible.

3. State Policy in the Sphere of Housing Stock

The adoption of the Law on Privatization of the State and Public Housing Stock has created a basis for structural changes in the housing stock, for the purpose of further increase of the share of citizens and legal persons (private property), and exempting the state from the duty of direct management of the housing stock and creating conditions for transition to market regulation also in this sphere. The goal is clear: to attain the provision of safe and then profitable functioning of the sphere of lease relations and municipal services in the housing stock by involving that significant sphere of economy in the market. However, under present conditions, such a movement, from the social point of view, becomes painful and dangerous for the society, taking into consideration the reduction of incomes and rapid growing of prices for lease of flats and municipal services.

Here, it is necessary for the state to directly participate and assist the population by way of various compensations and allowances, until the general economic development and increase of the population's incomes allow the families having average incomes to pay for their flat and municipal services at market prices. Such a period, obviously, will take long, and it must be conducted in stages. It will be necessary to transit for additional payments and allowance provided for housing operation units to the system of additional payments and allowances to be paid directly to the population. It will be better to pay these payments and allowances by bank transfers through housing check-books, which may be used only in the course of payments for housing and municipal services.

The experience of the developed countries proves that even under the developed economy, the state continues providing various housing additional payments and allowances, along with securing socially precarious strata of the society and regulating market level of housing and municipal expenses.

In addition, for regulation of the housing market, a system of mandatory registration of contracts for sale and purchase, mortgage of land and immovable property must be

introduced in association with the creation of legal, tax and territorial cadastre services for land and immovable property.

4. State Policy in the Sphere of Urban Planning

The structural changes in housing construction and the housing stock, and the housing reform require also respective changes in the sphere of urban planning, architecture and construction.

The following must become the main directions of urban planning and land-use policy:

- transition to the preferable building of low-storey (1-2 storey) detached houses with attached land plots;
- building of economical up to 4-storey houses in the field of state, municipal and commercial housing construction.

These approaches require revision and re-planning of the general plans of the Republic's towns (cities) and populated areas, by developing and adjusting the zones of low-storey and average height houses construction and their improvement, the nature of use of land-plots, restriction on building, density, type and height of structures.

All these problems and issues that arise in the housing sphere prove that it is required to elaborate a coordinated and uniform policy, and that elaboration and implementation should be conducted by joint participation of the ministries and state departments which engage in this sphere, covering all directions.

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ICMA PRINTING DATE: March 22, 1995

IMPORTANT NOTE: All of the data contained in this draft are subject to official confirmation and verification. Particular attention should be given to policy statements, interpretations and data presented in bold italics; these are especially subject to official completion and/or revision

(DRAFT)
**ACTION PLAN ON HOUSING POLICY
REFORM IN ARMENIA**

I. INTRODUCTION

1. Background

The World Bank and the Ministry of Economy agreed (MOE letter of February 8, 1995) to present an Action Plan on Housing Policy Reform on or about March 31, 1995. According to this agreement, the Action Plan presents statements of "Policy Intent," summarizes policy "Achievements," "Ongoing Activities and Short-Term Actions (next 6 months)" and specifies planned "Mid-Term Actions (6 months to 2 years)". Thus, the Action Plan is both a review of the status of housing sector reform accomplishments and a statement of priorities for planned actions leading to a housing policy that will help the Republic of Armenia apply in practice the strategies for transition from a state-based to a market-based economy.

II. THE CONTEXT FOR HOUSING REFORM

1. Macroeconomic Conditions

The collapse of the Soviet Union and the system of central planning that governed the production and distribution of goods and services throughout the several Republics set in motion waves of both political and economic change.

In the case of Armenia, a border dispute with neighboring Azerbaijan led to an economic blockade that severely constricted the flow of energy to Armenia, a diversion of scarce domestic resources and the discouragement of official and private capital inflows. Unrest in neighboring Georgia disrupted other traditional trade routes with the rest of the former Soviet Union. And the border with Turkey was closed as Turkey sided with Azerbaijan, leaving only a narrow corridor for overland trade through Iran. A peace agreement between Armenia and Azerbaijan now appears to be at hand and trade across the Armenian-Turkish border is expanding.

Although the major earthquake of 1988 that struck Armenia took place before the disintegration of the Soviet Union, earthquake damage was extensive, so that at the time of Armenian independence in 1991, the economy was already struggling

to deal with the repercussions of the earthquake and return to previous levels of production.

As a consequence of these extraordinary dislocations, it is estimated that real GDP in Armenia fell by 52% in 1992 and an additional 23% in 1993. Accordingly, employment plunged. At the beginning of 1993, 56.3 thousand persons were registered as unemployed. By October 1993, the number of jobless persons had increased to 93.8 thousand, or about 10% of the labor force. Such an unemployment rate is probably a serious underestimate because of the extent of the decline in real GDP and because economic conditions for the average Armenian are substantially worse than a 10% unemployment rate would imply.

Exacerbating these multiple hardships, inflation increased dramatically during this period, in part because Armenia chose to remain in the Russian ruble zone-- Russian inflation and ruble devaluation were consequently transmitted to Armenia. The rate of inflation in 1992 reached 828% and approached an annual rate of 1,000% in 1993.

Armenia broke its link with the Russian ruble in 1993 and introduced its own currency, the dram, established an independent central bank and invoked an extremely tight monetary policy. In part as a result of these and other reform measures taken by Armenia, economic conditions in 1994 improved significantly. Real GDP is estimated to have grown by 2.5%; inflation declined significantly during the year, reaching an annualized rate of 8.4% in February, 1995; the new national currency, the dram, remained relatively stable against the US dollar over the six-month period from August 1994 through February 1995. Furthermore, some relief from the acute energy crisis should appear by mid-1995 when a large nuclear facility, capable of meeting an estimated 60% of Armenia's electricity needs, is expected to come on line.

2. Housing

In the housing sector, significant strides have been made in privatizing the housing stock and moving toward a market-driven housing sector, but the extensive damage caused by the 1988 earthquake and the influx of refugees have combined with past backlogs to produce a significant housing shortage. Some 50,000 dwelling units have been started but remain uncompleted; 40,000 of these are in the earthquake zone. In Yerevan alone, which accounts for 35% of the national population, 4,753 units have been started in 115 buildings, but only half of these are under active construction.

Of a total population of 3.7 million (*roughly 900 thousand families*), 120 thousand families are presently considered underhoused and are on the official waiting list; 41 thousand of these reside in Yerevan.

To complicate estimation of the housing shortage, thousands of Armenians have emigrated to other countries and it is unknown how many might return when economic conditions improve.

3. Special Housing Needs

The 1988 earthquake caused extensive damage to both the housing stock and its associated infrastructure and led to a serious displacement problem. The conflict with Azerbaijan over the disputed enclave of Nagorno-Karabakh also contributed housing problems because of the influx of refugees from the disputed territory. Indeed, it is estimated that some *500,000* of Armenia's population remain displaced either because of the earthquake or the conflict with Azerbaijan.

4. Housing Production

With the exception of international donor projects and housing being completed in the earthquake zone by the World Bank, housing production has virtually come to a halt.

5. Housing Affordability

Much more analysis must be done before good estimates of housing affordability can be made. This finding arises primarily from the uncertainty of family income estimates; home price estimates are believed to be significantly more accurate.

As of July, 1994, the value of a three-room flat in a four-story building ranged between 920 thousand and 960 thousand drams, or \$_____ to \$_____ at the then-prevailing exchange rate of _____ drams per dollar. The most unpretentious three-room detached house, excluding the value of the land, commanded a price of 1.1 million drams (\$_____). Slightly different data at year-end 1994 indicates that the average price per square meter for flats in Yerevan were about \$127, or \$6,350 for a 50 m² flat. Outside Yerevan, this same study¹ indicated an unweighted square meter cost of about \$35 per square meter, or about \$1,750 for a 50 m² flat, which would correspond roughly to the Republic-wide estimates at mid-year 1994 indicated above.

Estimates of family income are substantively more problematical. For an average family of four at year-end 1994, these estimates ranged from \$180 a year to \$720 a year. GNP per capita for 1994, however, has been projected at just over \$2,000, which, for a family of four, would imply an annual family income of about \$8,000. Obviously, it is difficult to reconcile these various estimates.

¹ Gourgen Mushegian and Petros Sogomonian, "Overview of the Market Monitoring in the Housing Sector, Major Cities of the Republic of Armenia," January 1995.

III. GENERAL HOUSING POLICY ISSUES

Overall (Long Term) Housing Policy Objectives:

- phase out subsidies for the housing sector except for the neediest portion of the population;
- establish private markets and a housing finance system that will provide a more efficient and equitable allocation of economic resources for housing and urban development;
- through private markets, provide consumers increased quality, choice, and availability of affordable housing;
- in accomplishing the transition to private markets, preserve the right of all citizens to decent and safe shelter.
- provide decent housing for earthquake victims and refugees with cost-recovery based on ability to pay.

1. Framework for Coordinated Housing Policy Development

1.1 Policy Intent:

- to create improved institutional capacity for on-going housing policy development and analysis;
- to create overall policy and legal framework for more specific policy and legislative initiatives.

1.2 Achievements

- 1.21 Creation of Department of Urban Policy
- 1.22 Housing Policy Law Drafted

1.3 Ongoing Activities and Short Term Actions (next 6 Months)

- 1.31 *Form an Ad-Hoc, Inter-Ministerial Housing Policy Working Group*
- 1.32 *Refine and formalize Housing Action Plan*
- 1.33 *Secure Cabinet approval of Housing Policy Law*
- 1.34 *Conduct selective surveys to clarify the magnitude of the housing shortage*
- 1.35 *Enact laws presently drafted*

1.4 Mid-Term Actions (6 months to 2 years)

- 1.41 *Institutionalize improved capability for housing sector monitoring, policy formulation and implementation*
- 1.42 *Secure Parliamentary action on the Housing Policy Law*
- 1.43 *Implement laws adopted*

2. Housing Privatization

2.1 Policy Intent

- to complete the process of housing privatization;
- to transfer full responsibilities of ownership to condominiums and cooperatives
- to encourage growth of private competition in housing construction and management
- to provide a regulatory framework to govern relationships among buyers and sellers and among land lords and tenants.

2.2 Achievements

2.21 Legal Structure

The process of establishing a legal basis for the privatization of housing and its regulation is well advanced. The status of the several actions taken is as follows:

- State and Public Housing Privatization Law (Adopted June 29, 1993)
- Law About State and Public Housing Stock Privatization (Adopted June 29, 1993) and Implementing Decisions:
- Decision About Implementation of Law About State and Public Housing Stock Privatization (July 29, 1993);
- Decision on Privatization of Basements;
- Decision #453 On Regulations of the Participation of the Representatives of Governmental Departments, Enterprises, Institutions, Organizations in the Privatization of the Departmental Housing Stock (September 8, 1993);
- Decision # 451 (On fees for processing housing privatization), (September 8, 1993);
- Decision #452 About Registering Privatized Apartments (September 8, 1993);
- Decision # 456 On Permission to Privatize Houses and Apartments Considered Historical or Cultural Monuments (September 8, 1993);
- Condominium Decree (Inter-Ministerial Review Complete; Ready for Adoption)

2.22 Status of Housing Privatization

At the end of 1994, the total completed housing stock of Armenia amounted to 745,496 dwelling units, of which 411,944 (55.2%) were privately owned. Units located in urban areas account for almost 70% of the total housing stock; of these, 39% were privately owned (45% if Cooperatives are considered privately owned). Of the rural housing stock, 93% of the dwelling units were privately owned.

Status of the Armenian Housing Stock (As of December 30, 1994)

	<i>Total</i>	<i>Urban</i>	<i>Rural</i>
<i>Housing Stock</i>	<i>745,496</i>	<i>515,043</i>	<i>223,648</i>
<i>Private</i>	<i>411,944</i>	<i>201,284</i>	<i>208,739</i>
<i>Cooperative</i>	<i>30,471</i>	<i>30,471</i>	
<i>State</i>	<i>303,081</i>	<i>283,288</i>	<i>14,910</i>
<i>Percent Private (excludes Coops)</i>	<i>55.26%</i>	<i>39.08%</i>	<i>93.33%</i>
<i>Including Coops</i>	<i>59.35%</i>	<i>45.00%</i>	<i>93.33%</i>
<i>Percent Urban</i>	<i>69.09%</i>		
<i>Percent Rural</i>	<i>30.00%</i>		

The pace of privatization during the second half of 1994 is remarkable; some 59,000 housing units were converted from State to private ownership during this period.

- 2.22 Pilot Projects demonstrating private housing tenure have been conducted (Triangle Project; Earthquake Reconstruction and UNHCR Refugee Housing Project)
- 2.23 Yerevan City Decision on establishing the Condominium Services Office
- 2.24 Training Program for Condominium Associations, Yerevan State University

2.3 Ongoing Activities and Short-Term Actions(next 6 months)

- 2.31 *Continue the process of privatization, with a deadline for completion of September, 1995*
- 2.32 *Adopt Condominium Decree and additional implementing decisions*
- 2.33 *Plan and organize educational programs and technical assistance with cities*
- 2.34 *Elaborate policy on remaining municipal housing stock and privatization of "Zsheks"*

2.35 *Develop and adopt regulations for the operation of a real estate brokerage industry*

2.4 **Mid-Term Actions (6 months to 2 years)**

2.4.1 *Develop policies on financial assistance for capital repairs*

2.4.2 *Develop policies to encourage property insurance industry*

2.4.3 *Implement Municipal housing stock and Zshek privatization policy*

2.4.4 *Develop policies on the remaining Municipal housing stock*

3. **Rents for Municipal Housing and Pricing of Communal Services**

3.1 **Policy Intent:** to raise rents and prices for communal services to levels sufficient to cover operating costs, amortize capital investment, and to fund reserves for replacement.

3.2 **Achievements**

3.21 The Republic of Armenia has moved aggressively to raise rents and to bring fees for communal services to full cost recovery levels. The following table presents the extent of these changes.

Evolution of Increases in Rent and Fees for Communal Services (in drams)

	<i>Actual Cost</i>	<i>Fee Pre-Dec '94</i>	<i>Fee Dec '94</i>
<i>Rent (per M²)</i>	8.9	0.0625	0.5
<i><u>Communal Services</u></i>			
<i>Electricity (per KWH)</i>	5.1	1.3	10.0
<i>Water (per M³)</i>	10.3	0.27	0.54
<i>(Yerevan)</i>			
<i>Sewerage (per M³)</i>	0.56	0.03	0.09
<i>(Yerevan)</i>			
<i>Garbage Removal (per person, per month)</i>	24.7	6.08	12.16
<i>(Yerevan)</i>			
<i>Heating (per M², per annum, Yerevan)</i>	1056.0	120.0	360.0
<i>Hot Water (per person, per month, Yerevan)</i>	185.0	8.0	16.0

3.3 Ongoing Activities and Short-Term Actions (next 6 months).

3.31 *July deadline for full cost pricing. (Note: based on operating costs??)*

3.4 Mid-Term Actions (6 months to 2 years)

3.41 *Move to rents that recover capital costs and fund reserves*

3.42 *Ongoing refinement of pricing policy for housing related municipal services and utilities to promote energy conservation/environmental management objectives*

4. Rationalization of Housing Subsidies:

Although the policy debate has not been concluded, current thinking at the Ministerial level suggests that the approach to housing subsidies, as well as other subsidies, will evolve toward social safety net assistance in a generalized form. That is, subsidies for specific goods and services will be replaced by a "means-tested" income supplement paid to individuals or families. Recipients would then be free to allocate those funds as they choose. Such a policy would minimize distortions and, at least in principle, allow full market pricing of all goods and services. A decision on this approach is expected by mid-1995.

At this stage of the policy, it is felt that rationalizing subsidies might well provide the necessary funding to implement such an approach. For example, all individuals under the age of 17 presently receive a State stipend, regardless of the income of the family to which they belong. "Means testing" such stipends would eliminate payments to many and, perhaps, free up sufficient funds for those satisfying the "means" test.

4.1 **Policy Intent:** to reduce government subsidies and target them to the neediest using mechanisms that are "transparent" (i.e. subsidies are explicit) and as far as possible work through and help strengthen the private market; to control the impact of housing subsidies on overall government finances.

4.2 Achievements:

4.21 Direct subsidization of housing construction has been discontinued;

4.22 The Ministerial review of a draft regulation on conducting "Dutch auctions" of the State-owned housing is complete.

4.3 Ongoing Activities and Short-Term Actions (next 6 months)

4.31 *Develop and adopt a detailed "means-tested" or "targeted" subsidy plan*

4.32 *Model budgetary impacts of subsidy plan for one or more cities*

4.33 *Study options and budgetary implications of (1) preserving government guarantee of minimal shelter (e.g. "hostel of last resort), and (2) addressing refugee and earthquake housing problems.*

4.4 Mid-Term Actions (6 months to 2 years)

4.41 *Implement the subsidy policy*

5. Urban Land Reform

5.1 Policy Intent

- to develop private real estate market for land ownership and development;
- to clarify basic interests in real estate;
- to establish and implement market-based methods of allocating public lands to the private sector;
- to adopt and implement land use regulations (such as zoning and subdivision controls) and market-oriented urban land planning processes that balance public and private interests, that allow private parties to participate in land use decisions, and that protect the public health and safety as well as environmental and historical amenities.

5.2 Achievements:

- 5.21** Law About Agricultural Land Privatization (Adopted January 22, 1991), included privatization of garden plots (Dacha land) and cottages.
- 5.22** Decision on Approval of Model Lease Without the Right To Purchase the Property (Adopted April 20, 1994);
- 5.23** Government Decision on Sale of Land by Auction (*Adopted _____*)
- 5.24** Regulations on Interim Starting Prices for Land (*Adopted _____*)
- 5.25** Decree #412: On the Procedures for Compensation For Lots Privatized by Individuals and Collective Farms (Adopted June 19, 1991);
- 5.26** Draft Decree On Selling Land Plots as Property to Citizens _____
- 5.27** Draft Regulation For Condemnation With Full Compensation of Non-State Owned Land _____
- 5.28** Draft Revised Land Code (including provisions for privatizing urban land and generally clarifying real property rights, ready for Cabinet of Ministers Action)

5.3 Ongoing Activities and Short-Term Actions (next 6 months)

- 5.31** *Submit Land Code to Parliament for adoption;*
- 5.32** *Promote pilot land auctions by municipalities;*

5.4 Mid-Term Actions (6 months to 2 Years)

- 5.41 *Adopt and implement decisions broadening sale of land by auction and by competition;*
- 5.42 *Adopt and implement Urban Planning and Land Use Regulation Law;*
- 5.43 *Develop policies and laws to strengthen municipal capacity to finance infrastructure and community facilities for urban land development.*

6. Cadastral Reform

6.1 Policy Intent

- to achieve a unified cadastral system that provides consistency in the documentation and procedures used to register interests in all real property (land and buildings regardless of use or location); note: system presently fragmented among Yerevan Inventory Bureau, Geodesy, Giprozem (Agricultural Ministry), Ministry of Communal Services;
- to establish a market-oriented legal cadastre (property registration system) that can serve as a secure repository of property records and **serve the needs** of the private market for convenient and reliable title information; and
- to develop a fiscal cadastre to serve the government's need for information on market values for property tax administration and other governmental purposes.

6..2 Achievements:

- 6.21 Yerevan City Council Decision # 35/16 On Establishing Committee For Coordinating Cadastre Activities (Adopted August 19, 1994);
- 6.22 Draft Decision to establish a unified Republic Cadastral Commission.

6.3 Ongoing Activities and Short-Term Actions (next 6 months)

- 6.31 *Adopt and implement Decision to Establish Commission;*
- 6.32 *Adopt and implement standardized indexing and mapping systems, documentation and procedures;*
- 6.33 *Complete designs in progress for pilot projects and proposals for international donor financing;*
- 6.34 *Operationalize procedures for "on-demand" property registration on self-financing, for fee basis.*
- 6.35 *Clarify policy on illegal construction.*

6.4 Mid-Term Actions (6 months to 2 years)

- 6.41 *Implement pilot projects (registration of all parcels in target areas; data networking with tax inspectorate);*
- 6.42 *Complete fiscal cadastre based on aerial maps.*
- 6.43 *As resources permit, pursue automation of the system, surveying of all privatized properties, and modernization of survey equipment.*

7. Land and Property Tax

- 7.1 **Policy Intent:** to permit government to fund investment in infrastructure and transportation through the introduction of *ad valorem* taxes on land and immovable property.

7.2 Achievements

- 7.21 Law About Land Tax (*Adopted _____*)
- 7.22 Regulations adopted on interim measures of urban land valuation
- 7.23 Law on Property Tax (*Adopted _____, 1995*)
- 7.24 Decision on Property Valuation submitted to Supreme Council, _____, 1995)

7.3 Ongoing Activities and Short-Term Actions (next 6 months)

- 7.31 *Complete and adopt implementing Decisions for Property Tax;*
- 7.32 *Complete detailed implementation planning*
- 7.33 *Initiate training in real property appraisal and property tax administration*

7.4 Mid-Term Actions (6 months to 2 years)

- 7.41 *In law and in practice, unify land and property tax into real property tax;*
- 7.42 *Based on fiscal cadastre, introduce mass appraisal of properties based on market data.*
- 7.43 *Institutionalize training capabilities;*
- 7.44 *As resources permit, pursue full scale automation of property tax system with ready public access to information.*

8. Construction Industry Reform

Housing construction began to decline as long ago as the early 1980s. Following the 1988 earthquake, however, reconstruction assistance from across the Soviet Union produced a surge in housing construction that evaporated with the breakup of the Soviet Union. As a consequence, many apartment buildings have been

started but are as yet unfinished. Moreover, due to severely depressed economic conditions in Armenia, housing construction is presently at a very low level. The following table summarizes housing construction activity during the past several years by number of square meters *accepted for occupancy*; these data do not include the volume of unfinished residential space.

<i>Completed Residential Construction</i> <i>(thousands of square meters)</i>				
	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>
<i>State Construction</i>	<i>889.0</i>	<i>215.0</i>	<i>243.9</i>	<i>168.9</i>
<i>Cooperatives</i>	<i>66.2</i>	<i>6.9</i>	<i>15.8</i>	<i>n/a</i>
<i>Private Individuals</i>	<i>954.1</i>	<i>136.9</i>	<i>110.6</i>	<i>80.1</i>
<i>TOTAL:</i>	<i>1,909.3</i>	<i>358.8</i>	<i>370.3</i>	<i>249.0</i>

Source: State Department for Architecture and Urban Planning, Republic of Armenia and Housing Department, Ministry of Economy

Although precise estimates of the housing shortage are difficult to derive, a recent World Bank analysis estimates that Armenia needs about 200,000 units, or something on the order of 10 million square meters of residential construction to eliminate the housing deficit. Almost 2 million square meters were built in 1991, so erasing the housing deficit can be estimated to involve a five-to-ten year building program even with much higher levels of construction than at the present.

Completing the unfinished buildings and repairing damage to the infrastructure must be a high priority inasmuch as physical deterioration of the existing, but incomplete, construction will increase over time. With an estimated 50,000 units in buildings started but not completed, the volume of square meters involved is roughly 2,500,000, more than the entire volume of construction completed in 1992. These considerations strongly influence policy reform measures in the construction sector.

8.1 Policy Intent

- privatize the state construction industry and introduce competitive procurement of all government funded construction;
- establish a regulatory framework for private market construction activity;
- establish a competitive building materials industry with equal access to materials by all market participants;

- remove the government from direct construction of housing except special cases.

8.2 Achievements

- 8.21 Law on Privatization of State Enterprises and Unfinished Construction (Adopted on August 27, 1992);
- 8.22 *As of the end of 1994, 90% of construction firms were privatized;*
- 8.23 Demonstration of competitive bidding and market-oriented, construction management practice through international donor funded construction projects have been conducted; most construction firms are now educated in bid preparation;
- 8.23 Decision on Competitive Bidding of All Government Funded Construction Over \$50,000 (*exact title??date?? Early 94?*);
- 8.24 Decision on Competitive Bidding of all Government Funded Construction (*title, date --early '95??*)
- 8.25 Decision on Unified Owner for Government Construction (*title, date--early '95*);
- 8.26 Decision on Building Code Enforcement Organization drafted;
- 8.27 Decision on Licensing of Construction Contractors drafted.

8.3 Ongoing Activities and Near-Term Actions (next 6 months)

- 8.31 *Implement competitive procurement procedures through unified ownership (Placed in State Committee on Architecture and Construction);*
- 8.32 *Initiate a program to complete privatization of construction enterprises through the ongoing auction process;*
- 8.33 *Adopt and begin to implement decisions on building code enforcement organization;*
- 8.34 *Adopt and begin to implement the decision on licensing contractors;*
- 8.35 *Establish a self-financing, construction estimating information system within the State Architecture Committee;*
- 8.36 *Establish a construction contractors association*
- 8.4 **Mid-Term Actions (6 months to 2 years): *Complete the privatization of the construction industry.***

IV. FINANCIAL COMPONENTS

I. Banking Sector Reform

1.1 Achievements

Significant steps have been taken at the national level to set the Armenian financial system on a sound footing.

- Banking Reform Law Adopted
- Mortgage Law Drafted
- Armenia left the Russian ruble zone in November 1993 and introduced its own national currency, the Dram. Much of Armenia's inflation prior to that time was attributable to its susceptibility to Russian reform measures. Although the new Dram initially continued to devalue, by mid-1994, it had begun to stabilize and by the early 1995, had enjoyed six months of relative stability against the US dollar.
- The Armenian Central Bank was given independence from the Government (still subject to the Parliament, of course) and adopted an aggressive tight money policy to combat rampant inflation.
- As a partial consequence of these actions, price inflation, which had run 828% in 1992 and approached 1000% in 1993, *declined to __% in 1994*. Indicative of continuing progress on the inflation front, the monthly increase in February 1995 was only 0.7%, an annual rate of about 8.4%. Armenian monetary policy remains highly restrictive, however; the Central Bank's refinancing (discount) rate remains at 80%, but that is down significantly from a rate of 360% adopted shortly after the Central Bank became independent. If inflation stabilizes in the 10% to 12% range or below, significant reductions in the Central Bank refinancing rate can be expected, with consequent reductions in retail lending rates. Revitalization of retail bank lending can then be expected.
- The Central Bank has taken steps to to strengthen bank supervision and will introduce higher minimum capital requirements on banks on April 1, 1995. These measures can be expected to continue the trend toward consolidation of the banking sector. At the beginning of 1994, there were 60 banks in existence in Armenia; by the end of 1994, only 41 banks continued to operate and informed sources believe that only 10 or 12 are sufficient to meet Armenia's financial needs.
- *Notwithstanding the fact that the Yerevan Stock Exchange (Bourse) presently operates only two days a week, it neverthe less exists. As this institution develops, bringing with it investment banking expertise, necessary institutional capability for an integrated housing finance system will materialize.*

2. Housing Finance System

The need for a housing finance system to provide both construction financing and mortgage credit is unquestioned. However, the depressed state of the Armenian economy, with attendant low levels of family income, makes the identification of a significant *effective* demand (willingness and ability to pay) extremely difficult. The continued suppression of inflation, leading to more affordable interest rates, and the pace of recovery of the economy and of the growth of employment and income will govern the speed with which the housing finance system can be put into operation.

2.1 Achievements

Beyond completing the draft of the Mortgage Law, there are no other significant achievements can be shown toward establishing a market-oriented housing finance system.

2.2 Ongoing Activities

Preliminary discussions with cognizant government officials are taking place with respect to initiating technical assistance in the development of a housing finance system.

2.3 Short-Term Actions (next 6 months)

In the context of the reform measures being taken with regard to the overall financial sector, the design of an integrated housing finance system should be completed, legal constraints identified and appropriate training should occur.

2.4 Mid-Term Actions (6 months to 2 years)

Subject to hoped-for improvements in the economic environment and completion of the design and training components targeted for short-term action, the following steps should be taken in the mid-term:

- *enabling legislation to lift any constraints on the operation of an integrated housing finance system should be drafted and enacted;*
- *the institutional structure of the system should be established;*
- *a cadre of appropriately trained staff should be in place;*
- *the system should be operational, in the sense that funds mobilization and the extension of mortgage credit are taking place.*

V. INTER-FISCAL RELATIONS BETWEEN THE NATIONAL GOVERNMENT AND THE MUNICIPALITIES

In the past, the budgets of the Republic and the municipalities were essentially integrated. The Republic collected virtually all taxes, fees and other revenues, municipalities submitted their individual budgets to the Republic for approval and received funds from the Republic in the amount ultimately approved by the Parliament. In the future, municipal governments will have greater autonomy in levying taxes and fees and in funding their own budget. Important linkages between the budgets of the several levels of government will, however, remain.

(Should have more here.)

VI. PRIORITIES FOR INTERNATIONAL ASSISTANCE

In addition to on-going technical assistance from USAID/ICMA and continued humanitarian assistance to house refugees and earthquake victims, the following constitute priorities for international assistance:

- *Credit for construction loans and municipal infrastructure to demonstrate low-density residential development;*
- *Credit for apartment completions and renovation of existing housing;*
- *Development of market-oriented fiscal and legal cadastre;*
- *Help with training and systems for implementing property tax law;*
- *Assistance with development of municipal management and financial capacity to support transition to private markets.*

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ANNEX 4
Housing Finance System

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MEMORANDUM

26 March 1995

TO: Andranik Andreassian

FROM: James Christian

SUBJECT: Alternatives for the Housing Finance System of Armenia

1. **General:** A reformed housing sector in Armenia will have to include a well-structured, efficient housing finance system. More analysis will be required, however, before we can offer an opinion about when substantive development should begin or the most appropriate form of the housing finance system. We would hope to make such an assessment on my next visit, tentatively scheduled for June, 1995. Housing sector reform is sufficiently advanced to make this assessment a priority for 1995 and, at this point, I can offer my views on the broad directions of housing finance system development in Armenia should take.
2. **Integration:** The housing finance system should be integrated into the overall financial sector. In this context, "integration" means that market interest rates should be charge for mortgage credit and market interest rates should be paid for the financial resources that support that credit. The housing finance system, although specialized in its activity, should be fully competitive with other financial markets operating in Armenia.
3. **The Role of the State:** In general, the role of the State in the financial sector should include the following:
 - a. **Quantity and Quality of Information:** The State should specify the information that lenders must disclose to borrowers regarding the terms and conditions under which borrowers receive credit and should enforce the full and accurate disclosure of that information. The State should operate similarly with respect to information provided to investors. That is, investors (including depositors) must be assured that the disclosure of information regarding the amount and quality of a financial institution's assets and liabilities, its capital, profitability and other aspects of its operations is accurate and readily available, so that investors can rely on that information in making risk assessments. This role also applies to securities, such as mortgage-backed bonds as well as to shares and the securities (bonds) offered by private companies. Fulfilling these responsibilities of the State will generally require both the necessary law and continuous supervision to ensure compliance by specifying and imposing appropriate penalties and sanctions for noncompliance.
 - b. **Enforcement of Contracts:** Either through the courts or other judicial bodies, the State must ensure the enforcement of contracts (loan agreements, for example) by acting promptly to support the lawful claims of lenders, borrowers and investors.

c. Support and Facilitation: Depending on circumstances and the type of system adopted, there may be a role for the State to act in supporting and facilitating the development of the market. It is really too soon to suggest what form such measures should take in Armenia, but the assurance of clear title to property offered as collateral is one example. Anticipating the use of mortgage-backed securities in the system, the State should also adopt regulations requiring the standardization of mortgage documentation. Another example might be the provision of certain types of guarantees of the quality of credit being offered to the market. (Some care must be exercised here to preserve the integrated character of the system.)

4. Form of the System: The ultimate form of the housing finance system should feature the use of securities (bonds) as an important, if not the exclusive, source of funding for mortgage credit. This is the preferred system because it offers a more complete matching of maturities between assets and liabilities and thereby promotes better risk management and greater stability of the system. It is, however, a more sophisticated system, requiring a relatively high volume of activity, than the second-best alternative of an institution-based system. Should the necessary preconditions not exist or be in immediate prospect, Armenia could begin with an institution-based system, structured for an easy transition to a securities-based system when the necessary conditions do prevail.

a. System Fundamentals:

(1) Sources of Funds for Mortgage Lending: The largest source of funds available for lending to households are households themselves, regardless of how a financial system is structured. Even if the State provides the credit, it must raise the funds from taxes (paid by households) or revenue from its own enterprises (product prices paid by households). In a market-oriented system, households are offered a variety of ways to hold their financial assets; some household funds will be deposited in banks, others will be devoted to pension funds, trusts (mutual funds) and to premium payments for life insurance.

(a) Bank Deposits: In general, the funds which households place on deposit in banks are the households' "working balances" (checking accounts) and short-term savings accounts held for specific future expenses (a child's education, purchase of a car, downpayment on a home) and against unforeseen events that would require an unexpected outlay. When compared against the typical term of a mortgage (15 years or more), household savings deposited in a bank have shorter terms. Since short-term interest rates (such as those paid on deposits) move more up and down more than long-term interest rates (such as those paid on mortgages) as economic conditions change, a bank using short-term funds for long-term lending is exposed to volatility of its profit margin and, in extreme cases, to insolvency if its losses exceed its capital. That volatility is transferred to housing market activity and, if housing is an important element of the macroeconomy (it usually is), economic stability is also undermined.

(b) Life Insurance and Pension Funds: Household saving that is devoted to paying life insurance premiums reflect a long-term commitment; a person who buys a life insurance policy at age 25 or 30 generally plans to continue paying the premiums on that policy until he or she dies; alternatively, if life insurance premiums are paid by the individual's employer, those premium payments go on as long as that individual is employed. The same considerations apply to pension funds, whether the periodic contributions are made by the individual or by the employer or both. From the point of view of the individual, these are long-term commitments and long-term assets. Similarly, from the point of view of the insurance company or the pension fund, these payments are long-term liabilities because they obligate the insurance company or the pension fund to pay when the individual dies or retires. The insurance company and the pension fund therefore want to invest in long-term assets. For example, insurance companies often invest in office buildings which can be expected to yield rental income for a very long time. Mortgages or mortgage-backed securities can serve much the same purpose and, in addition, offer liquidity greater than an office building because they can be bought and sold more readily. Moreover, because individuals buy life insurance and contribute to pension funds for long-term reasons, they are much less likely to cancel their life insurance policies or cease contributing to pension funds (particularly when employers are making at least a part of the contribution) when short-term interest rates go up or down.

(2) Housing Finance System Functions:

(a) Savings Mobilization: Attracting funds from households and from employers on behalf of their employees requires the development and marketing of appealing instruments and providing high quality service to these accounts. This involves dealing directly with households and individual companies who may be persuaded to provide insurance and pension benefits for their employees. Special skills and expertise are clearly involved.

(b) Loan Origination and Servicing: Because loan origination and servicing involves dealing directly with individual borrowers, this activity is well-suited to "retail" financial organizations--deposit banks and mortgage bankers. It is not as well-suited to life insurance companies and pension funds.

1. Origination: Origination involves determining the creditworthiness of an individual applicant for a mortgage loan. Also known as underwriting, it is the process of verifying the information on an individual's mortgage loan application--the individual's income, employment and credit history--and determining that the seller of the property that will serve as collateral for the loan has a clear title and that the appraised value of the property is sufficient to warrant approving the loan.

2. Servicing: Loan servicing entails collecting the periodic payments of principal and interest, handling any escrow accounts that may be used to pay property taxes and hazard insurance premiums, taking necessary actions to remind borrowers of late payments and taking the necessary legal actions for foreclosure and resale of foreclosed property when a borrower defaults on his loan.

(c) Securitization and Placement: These functions are elements of a securitized system. In an institution-based system, the institution that originates and services the mortgages (a bank) also typically hold those loans in its own portfolio; securitization is not involved and placement entails only sending the mortgage to the appropriate department of the bank. In a securitized system, however, these are crucial operations, involving special skills.

A mortgage-backed security (MBS) represents a claim on the stream of principal and interest payments generated by a pool of individual mortgages. A number of variations on this basic security structure are possible and putting that structure together is most appropriately accomplished by an investment banker (or merchant banker) to ensure that the legal and financial aspects of the security are, in fact, what they purport to be. Additionally, investment bankers serve important marketing and placement functions. For example, investment bankers typically advise life insurance companies, pension funds and large private investors (trusts, mutual funds) on their portfolio investment decisions and acquire appropriate investments for these clients. Investment bankers therefore know what their investor clients need and can structure the securities to make them fit those needs. For these reasons, investment bankers are in the most advantageous position in the market to bring together mortgage lenders and long-term investors.

Key limitations on implementing a security-based housing finance system are that (1) sufficient capital market activity (issuance and trading of securities for capital market investors) must exist and (2) originators must produce a sufficient volume of individual mortgages to make security issues large enough to be of interest to investment bankers and their investor clients. Otherwise, the cost of issuing mortgage-backed securities is likely to prove uneconomic.

ANNEX 5

USAID Development Strategy

MEMORANDUM

31 March 1995

TO: Ray Morton

FM: James Christian

SUBJ: Development Strategy, Armenia

1. Per your request through Steve, this brief memorandum attempts to capture the gist of our conversation yesterday regarding an AID strategy for Armenia. As you know, my task(s) here didn't directly involve either the economy or the financial sector, but rather helping the ROA develop its Housing Action Plan. Consequently, my comments on development strategy are not "studied" ones, but more the kind of impressions an economist picks up incidentally.
2. First, the timing of emphasis on financial sector development (including the development of an integrated housing finance system) is hostage to the economic recovery. The fundamentals are quite simple: the demand for financial services is a derived demand--no real economic activity, no demand for financial services.
3. Second, although it appears the economy has hit bottom, it also appears that a true recovery of lost ground has scarcely begun. Still focusing on the financial sector, the next year would look like a golden opportunity to prepare the ground for future development. The Armenians are very bright people, but even so, the financial sector serves much the same resource allocation functions in a market economy that the central planning apparatus does in a command economy and I doubt they quite have the handle on this. My brief discussions with people in and around the Armenian financial community suggests they have some grasp of the concepts and operations involved, but only a shallow one, and they have virtually no concrete experience with modern, market-oriented financial service operations. That practical experience can't emerge until the economy gets going again, but some very important work in the regulatory area (some is already going on), in system design (particularly in housing finance) and in training could take place in the interim.
4. Third, how to stimulate the economy? The quality of the data leave a lot to be desired--more so than in most 3rd World countries--but it certainly seems to me that open unemployment (never mind underemployment) has to be 25%-30% of the nonagricultural work force. The big plus is that this labor force is skilled. Armenia's economic isolation (closed borders, energy blockade etc.) is an extra burden, but even the low estimates of the annual remittances from abroad (\$60 mm and up) from the diaspora and from emigrated workers seem not to be showing up in investment. If a couple of merchant (investment) banks could capture even part of this flow, they might be able to reopen some of the factories now dead in the water, re-employ workers and initiate a cumulative

movement into economic recovery. While the borders are essentially closed to trade and while the energy shortage endures (neither will last forever, of course), the profit opportunities for an investment group may look somewhat distant and not ripe for the plucking. Nor is it clear how competitive Armenian industry is in today's global economy. In the near term, however, some stimulus could be generated in the housing/construction sector.

5. Many (not all) types of construction generally have important developmental advantages. Armenia will be a little different, but the general case is that construction is (a) labor intensive, (b) has a *relatively* low import component, so that it doesn't "leak" the way many manufacturing industries do and (c) in the case of Armenia, there's an unquestioned need for a variety of construction services--repair and modernization, completion of unfinished apartment buildings and so on. You might think of this as final demand, but remember there are also supporting industries, particularly building materials, furniture and fixtures, textiles, stone/clay/glass--all the stuff that goes into bringing a housing unit to the point of occupancy--that would be stimulated by a stronger effort on the housing side. You'll recognize that a lot of *these* industries are also labor intensive and relatively low import components. (You can make the same argument for commercial space--strip shopping centers, for example, though probably not high rise office buildings.)

6. While employment and income remain so depressed, however, and while we wait for the propitious moment to crank up the financial sector, especially the housing finance system, *the effective demand* for housing is very weak. That's where a variant of the merchant banking strategy might be played. Suppose the bank could pull together the capital to buy a whole (say, unfinished) building--there are a few of them around, I've noticed--pump in the capital to employ the workers and finish out the flats. If the finishes are somewhat upscale, a market might be found among the ex-pat community or even among Armenians whose incomes are not depressed to the average. The rental income alone would probably justify the investment. Alternatively, the merchant banking group might offer the finished units for sale and turn the capital over into another project. To jump-start the economy, of course, you'd have to repeat this scenario quite a few times, but that seems feasible if the capital and the organization can be channeled in that direction. (By the way, you might also notice how many rusting cranes, bulldozers and other construction equipment is lying dormant and deteriorating. My understanding is that equipment could be had for a price that would be hard to refuse, so, while you might have to refurbish this equipment (locals can do it), the purchase or lease price of it for completing construction would be almost inconsequential.)