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CROATIA HOUSING SECTOR ASSESSMENT

Prepared for

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Prepared by

Jerry Erbach
Mila Zlatic
PADCO, Inc.
1025 Thomas Jefferson Street, NW
Suite 170
Washington, DC 20007

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This report was prepared by Jerry Erbach, PADCO Senior Architect/Planner, and Mila Zlatic, an urban planning and development specialist of Croatian origin. The report involves two parts: 1) an assessment of the housing situation in Croatia and the four major cities of Zagreb, Split, Rijeka, and Osijek, and 2) a workplan for potential future technical assistance in the housing sector by the United States Agency for International Development (USAID).

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1 Introduction

The urban housing sector in Croatia has been virtually inactive since a period of fundamental transition began with the country's independence in 1991. Urban housing built during the previous 30-year period included a large number of multi-family apartment buildings that were developed through a solidarity approach and financing from the social housing funds. This approach has now been discarded in favor of one more able to respond to market conditions and opportunities. Under the new approach, the private sector will ultimately be responsible for providing affordable housing to all but the poorest segments of the urban population.

Housing in urban areas provided under the previous pre-independence approach included a large proportion of socially owned apartments in multi-family buildings. Housing throughout the rest of the country was comprised mainly of individual units built by private owners. Future emphasis in the housing sector will be placed on increasing available housing choices and on establishing an "enabling" environment through which public sector efforts will be aimed at supporting and guiding private sector development. The energies and resources of individual households, community groups, and commercial enterprises will be capitalized to the greatest possible extent.

1.1 USAID Involvement in Housing

USAID assistance to Croatia is focused on three main areas of activity: strengthening democratic institutions, restructuring the economy, and improving the quality of life. As an integral part of its effort to help Croatia address all three of these objectives, USAID has been working with city governments to improve the provision and management of urban infrastructure and services and to promote private sector development of residential land and housing. This housing sector assessment has been undertaken to help further this joint effort. A municipal management and infrastructure assessment has been carried out in tandem with this housing sector study. The results of the two assessments will provide a better understanding of the possibilities and constraints related to municipal management of infrastructure and services and the provision of housing. They will also help USAID formulate a program of appropriate technical assistance.

Based on the results of these assessments, USAID is considering the provision of one or more resident advisors with support from short-term technical assistance in order to improve municipal and housing sector performance in the four cities of Zagreb, Split, Rijeka, and Osijek. The intention is to increase and support democratic initiatives by improving the performance of citizen-responsive, municipal management, and expanding household access to affordable housing. Suggested indicators that could be used to measure the success of these efforts are shown in Table 1.1.

Table 1.1
Suggested Urban and Planning Related Indicators

Result	Indicator Definition	Target	Data Source	Frequency
Action-Oriented and Resource Based Development				
• Direct Intervention	Two public/private sector partnerships initiated for moderate-income housing and/or residential infrastructure	Yr. - # Cities 1 - 1 2 - 3 3 - 5	Contract Report	Annual
• Enabling Intervention	Lower cost of residential infrastructure as a result of better coordination and more efficient bureaucratic processes	Yr. - # Cities 1 - 1 2 - 3 3 - 5	Contract Report	Annual
Democratic Processes in County/City Planning				
• Plan Formulation	Citizen and community groups participate in the formulation stages of city plan	Yr. - # Cities 1 - 2 2 - 5	Contract Report	Annual
• Plan Implementation	Hold at least two public hearings per year on status of plan implementation	Yr. - # Cities 1 - 1 2 - 3 3 - 5	Contract Report	Annual
Sustainable Development				
• Self-financing infrastructure	Effect full cost recovery for two or more elements of residential infrastructure	Yr. - # Cities 1 - 0 2 - 1 3 - 2 4 - 3 5 - 5	Contract Report	Annual
• Environmental Improvement	Effect one sustainable major environmental improvement	Yr. - # Cities 1 - 0 2 - 2 3 - 5	Contract Report	Annual

Table 1.1 (cont'd.)
Suggested Housing Related Indicators

Result	Indicator Definition	Target	Data Source	Frequency
Management and Maintenance of Privatized City Housing Stock				
• Laws and Organization	Law passed and organization. mechanisms in place for housing maintenance and assistance to resident associations	Yr. - # Cities 1 - 2 2 - 3 3 - 4+	Contract Report	Annual
• Financial Mechanisms	Housing finance review completed and recommendations made concerning housing maintenance and/or renovation bank	Yr. - # Cities 1 - 1 2 - 3 3 - 4+	Contract Report	Annual
Enabling Environment for Private Sector Housing				
• Policies	Private sector housing policy considerations incorporated into city development plans	Yr. - # Cities 1 - 1 2 - 2 3 - 4+	Contract Report	Annual
• Programs and Projects	One affordable low- and moderate-income housing project on serviced city land	Yr. - # Cities 1 - 0 2 - 1 3 - 3 4 - 4+	Contract Report	Annual
Reconstruction of War-Damaged Housing				
• Single-Family Units	Guidelines set for sustainable reconstruction and financing of single-family housing	Yr. - # Cities 1 - 1 2 - 4+	Contract Report	Annual
• Multi-Family Units	Policies and programs in place concerning damaged multi-family apartment buildings	Yr. - # Cities 1 - 1 2 - 3 3 - 4+	Contract Report	Annual

1.2 Purpose of the Study

Consequently, the twofold purpose of this housing sector study is:

- to provide a housing sector assessment that focuses on the overall sector and on the four largest Croatian cities of Zagreb, Split, Rijeka, and Osijek — the assessment is intended to provide an overview of housing conditions within these areas and to examine key problems and bottlenecks that currently curtail the provision of affordable housing; and
- to elaborate a proposed workplan for future USAID technical assistance to the housing sector based on needs that have been identified in collaboration with local officials and on a practical strategy to improve sector performance.

1.3 Format of the Report

This report includes five chapters.

- Chapter 1 provides a brief introduction to the report, indicates the purpose of the assessment and its relation to USAID strategic objectives, suggests a set of quantifiable indicators that can be used to track municipal and housing sector performance, and presents the format of the report.
- Chapter 2 provides a general overview of the Croatian housing sector based on available data and local interviews.
- Chapter 3 presents similar data and observations for the four major cities of Zagreb, Split, Rijeka and Osijek.
- Chapter 4 provides a brief analysis of the housing delivery system, and examines some current issues and constraints within the sector.
- Chapter 5 proposes a work plan for the housing sector that is consistent with USAID policies and the needs of the four major cities.

2 Basic Overview of the Housing Sector

This chapter provides a general overview of the current housing situation in Croatia. It includes data and observations on the population and economy, basic characteristics of the housing stock, housing supply and demand, housing production, principal housing components, and an enabling framework for housing.

There is only limited statistical data for the 1991-95 period due to the war and the major governmental changes that occurred as a result of independence.

2.1 Basic Socioeconomic Conditions

2.1.1 Population

The 1991 Census indicated a total pre-war population of roughly 4.7 million people living in some 1.54 million households for an average of 3.1 persons per household. The average population density at the time of the Census was roughly 85 inhabitants per square kilometer. The average age of the population at this time was 35 years with a life expectancy at birth of close to 72 years.

2.1.2 Economy

Croatia's economy has been unevenly developed as a result of the country having previously been part of Yugoslavia. While Croatia is blessed with oil, for example, it has also had to import its electrical power from outside.

Table 2.1 presents some key employment data for the last several years. Employment and salary conditions will have a direct impact on household ability to afford decent housing. About 45 percent of the total population at the time of the Census were economically active. Less than 13 percent were employed in agriculture. Three years later, in 1994, there were close to 1.2 million people employed in both the private and social sectors or about 30 percent less than the number of people employed during the late 1980s. The unemployment rate prior to the war was close to 10 percent, but is now almost twice as high. The average number of people registered with the employment office who were unemployed in 1994 was 243,324, of which 130,482 or 54 percent were females (see Table 2.2).

Table 2.1
Basic Employment Data

Year	Total Population (x 1000)	Total No. Persons Employed (x 1000)	No. Persons Employed (x 1000)	
			Construction	Housing Utilities and Public Services
1994	4,777	1,211	59	23
1993	4,779	1,238	66	23
1992	4,782	1,261	76	24
1991	4,786	1,432	99	28
1990	4,778	1,568	119	31
1989	4,767	1,618	128	33
1988	4,757	1,624	135	33
1987	4,740	1,628	139	33
1986	4,722	1,595	137	33
1985	4,702	1,551	136	33

Source: 1995 Statistical Yearbook, Central Bureau of Statistics

Table 2.2
Unemployment Data

Year	Average Annual No. Unemployed	Unskilled	Skilled
1994	243,324	52,026	79,249
1993	250,779	49,594	80,729
1992	266,568	51,202	86,703
1991	253,669	51,439	81,618
1990	160,617	34,541	48,617
1989	139,878	30,002	42,379
1988	134,555	29,881	41,352
1987	122,800	28,951	36,459
1986	122,711	29,979	34,532
1985	119,667	29,377	32,374

Source: 1995 Statistical Yearbook, Central Bureau of Statistics

The average worker's gross monthly pay during the period from January to September 1994 was about 2,850 Kuna with a net, after tax income of about 1,895 Kuna. Per capita GDP in 1993 was $2,841 or about 3.7 percent less in real terms than it was for the previous year. Virtually all of the recent economic data reflect the major downturn in economic activity caused by the war.

2.2 Basic Characteristics of the Housing Stock

The 1991 Census counted a total of 6,694 settlements and some 1.57 million housing units. Of these units, 1.46 million or 93 percent were permanently occupied. Roughly 878,000 units or about 56 percent were considered to be "urban" housing. The overall number of dwelling units according to the Census was also slightly higher than the number of households. A large part of this surplus occurred in rural areas, while urban areas experienced a persistent shortage of suitable housing for poor, young, and self-employed households. The high rate of permanent occupancy and the small difference between the number of households and housing units also reflected a housing market in which household mobility was rather low. Once a household moved into a housing unit, it generally stayed there for quite some time.

2.2.1 Physical Characteristics

The almost 30 years of substantial housing construction produced an overall housing stock that was relatively new and high in quality. Roughly 80 percent of the 1991 housing stock was built after World War II. Most of the individual housing units were built of brick and concrete, while multi-family apartment buildings were generally built according to the prevailing international standards for construction.

Almost 80 percent of all dwelling units were also serviced with water, electricity, and sewage evacuation. The percentage of serviced units in urban areas was an even higher 95 percent, due to the large number of "socially owned" apartment units that were provided with a full package of infrastructure.

Relatively small individual housing units with one or two floors comprised more than 80 percent of the country's housing stock in 1991, even though a very large number of socially owned apartments had been built in the major cities. The average dwelling unit size for all housing units was about 71 square meters, which, given the average household size, resulted in a very comfortable 24 square meters per person. The average dwelling unit size in urban areas was about 67 square meters, with a still impressive average of 23 square meters per inhabitant.

Croatia's housing stock in 1991 was also characterized by 50,765 unfinished housing units. The majority of these unfinished units were individual houses being built on an incremental basis by their owners. About 80 percent of the unfinished units were privately owned. During the period from 1991 to 1994, some 38,443 unfinished units were completed and, as a result, the number of unfinished units dropped to only 20,181 in 1994. This was only 40 percent of the number of unfinished housing units that existed just three years earlier in 1991. The substantial decline in the number of unfinished units meant that only about 7,859 new units were started and still under construction during the same four-year period. Starting the construction of a new housing unit was obviously made more difficult by the war and the accompanying economic difficulties.

While there has been little evidence of shantytowns or seriously substandard housing in the major cities, the "illegal" construction of housing units, or those built without building permits or full government approval, is not a new phenomenon. Even in the 1970s, it was estimated that this type of housing included up to 30 percent of all single-family units in the former Yugoslavia. Given the current economic conditions and the lack of clear housing policies and regulations, "illegal" housing construction is likely to increase. It has already become a serious problem for the city of Split.

2.2.2 Housing Occupancy and Ownership

The average number of persons per dwelling unit in Croatia in 1991 was close to 3.1 and only a marginally lower 2.9 in the urban areas.

Roughly 76 percent of the housing units in 1991 were privately owned, including a number of units in urban areas that were built on land rented from the city. The remaining 24 percent of the housing units were socially owned and mainly concentrated in the urban areas.

The socially owned housing stock consisted of:

- around 30,000 dwelling units that were nationalized during the 1956-59 period. The nationalization process allowed an owner to keep only two apartments so that buildings with three or more apartments were subject to nationalization. If a building was even partially nationalized, the state and later the cities, after they had assumed ownership rights in the early 1970s, were obligated to maintain the building's exterior, common areas, and utilities. Apartment owners were required to pay the same maintenance fees as renters. The majority of the nationalized dwelling units were located in Zagreb and other large cities.
- a limited number of post-war dwellings that continued to be owned by the state. These units were frequently distributed to national level politicians and other recognized citizens, such as artists and scientists, to encourage them to remain in the city.
- a limited number of housing units for households with low income. These were financed by a portion of the gross income obtained from the enterprises located within a city's boundaries.
- a substantial military housing stock.
- a substantial number of units owned by the enterprises.

Occupants of socially owned dwellings had very strongly protected tenancy rights. Not only did they have the right to live in their dwelling units indefinitely, they could also transfer this right to direct family members, such as spouse and children, who were living in the same household. Socially owned apartment units were frequently intermixed with those that were privately owned in the same buildings.

The lack of "titular" owners to take active responsibility for the efficient management and maintenance of socially owned housing units was a serious problem. Maintenance responsibilities were ill-defined because the formal, if unregistered, "owners" of the dwellings were the enterprises and socio-political communities; the supposed "managers" of the buildings were the housing communities; and the ultimate "users" of the dwelling units were the tenants who, under the Constitution, enjoyed permanent and guaranteed tenancy rights. The tenants were obliged to pay rents that, for the most part, did not even cover the cost of routine maintenance. The muddled division of responsibilities among the various parties concerned by socially owned housing proved to be a major obstacle to the efficient management and maintenance of these units.

2.2.3 Housing Management and Maintenance

Large-scale housing construction in the cities was a major concern of the Yugoslav and Croatian governments following World War II. Housing policy over the ensuing 40 years focused heavily on public sector and enterprise construction of housing units for the growing number of urban workers. The construction boom in urban housing continued well until the 1980s, when the economy, and the housing sector, entered into a recession and investment levels decreased.

Even before this recession, however, Yugoslavia and the Republic of Croatia had abandoned the heavily state-run construction, distribution, and maintenance of housing followed in the Soviet Union and other Eastern European countries in favor of a more market-oriented approach. The

economic reforms of 1965 set new policies for the housing sector that encouraged savings and attempted to increase housing rents to market levels. The progressive increases in rents, however, were discontinued in 1968 in order to reduce the accompanying pressures to raise wages.

Realizing the rapidly growing burden of trying to maintain a very large number of socially owned housing units located throughout the country, the government, in the 1960s, tried to sell part of the housing units under its control to the tenants, with little success. In the early 1970s, the state transferred the ownership of its housing stock to the Republics and Autonomous Provinces who subsequently turned them over to the cities.

Self-managed housing communities were made mandatory under the system of socially owned housing. These communities were essentially responsible for the organization and management of housing markets. The result, however, was even greater inefficiencies in housing policy and management. Economic criteria were no longer used to govern the construction and/or use of socially owned housing.

Housing Privatization

The 1995 Statistical Yearbook showed that some 271,000 dwelling units with tenancy rights were sold by the end of 1994. Some 39 percent of these purchases were made by a single payment of which about 7 percent were made in hard currency. Privatization of the entire socially owned housing stock is to be completed by July 1, 1996.

Privatization has taken place very rapidly without the establishment of accompanying procedures for the management and maintenance of the housing stock. A new residency management act is one of the key laws now under review by Parliament for approval. Despite the efforts made to privatize former socially owned housing units, not all of the public sector housing stock can be privatized at the same time or under exactly the same conditions. The privatization of the military housing stock, for example, was only started in 1995 and will take longer to implement. Housing units that were nationalized after the World War II cannot be privatized until the denationalization law has been approved by Parliament and decisions have been made concerning the return of property and/or payment of compensation to the former owners.

Resident Associations

The new law pertaining to the management and maintenance of multi-family housing will be based on the principle that each building unit is economically independent. A common solidarity fund will no longer be involved. Unfortunately, many of the buildings having the greatest need for maintenance are inhabited by the poorest households who are least able to pay for maintenance. Many of these tenants have expended all of their financial resources and savings to purchase their dwelling unit and can no longer muster the necessary funds to maintain or repair the building. The purchase of an individual dwelling unit in these cases has proved to be less of a financial burden than its repair and maintenance.

Each apartment building with more than three dwelling units was required to have an organized housing association and to have an account in the municipal housing organization. Under the new

law, residents of buildings with less than 10 dwelling units will be able to manage their own building maintenance, while those with more than 10 dwelling units will have to sign a contract with a maintenance company.

Maintenance

Private, single-family units were maintained by their owners. Socially owned apartment buildings and the supporting utility systems were maintained by the municipalities through the municipal housing organizations. At the same time, large enterprises and the army maintained their own considerable housing stock.

Minor maintenance bills were covered by withdrawing funds from an account for the dwelling unit. Larger maintenance requests had to be financed through the central municipal housing maintenance account. Most often, there was only enough money to cover emergency requests. Management of the municipal housing organizations or fund could hire either public or private contractors to carry out the required maintenance or repair work.

Article 5 of the proposed Residential Building Management Act stipulates that the maintenance of the common parts and facilities of a residential building shall include:

- regular maintenance in order to keep a building in a safe and healthful condition for normal habitation;
- urgent repairs; and
- special maintenance and improvements that are not carried out on a normal basis.

The basic nature and timing of these different types of maintenance will be determined by a competent national Ministry.

Under the new law, it is anticipated that each building unit will have its own account into which both maintenance fees and rents will be deposited. The way in which maintenance rates will be set remains to be determined. Previous rents and maintenance fees have been much too low to cover the costs of any major maintenance or repair. Apartment owners are generally reluctant to put aside a substantial amount of funds against the possibility of a major maintenance expense.

2.3 Housing Supply and Demand

2.3.1 Housing Need

Prior to the war, there was a very close relationship between the total number of households and dwelling units in the country. This included both rural housing and a large number of urban housing units built to accommodate the migration of workers to the cities. Despite the impressive amount of construction, serious shortfalls occurred in meeting all of the housing needs related to low income and self-employed urban families. The high housing costs and constraints in obtaining access to socially owned housing made it difficult for these households to obtain decent affordable shelter.

2.3.2 Reconstruction of War-Damaged Housing

The character of housing need in large areas of the country has dramatically changed since independence and the beginning of the war. Many dwelling units have been destroyed, damaged, or abandoned in rural areas and in several major cities as well. Significant population migration to the cities has become a major national and city level concern for those areas that have received the greatest number of displaced persons and refugees. Sector East, which will soon be reintegrated into Croatia, requires a major reconstruction of its war damaged housing stock.

Damage assessments show that the war had a devastating effect on 49 out of the 102 former communes (48 percent) and some 600 settlements (about 9 percent), including the major cities of Osijek and Vukovar. An estimated 113,000 dwelling units, roughly 20 percent of the housing stock, were damaged or destroyed. Damaged housing included about 16 percent of the housing units in the areas that have been under Croatian Government control since 1991, as well as an estimated 50 percent of the units in the territories under occupation or United Nations protection. Many of the damaged or destroyed houses were set on fire or razed as a result of military tactics or heavy shelling. Schools, hospitals, factories, and cultural buildings were also heavily damaged or destroyed during the war.

About 250,000 people within Croatia fled from war-affected areas to safer, urban areas at the start of the war. Another 300,000 refugees relocated to Croatia when war began in Bosnia. As of March 5, 1996, there remained about 180,000 displaced persons (Zagreb — 29,000; Split — 11,000; Rijeka — 7,000; and Osijek — 29,000) and almost 183,000 refugees (Zagreb — 51,000; Split — 13,000; Rijeka — 10,000; and Osijek — 9,000). Together, there continued to be about 363,000 displaced persons and refugees in the country.

Although government policy calls for the eventual return of displaced persons to their former homes, many of them have already been relocated for several years and have found new jobs, homes, and friends. As time goes on, they will be even less likely to return to the difficult, war-ravaged areas from which they came. The unexpected addition of a large number of inhabitants to Croatia's major cities has increased the pressure on the local housing delivery systems to produce affordable housing, which, under current conditions, they are not able to do.

The War Damage Assessment Act was proclaimed by Parliament in November 1991 in order to determine the scope of war-related damage. Based on the results of these assessments, the Croatian government also passed an ordinance in 1993 that specified the development of four major reconstruction areas: Vukovar, Konavle (Dubrovnik), Hrvatska Kostajnica, and the former municipality of Slunj. Reconstruction plans are being prepared for government approval and financing through the central budget. The Ministry of Reconstruction has initiated the basic repair of some 20,000 housing units at an average cost of 130,000 Kuna (around US$25,000) per unit. The challenge for the private sector to produce and/or repair the remaining 90,000 units is substantial, particularly in light of the current period of transition and degree of stagnation in the housing sector.

2.4 Housing Production

Annual housing production for the area of Croatia during the 30 years prior to independence ranged from 25,000 to 30,000 units (see Figure 2.1). The annual number of completed dwelling units peaked in 1974 at 34,652 units, mainly as a result of general economic prosperity and the need to accommodate the migration of workers to the cities. After 1974, both resources and demand decreased until the annual output reached a low point of only 7,767 units in 1992. Since then, there has been a small but steady increase in the annual number of completed units throughout the country. This number rose from 8,343 dwelling units in 1993 to 9,710 units in 1994. Recent housing completion levels, however, are only between 25 and 33 percent of what they were during the previous 30-year period of sustained housing development. The war, economic difficulties, and unresolved constraints in the delivery of housing have been largely responsible for the slowdown in housing production.

There were two very different but clear approaches to housing construction in Croatia prior to independence. They included:

- a majority of individual housing units built by private owners on an incremental basis; and
- a large number of socially owned, urban apartment units in high-rise buildings built by construction firms.

Incremental, owner builder construction required a substantial effort and involvement by the eventual house owner and an extended period of time to complete a housing unit. The basic approach however, was very flexible and directly responsive to the houseowner's needs and financial capabilities.

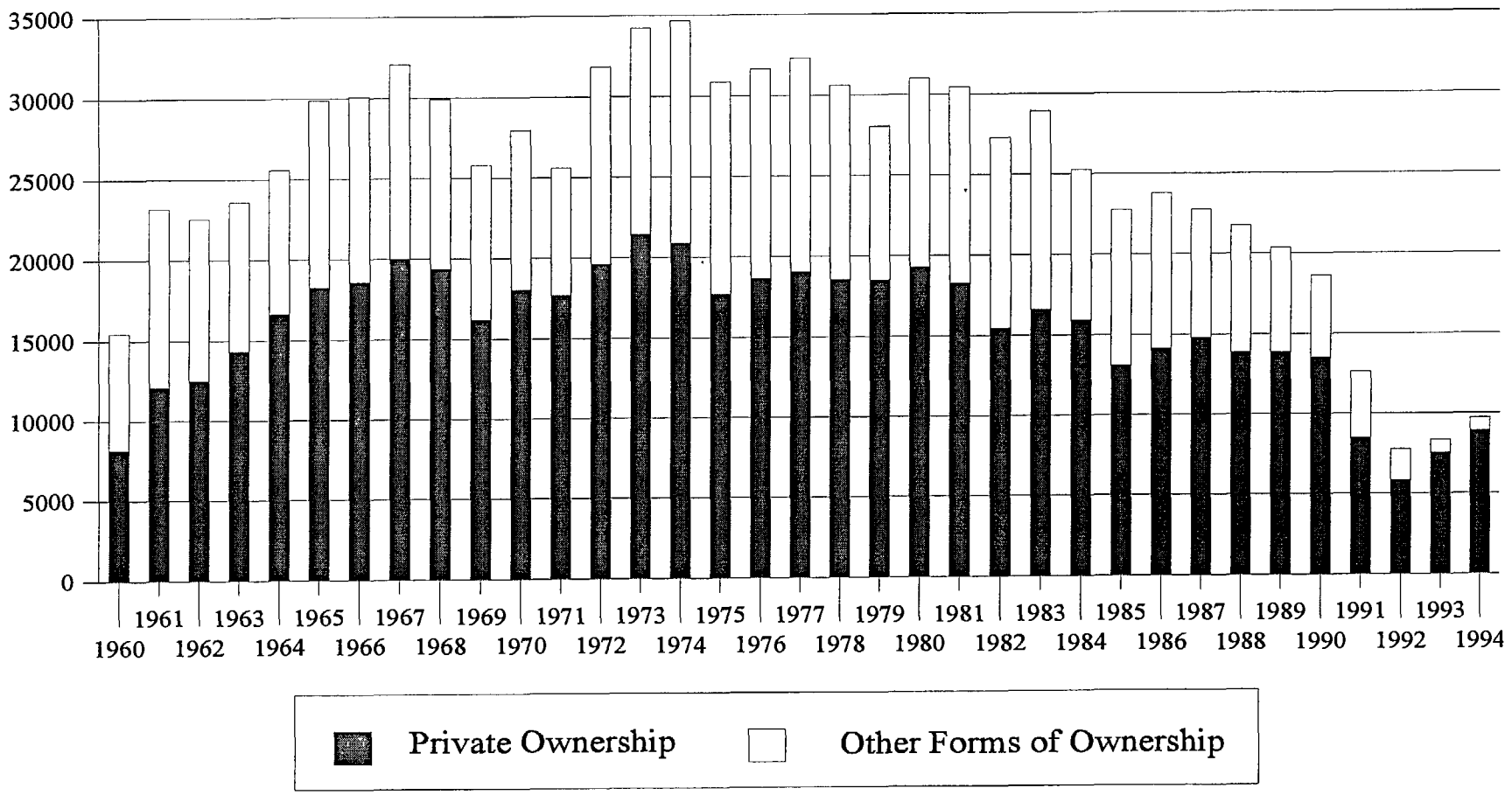
Socially owned apartment units were the predominant form of new housing construction in urban areas and were built by large construction companies with little input or choice offered to the eventual user. The entire process was planned and organized by formal housing agencies.

The social housing approach has virtually ceased since Croatia became independent. It is estimated that only about 500 socially owned housing units were built in 1994, compared to almost 14,000 housing units of this type that were built in the peak year of 1974. The small number of social housing units built in 1995 were destined primarily for widows and handicapped soldiers from the war.

The decrease in construction of socially owned housing units was one of the main reasons why the overall rate of completed housing units had begun to experience a decline even before independence and the start of the war. The annual number of completed residential units further declined by some 3,700 units between 1990 and 1994 and reached only 52 percent of the level of construction achieved in 1990.

Although new laws and procedures on housing-related issues should increase private sector production of housing, the government will continue to build a limited number of social housing units for low-income families.

Figure 2.1
Number of Dwelling Units Completed by Year for Croatia
(1960-1994)



2.5 Principal Housing Components

2.5.1 Land

The maximum area of agricultural land that an individual could legally own following the end of World War II was limited to 10 hectares. Large farms were either divided into smaller units or converted into socially run enterprises. The overwhelming majority of the land in rural areas, however, continued to be privately owned.

A large amount of buildable land in urban areas was nationalized during the period between 1956 and 1959.

Land and property ownership within urban areas were recorded in a cadastre held by the city court. The fact that land within the city became "socially owned" eliminated any practical need to keep this legal property cadastre up-to-date. The plans, zoning systems, and site layouts for new urban development did not consider land ownership in either their conception or implementation. Only the use of the land was recorded and kept up-to-date, since it helped to determine the amount of fees to be collected by the government for using the land.

2.5.2 Infrastructure

According to the Law on Utilities and Public Services Management, the central government is obliged to decentralize the management of utilities and public services to local self-governments and/or the cities. This will make them legally responsible for organizing the provision of utilities and public services and for ensuring their maintenance. The law also regulates the form and sources of financing to be used for infrastructure and services and enables the largest part of public services to become subject to market competition. Local self-governments have the right to offer concessions for all public service activities except for water supply/drainage and electricity. Special expert groups are now working on the preparation and development of financially sound concessions for a broad range of public utilities and services.

The utilization of market rules is another characteristic of the new management approach for city infrastructure. The reorganization of several utilities and public service enterprises in Zagreb, for example, is now in progress. Separation of the basic public service function and its expenses from the large number of secondary operational functions whose additional costs raise the price of utilities and public services is the basic principle that is now being followed. Reorganization is proceeding through the establishment of profit and expense centers (e.g., limited liability company, privately owned facilities/equipment) that are subject to market competition and have their own budgets and planned incomes. The Zagreb Electric Streetcar and the City Gas Company are two examples of this new approach.

The processes of merging similar utilities and public services organizations, such as water supply and wastewater treatment, the receiving, shipping, and storage of food products, the organized free time of children and youth, etc., have begun in order to increase operational effectiveness. Significant advantages are expected from the anticipated economies of scale.

Infrastructure in the past was provided by the city and its related enterprises and, in the case of electricity, by a public company. Housing-related infrastructure can be either installed by the city

with fees charged to the users or provided directly by investors. Infrastructure payments are made when obtaining a building permit.

2.5.3 Construction

Two major types of housing construction or "paths" to housing were followed in order to obtain affordable housing in the past. They were individual units built by owner builders and multi-family apartment buildings built by contractors.

Owner Builders

The incremental, owner builder path to housing has been the predominant way through which private individual housing units have been built. Owner builder housing has been substantially aided by remittances from workers in Croatian cities and abroad. Access to remittances has allowed households, particularly in small towns and rural areas, to obtain acceptable housing on an affordable basis.

Developers/Contractors/Cooperatives

There are no formal housing developers in Croatia. A small number of construction companies are finishing a limited number of villas and apartments that have been put up for sale or rent. Low incomes and little access to credit make it almost impossible for most households to buy these units. The lack of buyers has resulted in many of these units being rented out at an average rent in Zagreb of about 10 DM per square meter. A few cooperatives have begun acting as developers in order to produce a small number of units and essentially to stay in business.

Public Housing

The central government assumed responsibility for meeting the housing needs of the most disadvantaged population in the past. City authorities initiated and implemented the planning, financing, and supervision of various forms of social housing construction within the overall framework set by the central government. The major city governments continue to believe that they should use funds from the city budget to build subsidized housing for the most disadvantaged groups. The resulting units will be rented or allocated to households based on their social status. Preference will be given to poor and disadvantaged households whose status will be reviewed every three years.

2.5.4 Costs and Financing

One of the major issues facing the Croatian housing sector concerns the very limited access to formal housing finance.

Two principal sources of funds were used in the past to finance the quasi-totality of new housing construction in Croatia. These were:

- individual household finances; and
- collective housing funds supported by salary deductions from enterprise and public sector employees.

Individual household finances included current incomes, savings, and, to a significant degree, remittances. Household finances were largely responsible for financing the construction of individual, owner-built housing. Remittances from expatriate workers were particularly beneficial to the construction of privately owned housing built outside of the urban areas. The amount of remittances grew steadily during the 1970s and 1980s and more than doubled between 1985 and 1990, when it increased from the equivalent of US$3.3 million to US$8.8 million. It has been estimated that US$22 billion, or roughly 70 percent of the documented remittances to the former Yugoslavia, was spent on housing.

Monies accumulated by the solidarity housing funds were the major source of housing finance in the urban areas. Each enterprise or organization was required to deposit an average of around 3 percent of its employees' gross salaries into a common housing fund. The actual percentage to be deposited varied from one year to the next and among companies. Many of the larger organizations and enterprises allocated more than the required amount by depositing part of their corporate profits into the housing fund in order to house a greater number of their workers. Roughly half of the monies from these funds were used to build new socially owned housing. The other half was used to cover the costs of building low-income public housing, implementing rent subsidies for low-income tenants in public housing, developing land and infrastructure, and, later, building a limited number of housing units for war veterans.

State and local government agencies, as well as the state-run enterprises, made use of the same system to provide housing for their employees. Only a relatively small number of units were financed directly through the government budget. The military built and managed the largest number of these budget-financed units. They used them to house army officers and employees working in military-related industries and institutions (e.g., medical, scientific, recreational, etc.).

The construction of multi-family apartment buildings in urban areas was largely dependent on the amount of money in the housing funds. Apartment buildings, and a few single-family houses as well, were constructed on a contractual basis by socially owned construction companies. There was only limited competition and/or choice in the supply of urban housing. Enterprises and/or individuals could either buy dwelling units directly from the construction firms or, which was more often the case, through the self-managed housing communities.

Enterprises were solely responsible for managing the housing funds under their control and for extending housing privileges to their employees. They could allocate additional resources to the housing fund and could provide either loans or "free" apartments to their employees. Low-interest loans could be provided for purchase of apartments, reconstruction or improvement of existing units, construction of new houses, provision of down payments for commercial loans, etc. Free apartment units, which had been purchased or had their construction financed by the enterprise, could be given to employees once a non-refundable down payment ranging from 5 to 15 percent of the cost of the apartment had been paid. Loans from commercial banks could be obtained to make this down payment.

An employee who wanted to access the housing fund in order to improve his/her shelter situation was put on a list for a loan to buy, build, or renovate a housing unit, or to obtain a free, socially owned apartment.

The main advantage of this approach was that it successfully transferred almost all of the burden for urban housing subsidies from the government to the enterprises.

There was, however, very little access to commercial credit. Even though legislation was enacted to support collateralized lending, the banks showed little interest in making mortgages for housing. A limited number of loans were obtained, but only accompanied by strong guarantees on the income of the borrowers. Commercial banks generally required a down payment amounting to almost a third of the loan, which was often payable in hard currency. Interest rates were generally fixed with annual rates ranging from 5 to 10 percent until the 1980s and from 10 to 18 percent during the last few years. The maximum repayment period was 30 years.

2.5.5 Affordability

There was relatively little concern about housing affordability while the solidarity-based housing funds were in operation. Housing standards and costs were high and there were no limitations on the size of dwelling an individual could purchase or build using his own resources. Regulations were made, however, concerning the maximum per person area of a dwelling unit that could be financed through the housing fund.

The prices of new apartment units were high both in absolute terms and in relation to personal income. The average price of a finished dwelling unit built by a typical construction firm ranged from 1,000 DM to 2,000 DM per square meter. These costs are comparable to some of the highest average costs in Europe and the United States.

Inadequate controls on costs during actual construction was one of the reasons for the high construction costs. Other reasons included high infrastructure and land preparation costs, the low efficiency of the construction sector, which often took years to complete a building, and the relatively high costs of local building materials.

Household surveys show that workers with higher levels of education were overrepresented in the socially owned housing stock. This situation also applied to private owners who were able to get loans under favorable conditions. Segments of the population that were excluded from the system and unable to obtain affordable housing included mainly poor and self-employed households. Households that built housing without obtaining full formal approval were also excluded from the system.

Dwelling unit rents were calculated on a square-meter basis according to the quality, age, and degree of services within the unit. Low levels of rents were generally applied except in a few cities. The percentage of household expenditures that were devoted to rent and utilities in the mid-1980s was very low and totaled only around 6.2 percent (including 4.5 percent for rent and 1.7 percent for utilities).

Attempts were made in the 1960s to establish acceptable economic rents for socially owned housing units. Efforts were abandoned, however, when problems occurred in attempting to apply the successive increases in the rents. Since then, rents have been periodically raised according to political and not economic considerations.

The overall amount of funds available for housing construction has been dramatically reduced by the cancellation of the Law on the Allocation and Distribution of Funds to Meet the Housing Needs of Workers in 1992 and by the war-related decline in both government and individual financial resources for housing. The decline in individual household finances and the lack affordable loans from the local banks have been particularly hard on younger families attempting to acquire their first housing units. The lack of affordable housing has encouraged a growing number of young professionals to consider working abroad.

2.5.6 Housing Subsidies

Urban areas have traditionally derived the greatest benefit from housing subsidies. Current national level subsidies are focused on war-related widows and disabled soldiers. Roughly half of the revenues obtained by the national government from the privatization of social housing units were used to fund the construction of housing for these victims of the war.

In the past, there were two basic types of subsidies related to urban housing:

- subsidies imbedded in monthly rents and maintenance and other fees, which were controlled and often inadequate to cover even the cost of their administration; and
- subsidized interest rates based on the difference between the nominal lending rates and the opportunity cost of money or rate of inflation.

Self-help housing cooperatives were also able to benefit from tax deductions on building materials, which could result in cost reductions ranging between 20 and 25 percent.

2.5.7 Banking Sector

Commercial banks are the most significant institutions in the financial system of Croatia. There are now approximately 50 operational banks in the country. The majority of these banks are related to specific geographic areas as reflected in their names (i.e., Medimurska, Dalmatinska, Zagrebacka, etc.).

Because credit played only a minor role in the former socialist system, banks in former Yugoslavia, and now Croatia, were both institutionally and economically handicapped. They were not able to offer loans based on market criteria, but were encouraged to lend money according to the prevailing political agenda. Banks were also expected to return any surpluses or profits to the enterprises that were represented on their board of directors.

Local and regional banks are more sensitive to local business cycles than national banks and generally have a more accurate view of the development possibilities and priorities within a region. They are often well-positioned to offer credit for the most profitable and locally beneficial projects and can have a special role to play in financing regional development. They can

offer innovative, non-tax instruments for the financing of specific projects involving urban infrastructure and housing, as well as perform the crucial link of "lender" in issuing municipal bonds.

The role of local and regional banks in local development can include the:

- mobilization and orientation of domestic capital;
- participation in the financing of reconstruction;
- attraction of foreign capital; and
- mediation in securing credits from international finance institutions.

Since the real process of bank rehabilitation began only in 1994, most of the local and regional banks still lack many of the basic skills required to deal with market economies. They face a continuing crisis in making the transition to a market-based system and are basically inexperienced in key areas, such as the assessment of credit risks.

Although legislation has been enacted to support collateralized lending, banks have previously shown little interest in providing mortgage lending for housing. The small number of housing loans that were issued required very strong guarantees on income.

Distress borrowing has dominated the demand side of the credit market since independence and the start of the war. A substantial increase in the spread between the cost of money and interest rates occurred during 1992 and 1993, which enabled banks to make considerable amounts of money. Many small banks are in fact overcapitalized and would willing to make housing loans provided they could also increase their deposit base. The role of financial institutions in the mobilization of savings and the allocation of funds to interested investors is an area that requires further investigation.

Recent legal initiatives have established the broad operational framework for the banking sector, including much of the basic foundation required to rehabilitate the sector. These laws include:

- Law on the National Bank of Croatia
- Law on Banks and Savings Banks
- Law on the State Agency for Deposit Insurance and Bank Rehabilitation

Several banking-related operations are not covered by these laws and require additional legal clarification. Among others, they include bankruptcy, the use of collateral, and trading in securities. Privatization legislation also remains to be completed.

Availability of Funding

A limited number of home buyers in the past were able to obtain employer guaranteed loans from commercial banks with repayment periods up to 30 years. The limited number of households that used these loans to build legal, privately owned housing were able to benefit from substantial subsidies due to the below market interest rates.

The Zagrebacka Banka is one of the two largest banks in the country and has 25 branch offices. It is the major savings bank in Croatia and uses funds from these savings to make its loans. It has been making a limited number of housing related loans since 1993. Loans are expressed in German marks as a hedge against Croatian inflation, although all transactions are carried out in local Kuna. Housing loans represent around 83 percent of the Bank's individual loans, with the bulk of these loans going for home improvement and renovation.

Lending is extremely cautious in order to reduce risk. To obtain a loan requires a substantial deposit; a bank account and good credit record on the part of the borrower; and three guarantors. Although the Bank is legally able to execute and take over ownership immediately if the loan is not repaid, this policy is not practiced. Foreclosure, although legally possible, is considered to be an undesirable practice. If the borrower does not pay within 30 days, a warning letter is sent. A letter is also sent to the guarantors after 60 days.

The amount of the loan depends on the amount of money held in a particular savings account and the period of time that the money has been in the account before the loan has been issued. Ten percent of the loan amount must have been held in the savings account for at least six months. Twenty percent is required if the account has been open for only three months and five percent if it has been open for twelve months or more.

The borrower must deposit one-third of the total loan in the bank and keep it there for the duration of the loan. The interest accrued on this deposit can vary, but is generally around 5 percent. The maximum loan term is 15 years and the annual interest due on the loan is about 9 percent. There is a loss of close to 4 percent per year on the funds kept as a deposit in the bank.

The amount of the loan typically covers the entire price of the renovation or housing unit. The amount deposited in the Bank therefore represents a form of down payment, although interest, in excess of interest accrued on the deposit, is being paid on the full loan amount. The payment-to-income ratio is calculated at 50 percent, provided that the one-third loan deposit has been made. In the few cases when it is not, the payment-to-income ratio can go down to 33 percent. Most people borrow the maximum possible.

The Bank approves about 500 loans per month based on documentation that includes the title to the property and submission of a construction budget. While construction loans were previously paid in cash, the bank now pays the bills directly to suppliers based on the results of on-site inspections.

Table 2.3 provides some basic information on loans made by Zagrebacka Banka during 1995. The average reconstruction loan has been 20,000 DM (US$14,000). The maximum allowed for the purchase of a housing unit has been 200,000 DM (US$140,000). The majority of loans have ranged between 100,000 and 115,000 DM (US$70,000 and 80,000).

Table 2.3
Housing Related Loans Made by the Zagrebacka Banka— 1995

Item	Number of Loans	% of Loans in Area	% of Total Loans	Amount in DM	Amount in Kuna	% Amount in Area	% of Total Amount	Ave. Loan Amount (Kn)
Total Loans								
Housing Unit Purchase	1147	17.3	17.3	72093517	263021364	42.0	42.0	229312
Housing Construction	382	5.8	5.8	9432150	34537096	5.5	5.5	90411
Housing Reconstruction	459	6.9	6.9	11652765	41811809	6.8	6.8	91093
Land Purchase	12	0.2	0.2	726750	2651428	0.4	0.4	220952
Home Improvement	4639	69.9	69.9	77713119	283185885	45.3	45.3	61045
Total	**6639**	**100.0**	**100.0**	**171618301**	**625207582**	**100.0**	**100.0**	**94172**
Zagreb Loans								
Housing Unit Purchase	712	27.8	10.7	52149123	191291283	59.5	30.4	268668
Housing Construction	62	2.4	0.9	3057000	11245912	3.5	1.8	181386
Housing Reconstruction	99	3.9	1.5	3299500	11388885	3.8	1.9	115039
Land Purchase	4	0.2	0.1	501500	1826865	0.6	0.3	456716
Home Improvement	1687	65.8	25.4	28690500	104479018	32.7	16.7	61932
Total	**2564**	**100.0**	**38.6**	**87697623**	**320231963**	**100.0**	**51.1**	**124895**
Osijek Loans								
Housing Unit Purchase	72	28.0	1.1	2261000	8353373	41.6	1.3	116019
Housing Construction	11	4.3	0.2	242000	895563	4.4	0.1	81415
Housing Reconstruction	5	1.9	0.1	112000	411450	2.1	0.1	82290
Home Improvement	169	65.8	2.5	2825300	10312228	51.9	1.6	61019
Total	**257**	**100.0**	**3.9**	**5440300**	**19972614**	**100.0**	**3.2**	**77714**
Rijeka Loans								
Housing Unit Purchase	39	30.7	0.6	1873202	6889552	48.5	1.1	176655
Housing Construction	19	15.0	0.3	734500	2687427	19.0	0.4	141444
Housing Reconstruction	2	1.6	0.0	32550	121656	0.8	0.0	60828
Home Improvement	67	52.8	1.0	1223000	4473951	31.7	0.7	66775
Total	**127**	**100.0**	**1.9**	**3863252**	**14172586**	**100.0**	**2.3**	**111595**

The Bank has been able to approve all of the loan requests in Zagreb, which make up about 90 percent of its portfolio. There would be greater demand for housing loans if the terms were made less rigid and difficult. The biggest problem, aside from generally low household incomes, has been the inability of potential borrowers to make the deposit of one-third of the value of the house. Removing the large deposit requirement would enable households with average incomes to borrow between one-quarter and one-half of the cost of a modest housing unit.

Limited National and Local Funds for Residential Development

There are very limited funds from the national budget that can be transferred to local government units for development. The combined funds of municipal, city, and county budgets comprise less than 10 percent and on the average between 5 and 7 percent of the amounts required to finance urban infrastructure and services. The separate incomes of the counties, cities, and municipalities are even more limited. As a result, only the most essential development projects can be financed with public funds. All remaining investment projects have to be based on private and other sources of funds. The formation and support of institutions and instruments that can promote the effective use of regional financial resources and can attract capital into the area are essential for future development.

Local Bonds

Local bonds are capital market securities that are issued by local government bodies or their authorized agencies with the aim of collecting the necessary capital to finance programs of local public interest.

Local bonds are heavily dependent on the tax system. The tax system influences the issue of local bonds by exempting the income generated by the bonds from taxation. Bonds are a simple and direct way to finance local public sector development needs by private rather than public sources. Exempting local bond income from taxation essentially subsidizes the capital expenditures of local communities.

2.6 Enabling Framework

2.6.1 Planning

There are three basic planning levels in Croatia: national, county, and city. The new National Spatial Plan will provide the basic planning strategy and policy guidelines to which all other plans will be required to adhere. According to the law, this plan must be approved by the Parliament once opinions have been given by units of local government and their representative bodies. The plan must also be announced in the official gazette for public review.

The new National Spatial Development Plan for 1999 will attempt to decrease the discrepancies between large and small cities by focusing on the development of cities and towns with populations between 50,000 and 100,000. An iterative planning process will be engaged among interested parties using county-level baseline data.

The County Master Plan will establish the basic guidelines for more detailed city master plans, which have to be approved by the county. The county is also responsible for issuing building permits within its administrative boundaries, even when they include a major city.

This three-tiered planning hierarchy is intended to improve coordination within the planning process and to balance the provision of infrastructure more effectively throughout the country. Close coordination between the county and city planning offices is essential to make the new system work. Fortunately, the same planning institutions often prepare both the county and city plans for the major cities. The Ministry of Physical Planning, Civil Engineering and Housing is responsible for arbitrating any planning disputes between the counties and the cities.

2.6.2 Administrative Framework for Housing

The central government assumed responsibility in the past for establishing the overall framework for housing. It was also responsible for ensuring that the housing needs of all citizens were being met. The local and city governments were responsible for actually implementing government housing policies and programs.

Central Government

The newly reorganized Ministry of Physical Planning, Civil Engineering and Housing and the Ministry of Justice are two national-level ministries that have a strong role to play and impact on the housing sector. Both are involved in the drafting and monitoring of housing-related laws.

The Ministry for Physical Planning, Civil Engineering and Housing is also responsible for the overall spatial planning within the country and for developing a new National Spatial Development Plan by the year 1999. All county- and city-level master plans have to conform to the broad guidelines of this plan.

The Ministry is also responsible for:

- development of the Environmental Protection Act and its enforcement;
- formulation of building codes and standards;
- preparation of laws concerning housing and its management, including tenancy rights, condominium relationships, etc.;
- preparation of a national database on housing and housing needs; and
- preparation of social housing programs and construction of housing for invalids from the war.

The Ministry of Justice participates in the drafting of laws related to housing. Most recently, these have included laws related to denationalization, the ownership of property, and the management of residential buildings.

County

Twenty-one counties have been established within Croatia. These new entities reflect pertinent historical, transportation, and economic factors and present what is considered to be a natural

unit of self-government. Counties serve as a major link between state administration and local government. They have two major responsibilities that have an impact on housing. First, they are responsible for the development of the county-level development plan. Second, they are responsible for issuing building permits. These two powers and responsibilities enable county governments to play a very important role in the development of even the largest cities.

City

The cities are local self-governments that are frequently the seats of important county agencies. They are physical, economic, and social entities with very clear identities. They are also responsible for the drafting of detailed plans, providing and maintaining urban infrastructure and services, building social housing, etc.

Municipality

The municipality is a unit of local self-government that is smaller than a city and can involve separate residential areas within a city. Municipalities have a limited role to play in the housing sector.

2.6.3 Legal and Regulatory Framework

Laws

The following laws and regulations have been in force concerning housing.

- 1985 Law on Housing Relations; this law is considered to be unconstitutional, but has not yet been replaced
- 1988 Law on Land for Construction with 1990 Amendments
- 1992 Law on the Sale of Apartments with Tenancy Rights; this law does not include nationalized apartment units
- 1992 Law on Construction with 1995 Amendments
- Law on Temporary Use of Apartments
- Law on the Rights of Croatian Veterans of the Homeland War
- 1994 Regulation on How to Use Revenues from the Amortization of the Housing Stock (with 1995 Amendments)
- 1994 Law on Spatial Planning

The following laws and regulations are currently being prepared and/or reviewed for approval by Parliament:

- Ownership law
- Denationalization law
- Residential building management or condominium law
- Tenants rights law
- Temporary housing

Regulations

Building permits are issued by the county. Building permit requests must include: proof of ownership of the plots (and building if for renovation); three copies of the project plans and documents; written report by the principal planner of the project; and consent of the authorized agencies. Proof of ownership involves an extract from the land register or document of the authorized authority on the basis of which the investor obtained the right to build. The building permit should be issued within 30 days if all conditions are met. Building permits are valid for a two-year period with the possibility of a two-year extension. Obtaining a building permit raises the value of the land when the land and building permit are subsequently sold together.

Residential buildings up to 500 square meters in floor area do not need to have professional control. Most individual housing units fall into this category.

Regulations concerning housing construction and tenancy are also imposed by the city administration based on the decisions of the city assembly. City authorities have the responsibility to initiate and implement planning, financing, and supervision of various forms of housing construction, especially a program of welfare housing construction.

2.6.4 Land Titling, Ownership, and Sale Mechanisms

The maximum size of rural land and the maximum number of dwelling units that could be privately owned by an individual were set by the Nationalization Law of 1959. Property rights related to the ownership of land and housing were protected by this law.

Records of immovable property ownership and any changes in the status of this property were kept in the books of the city court. When land and housing were nationalized, the state became the "titular" owner of this property.

A dual system of land registration was developed, which continues to be used today. It includes a property cadastre of land ownership records kept by the city court and a land use cadastre that is kept and maintained by the City Institute for Land Use Registration and Surveying. The purpose of this land use cadastre was to have the proper information on which to base the imposition and collection of the annual land use fees. Each type of land use and location has a rate, which is multiplied by the size of the land to determine the total annual fee. The fees in Zagreb, a large part of which goes to the state budget, have been increased 252 times since 1994. They went from 5 lipa for a 3,925-square-meter plot in 1993 to 166 Kuna (+US$32) for the same plot in 1995. Even after this substantial increase in fees, the amount collected was barely able to cover the cost of administration.

Ownership records for properties in the older parts of cities were by tradition kept relatively up-to-date. Most of the development and changes in newly developed areas were only registered in the city's land use records.

While the registered "user" of the land cannot legally "sell" the land, he or she does have indefinite land use rights, which can be sold to another. A legally non-recognizable "contract" can be made between the buyer and seller who then present themselves to the land use cadastre

in order to change the user's name. All of the parties have an interest in keeping the land use register up-to-date: the state wants to correctly impose its fees, the seller wants to stop paying the fees, and the buyer wants to register his rights to use the property. The cost of user certification is only 65 Kuna and the plan of the land, 45 Kuna. Fees have been waived for some specific cases, which include displaced persons, war veterans, retirees, etc.

Unlike the land use register, the city court's property cadastre has not been kept up-to-date. Approximately 60 percent of the buildings in new urban areas have not been included in the cadastre.

In the case of land subdivision, a certified survey of the land must first be made by an authorized surveyor. This survey, which includes both land use and ownership information (Figure 2.2), is presented to the land use and ownership cadastres for certification. A subdivision plan is then produced by the city planning office. Once the land use register certifies that the plan conforms to the land use records and laws, it is taken back to the office of urban planning for final certification. The land use approval obtained by this process is required to obtain a building permit. The entire process should take no longer than 30 days.

The Denationalization Law is still being reviewed by Parliament. The process has already taken quite some time and passage of the law is not imminent. Even when this law is passed, implementation will be difficult and will most likely begin with the easiest cases. Much of the nationalized urban land that is still vacant will be given back to former owners or, alternatively, some form of compensation will be paid. The way in which this land is dealt with will have an important impact on local land and housing markets.

3 City Profiles

3.1 Zagreb

Much of the following data relate to the city of Zagreb before the Autumn 1995 organization of the County and City of Zagreb. Sources of the data were obtained from appropriate city institutions and/or estimated for the given years based on actual census data and projections included in the annual statistical reports.

3.1.1 Basic Characteristics of the City

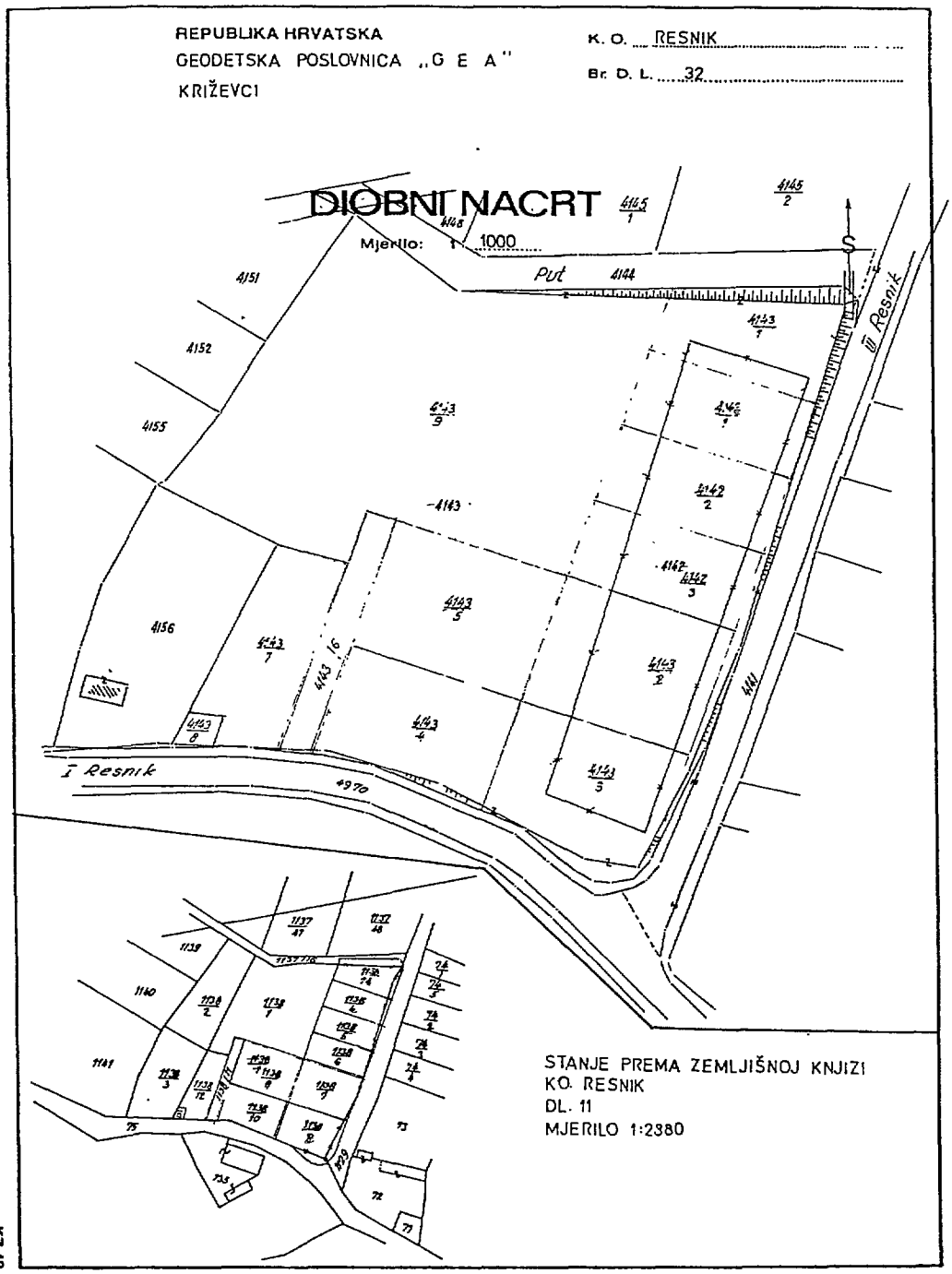
Population

The estimated population of the City of Zagreb in 1994 was 882,000 people. The number of households was 306,100 and the average household size 2.88 persons.

Economy

The average annual household income was estimated to be 27,350 Kuna or the equivalent of about US$5,500. Roughly 51 percent of the average household's expenditures were made for food, while housing alone accounted for only 6.2 percent.

Figure 2.2
Example of Combined Data on Land Use and Ownership



3.1.2 Basic Characteristics of the Housing Stock

Physical Characteristics

The number of solely residential dwelling units in Zagreb in 1994 was 309,450. This translated into an average of slightly less than one household per unit. Table 3.1 presents some characteristics of the housing stock in 1994.

Table 3.1
Characteristics of Residential Units in Zagreb — 1994

	Type of Apartment						
	Total	Separate Rooms	Studio and One-Bedroom	Two-Bedroom	Three-Bedroom	Four-Bedroom	Five-or-More Bedroom
no. of apartments	309.450	3,350	65,100	126,840	69,300	26,660	18,200
area in m^2	19,659,400	64,200	2,127,100	6,980,080	5,237,600	2,676,500	2,574,020
persons in apartment	868,040	5,066	125,170	340,800	226,410	97,570	73,030
persons per apartment	2.81	1.51	1.92	2.69	3.27	3.66	4.01
m^2/person	22.65	12.69	16.99	20.48	23.13	27.43	35.25

As of 1994, there were roughly 175,000 apartment units and 135,000 individual houses. The average size of a dwelling unit was around 64 square meters. The average square meter area per inhabitant was 22 square meters.

Housing Occupancy and Ownership

The ownership status of apartment units included in the housing fund changed considerably between 1992 and 1995. As of 1992, only around 29 percent of the units were privately owned. By 1995, private ownership had increased to 83 percent, or 226,313 housing units out of the total of 271,802. Many of the units that remained under government control included nationalized apartment units, state-owned units, and a small number of enterprise-owned units to which the inhabitants did not have tenancy rights. It is anticipated that by the end of the privatization period on July 1,1996, only about 25,000 apartments will remain under state or city ownership.

Of the 226,313 privately owned housing units in 1995, 97,577 (43 percent) were individual houses while 128,737 (57 percent) were apartments under condominium ownership. Continuation of the privatization process will increase the condominium ownership of apartments in multi-family buildings and in some detached buildings as well.

There is a growing private sector rental housing market in Zagreb. Rents for private units are based on market rents which reach 200 to 300 DM per month for a studio apartment, 400 to

600 DM per month for a one-bedroom apartment and 2,000 to 3,000 DM per month for a large apartment located in the center of the city. Former apartments used as informal office space rent for about 35 DM per square meter per month in the center of Zagreb.

Housing Management and Maintenance

Prior to privatization, the " Zagreb City Fund for Water Management, Transportation, Housing and Utilities, and Public Services" was responsible for managing some 160,000 housing units or about 50 percent of Zagreb's total housing stock. The actual enterprise charged with this task was the City Housing and Public Services Management (GZKG). Roughly 25 percent of the 160,000 units had been privatized in 1991. By 1996, 75 percent of the social housing stock, including the vast majority of socially owned housing, had been privatized. Only about 25 percent remained in public sector ownership. It is anticipated that only about 12 percent of Zagreb's housing stock will be under public ownership once the current phase of privatization comes to an end.

Until the privatization of socially owned apartment units, residents paid administratively determined rents, which were deposited into a solidarity fund for maintenance. The state or city used this fund to finance the maintenance of the exterior and common elements of the buildings. Maintenance was done only by request and not on the basis of any preventative action. Individual households were obliged to maintain the interior of their own apartment units.

The city is currently directly responsible for the maintenance of 24,905 apartment units located in 3,558 buildings. The dispersed locations of these buildings and the ensuing difficulties related to their everyday maintenance point out the need to concentrate city-owned apartments in the future into a smaller number of buildings that can be more easily and efficiently maintained.

The conditions for generating the necessary financial resources for maintenance are changing. Until now, both the owners and renters of apartments were expected to pay a maintenance fee as the means of financing the broad-based solidarity approach adopted for housing maintenance. The funds paid into this program, however, were generally insufficient to provide even normal maintenance to all of the buildings. Even after years of experiencing this problem, the 1993 law for Zagreb, for example, regulated only a 1 Kuna per square meter rent for social housing, 37.5 percent of which would be used for maintenance. The new law will more than double the minimum fee for maintenance to slightly more than 2 Kuna per square meter.

Funds for rents and maintenance are now kept in a single account within the city budget. There has been a shortfall in the financing available for the city's maintenance programs because money in this fund has also been used to pay some of the costs of subsidizing public transportation.

The new residential buildings management act should replace the previous solidarity approach with a more direct and practical focus on individual buildings. Each building would be responsible for financing its own maintenance and have a required account. A major problem is that many of the buildings with the worst maintenance problems are also those that house

some of the poorest tenants. Many of these poorer tenants have exhausted most of their financial resources to buy their units.

There have been suggestions, and at least one proposal, to establish a housing maintenance bank that would treat the building maintenance accounts as savings accounts and would allow resident associations to borrow funds for major maintenance and repair. Savings would be paid an annual interest rate of around 6 percent, while loans would bear an annual interest rate of 12 percent. Such a bank would encourage people to put money aside for maintenance, as they would under normal savings situations, while allowing them to borrow for major maintenance and repair when needed. This would help change the attitude of tenants toward the financial burden imposed by maintenance by providing interest on their accounts.

Under the new law, it is anticipated that buildings with fewer than 10 apartment units will be able to manage their own maintenance. Buildings with 10 or more units will be required to sign a contract with a public or private maintenance company. The city knows many of the potential maintenance contractors and can use its influence to help keep prices as low as possible.

3.1.3 Supply and Demand

Housing Need

Based on available housing and population data, the city of Zagreb estimated a sizable housing shortage of approximately 7,700 units in 1994. This estimate does not take into account the additional needs of the estimated 80,000 displaced persons and refugees who are currently living in the city.

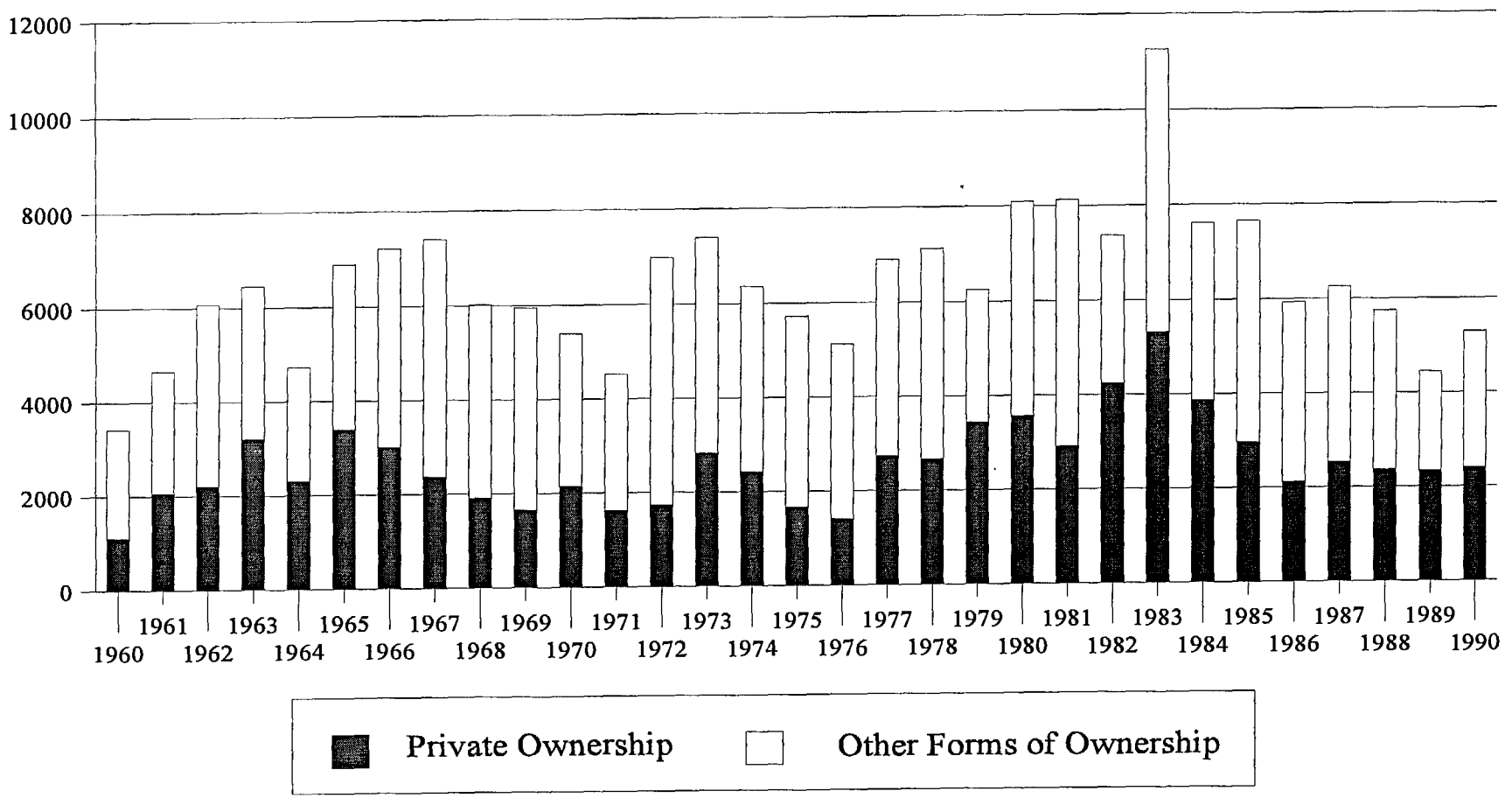
Housing Production

An annual average of some 7,500 dwelling units were built in Zagreb during the years just prior to independence and the war (Figure 3.1). Of these, roughly 5,000 units involved social or enterprise housing, while the remaining 2,500 were constructed by the private sector. This year's annual output of housing units has thus far been estimated to be less than 500 privately owned units.

Economic consequences due to the war and uncertainties about the building situation have clearly reduced the amount of construction of new housing in Zagreb since 1991. An average of about 3,000 apartments were completed on an annual basis between 1991 and 1994, less than half of the average level of output achieved in the previous years. Some 2,417 apartments were completed in 1994 with a total floor area of 173,607 square meters and an average apartment size of 80 square meters. The breakdown of apartments included 471 one-room units (19 percent), 706 two-room units (29 percent), 805 three-room units (34 percent), and 435 four-room units (18 percent).

Current housing production is limited to a small number of units being produced by construction companies, former cooperatives acting as developers, and the city. All of these remaining housing producers are building much smaller numbers of units than before. Although the construction of new, socially owned housing units through the housing fund ended almost five years ago, the city intends to build a limited number of social housing units.

Figure 3.1
Number of Dwelling Units Completed by Year for Zagreb
(1960-1990)



Reconstruction of War-Damaged Housing

There continued to be about 29,000 displaced persons and 51,000 refugees in Zagreb as of March 5, 1996. Because of their large number, the displaced person/refugee population is a major concern to the city. Many of these displaced persons are temporarily housed in city-owned apartments and need to be resettled in more permanent housing.

Assuming an average household size of 2.9 and a ratio of one household per housing unit, it would take an additional 28,000 housing units, or roughly 10 times the estimated number of new housing units produced in Zagreb in 1994, simply to house all of these people. Some of the households have already solved their housing situation, while others will eventually return to their former homes outside of the city. Nevertheless, a significant component of Zagreb's immediate housing needs involve the provision of decent, affordable housing to those displaced persons and refugees who wish to remain in the city and who have not resolved their housing situation.

3.1.4 Principal Housing Components

Land

Buildable land belonging to the City of Zagreb, as a result of either earlier ownership or the resolution of property issues with former owners and users, has been classified into seven zones that are used to help determine the initial prices for land auctions and the land use fees or rents to be paid to the city. The prevailing method for the sale of use rights to this land is through public auctions announced in the press. Minimum bid prices are set at the sum of the average costs of site preparation and the rent. The auctioned land must be prepared for utility connections in order to be legally developed.

Buildable land, furnished with basic infrastructure, is currently available in the first, second, third, and fourth zones of the city. Infrastructure components in many of these areas are in the final stages of preparation for residential construction. The installation of final fixtures for individual and common consumption of water, electricity, etc. is generally contracted during the period in which building permits are issued for construction. The cost of this infrastructure is included in the cost of the building permit.

Investors can also finance some of the infrastructure and site preparation costs in advance. The recent preparation of a Zagreb site for 96 residential/commercial structures with approximately 360,000 square meters of gross developmental service area provides a good example.

A major problem in adopting a pro-active approach to land development is that the city does not have a complete record of all the land that it currently controls. An inventory of available building land needs to be made in conjunction with the development of the new city plan.

Infrastructure

The "Basic Guidelines for the Development of the City of Zagreb" (1994) defines the fundamental principles and goals for the sustainable provision of infrastructure and public services within the city. Providing basic infrastructure services has been the responsibility of the City of

Zagreb, its related enterprises, and the public company for electricity. A greater use of market competition and "concessions" for the provision of public service activities will be undertaken in the future in order to increase competition and improve efficiency.

The City of Zagreb has officially confirmed its policy of providing quality utilities and public services. It has passed a set of special "Directives for Quality Services" to help it achieve this goal. Following these guidelines, utilities and public service organizations have begun to establish their own compatible systems to ensure a high quality of services.

There is no wastewater treatment plant in Zagreb and only one small, inoperative plant in an adjacent suburb. The city has 11 open sewage canals that deposit directly into the Sava River. The plans for a sewage treatment plant have been developed. The total cost of this plant has been estimated to be around 400 million DM.

Water for the city is obtained from wells, each of which produces approximately three cubic meters of water per second. The quality of this water and the prevention of its pollution are two of the city's greatest infrastructure concerns. The city dump for solid waste is also located very close to these wells, a situation that presents a growing health risk.

According to the Law on Utilities and Public Services Management, the price of public services is determined by the provider of the services with a portion of the payments dictated by the central government. The City Assembly establishes the city's budget and the specific allocations for financing infrastructure. Urban infrastructure in the City of Zagreb is financed primarily through funds from the city budget, designated payments, and investors in other facilities. In 1994, the structure of financial resources for utilities and public service installations within the city included:

- payments and compensations 25%
- city budget 44%
- investor funds for utilities and hook-ups 18%
- Zagrebacka bank loan 6%
- funds from Public Roads Company (Hrvatske Ceste) 3%
- other (profits, interest etc.) 4%

The abandonment of the previous fund method for financing public infrastructure and service provision has opened up new possibilities through which to address ongoing deficiencies in the system. These deficiencies have included the lack of long-term credit and insufficient budgetary and private sector financing.

Construction

The social and political changes that are now taking place in Croatia extend to the review and revision of ideas concerning aspirations, conceptual models, and producers related to housing. A widespread reaction has been taking place to the previous construction of tower apartment buildings and to the sterility of modern neighborhoods. An approach that is more respectful of Zagreb's cultural uniqueness and that takes into account the city's new role as a European capital

will be pursued. Future emphasis will be placed on infill development and the construction of low-rise buildings to create neighborhoods that will have greater character and balance.

There are 15 state-monitored companies within the city's limits that produce stone, gravel and sand, bricks and roof tile, ceramic tile and bathroom fixtures, cement and cement products, and asphalt products. There are also a number of small, private building material companies that provide a similarly wide range of products. Together, these companies have generally been able to meet the needs for building materials within the city.

Private firms and construction companies involved in the provision of housing are much smaller than before and are now building only a few units at a time.

The cooperative housing movement has changed dramatically over the last few years. In the past, Zagreb's housing cooperatives produced, on the average, between 5 and 7 percent of the city's new housing units. There are now 13 housing cooperatives in Zagreb, but only three are active in producing any housing at all. One of the cooperatives, for example, previously had 50 to 100 clients per year, but now has only about 20.

Cooperatives were originally focused on helping middle-income groups obtain affordable housing. They had the advantage of being able to obtain land without having to go through the process of public auction. Their members, with assistance from cooperatives, could also obtain loans from banks. The loans were easy to obtain because they were simple to administer and did not involve collateral on an individual level.

In order to obtain a housing unit from a cooperative, the beneficiary had to make a 25 percent deposit and present two co-guarantors. The annual interest rate of cooperative-related loans ranged between 3 and 4 percent with a repayment period of 25 years. The loan was generally neutralized after a period of about 10 years.

The construction of any new public sector housing has virtually stopped over the last five years.

Costs and Financing

The expiration of the Law on the Allocation and Distribution of Funds to Meet the Housing Needs of Workers (1992), the decline in the economy, and the much lower financial capacity of the average household as a result of the war have dramatically reduced the financial resources available for housing construction. The situation is particularly serious for young professionals who have modest salaries and little or no resources to put into their housing.

Table 3.2 compares the average monthly housing cost for an average size apartment of 55 square meters in Zagreb with average monthly income. The average monthly cost of such an apartment would be 576 Kuna or about US$110. This amounts to roughly 30 percent of the average net family income in Croatia, which has been estimated to be 1,895 Km or around US$363. The number and amount of housing loans made by the Zagrebacka Banka for Zagreb in 1995 were shown in Table 2.1.

Type of Cost	Monthly Cost per m^2	% of the Cost	% of Household Income
Communal services	6.67	63.71	19.36
Maintenance of common areas	2.85	27.22	8.27
Maintenance of apartment unit	0.95	9.07	2.76
Total	**10.47**	**100.0**	**30.39**

3.1.5 Enabling Framework

Planning

During the 1970s, the Zagreb Master Plan was developed concurrently with the Zagreb Region Physical Plan. The plan maintained the existing zoning system, but radically extended the city's area. The plan was also the first to provide details for the separate development of the city's infrastructure and service systems. City planners decided in the mid-1980s to halt the expansion of the city and to concentrate development closer to its center. The consolidation of existing resources has been the basic principle behind development planning for Zagreb over the last several years. Considerable emphasis has been given to the city's resources, characteristics, historic development, and genuine potential for sustainable development.

Zagreb's designation as the capital of an independent Croatia has reinforced the need to consolidate and enhance its development. The city plan, which is now under preparation, will focus on defining a sustainable development strategy that will not only reconcile development and environmental issues, but will also provide the city with the necessary character and dignity of a European capital.

The new Zagreb development plan will include elements focused on the:

- spatial and economic structure of the city;
- central settlements in the development of regional infrastructure;
- spatial management and protection;
- system of developing regional infrastructure;
- preservation and improvement of natural, cultural, historical, and environmental values; and
- protection of the environment.

Particular attention will be given to the unbuilt and unoccupied stretch of land along Vukovar street, which is an area with considerable potential for commercial and small-scale industrial development. The intention is to make a more rational use of this and other valuable urban land.

The city planning process is required to provide information to the local citizenry as a basis for public discussion. The current situation in Zagreb is that local communities were abolished in 1991 and have not yet been replaced. The Judiciary Department of the City Council has been working on a plan to redistrict the city. Meetings have recently been held with at least one neighborhood group to discuss implementation aspects of the current plan.

Administrative Framework for Housing

The central government has basically assumed responsibility for ensuring that the housing needs of the population have been adequately met. The new government intends to maintain this commitment.

City authorities are responsible for initiating and implementing the planning, financing, and supervision of various forms of housing construction. The city has been and intends to continue to be responsible for programs related to welfare housing.

Since Zagreb is the only city in Croatia that is also a county, the two levels of administration are carried out by many of the same agencies. Planning and city administration are made considerably easier by this unified approach.

The City Institute for Land Use Register and Surveying has been responsible for maintaining the land use register. It collects statistical and economic information to determine the appropriate amounts for land use fees. The institute has approximately 200 employees and is organized according to the organigram shown in Figure 3.2. The institute has computerized its records and has also been developing a geographic information systems (GIS) application for the area around City Hall.

Legal and Regulatory Framework

The general legal framework and regulations developed on the national level are influenced by the decisions and conclusions of the City Administration and the City Assemble of the City of Zagreb.

3.2 Split

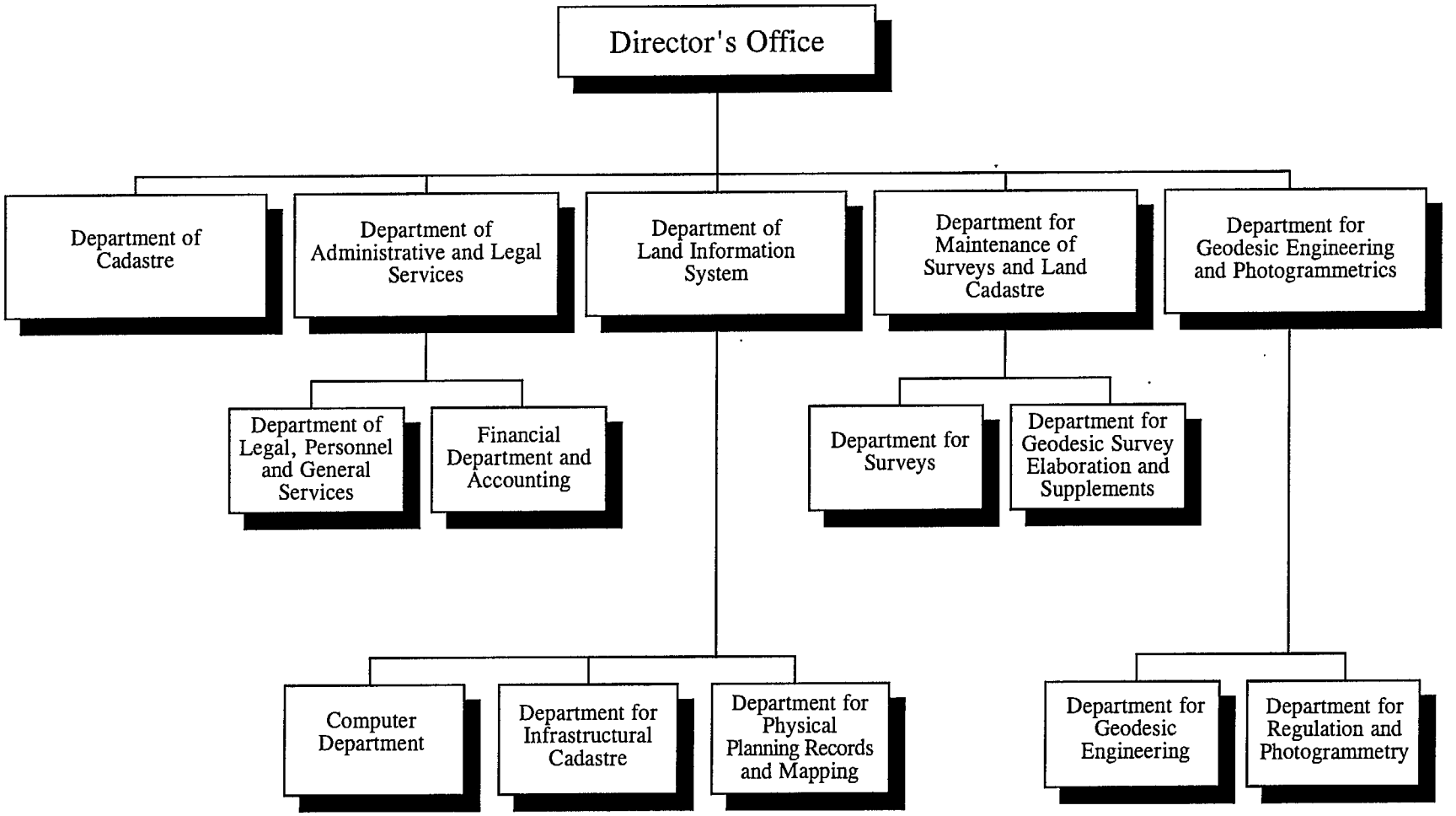
3.2.1 Basic Characteristics of the City

Split is the center of the Splitsko-Dalmatinska Zupanija. The city is noted for its historical monuments, of which Diocletian's Palace is arguably the most famous. This building has been registered with UNESCO as a cultural monument.

Population

Split is the second largest city in Croatia with an estimated population of over 210,000 people. Population centers immediately around Split, which add to the importance of its population, include, Solin, with an estimated 20,000 inhabitants, Kastela, with 33,000 inhabitants, and Trogir, with about 30,000 inhabitants. Split has also received some 20,000 displaced persons and refugees as a result of the war.

Figure 3.2
Organization Chart of the City Institute for Land Use Register and Surveying



Economy

The city's economic base depends on its function as a Mediterranean seaport and center for tourism. Kastela and Trogir are particular areas of tourist activity. The city's economy is also based on industry, agriculture, and trade. Ownership of the port will be settled by new legislation, which should reinvigorate this activity in the near future.

Close to 24,000 mostly skilled workers are currently unemployed in Split.

3.2.2 Basic Characteristics of the Housing Stock

There is a total of some 60,000 dwelling units in Split of which roughly 32,000 are apartments and the other 28,000 are individual housing units. The average size of a dwelling unit within the city is about 64 square meters.

Housing Occupancy and Ownership

Roughly 40 percent of city's housing stock was privately owned prior to the start of the recent privatization process. Almost all of the socially owned housing units have now been privatized, bringing the percentage of privately owned housing units to more than 80 percent. Only about 4,000 nationalized housing units will remain under the control of the city until the law on denationalization has been passed.

Enterprises within the city of Split were allowed to incorporate funds received from the privatization of their housing units as part of their capital. Almost 90 percent of the enterprises, however, chose to transfer the ownership of their units to the city, without soliciting any obligation on the part of the city to reimburse the enterprises once the units were sold.

Housing Management and Maintenance

The average rent was previously 1.60 Kuna per square meter of apartment unit and clearly not based on market conditions. While the maintenance fees were paid by both owners and renters and used for maintenance, they were insufficient to cover the actual costs of adequately maintaining the buildings. Poor management and limited resources over many years have resulted in poorly maintained buildings. In addition, the percentage of rent collected has declined from 80 percent in the recent past to only 60 percent today. A similar decline has occurred in the collection of funds for new housing construction. Most of the collected revenue has been spent on infrastructure development and maintenance. Only about 15 percent has been used for the construction of new housing.

The city will have only a very few units remaining in its possession when the current privatization process ends on July 1, 1996. Although the city will have to manage these remaining units, it does not envision a major maintenance role for itself in the future. This has to be done by the owners themselves as proposed in the new law concerning the management of apartment buildings. The inhabitants of many apartment buildings have already formed resident associations and have started to take responsibility for the maintenance of their housing.

3.2.3 Supply and Demand

Housing Need

Although Split did not experience any direct destruction as a result of the war, its immediate housing needs are very much related to rehousing the displaced persons who have migrated to the city and are likely to stay.

The city is also trying to solve the housing needs of highly qualified and important people through its housing committee. Between 30 and 40 apartment units have been reserved for this purpose. Many of these units have been broken into and/or illegally occupied. Only a few cases have been resolved by the police.

Housing Production

The average annual housing production of construction enterprises in Split prior to independence and the war ranged from 1,300 to 1,500 units. These enterprises are now producing only between 150 and 200 units per year. The number of units built by the private sector has also noticeably declined.

The lack of a real private sector housing market in Split and/or active real estate dealers is one reason for the hesitation and poor production performance within the sector. Many lawyers have become involved in housing transactions in order to fill the gap. There is very little accurate information on the nature and/or number of housing and other types of real estate transactions that take place.

3.2.4 Principal Housing Components

Land

A good part of the land in Split is privately owned. Other nationalized land must await the outcome of the denationalization law before it can be developed.

Infrastructure

A large number of housing units within the city have been built without the necessary infrastructure or approvals.

Construction

Although the city has a housing unit within the Communal Services Department, it does not have a social housing program. The city is not interested in directly providing housing in the future.

Costs and Financing

The minimum price for a square meter of housing in Split has been estimated to be around 1,700 DM (US$1,200).

Most of the housing rents and maintenance revenue collected by the city have been spent on infrastructure development and maintenance. Only about 15 percent has been used for the construction of new housing.

Some 3,000 social housing units were fully subsidized until the program was discontinued in 1994.

3.2.5 Enabling Framework

The main housing concerns of the city of Split as expressed by city officials include:

- improvements in the housing delivery system that will lead to a better distribution of units among the population;
- organization and coordination of newly forming resident associations in order to provide effective building management and maintenance; and
- continuation of social housing programs for both rental housing and low-income owners.

Planning

The city Department of Urban Planning estimates that the city's basic structure and resources are sufficient for a population of about 120,000 people. The actual population is already almost twice this number. Emphasis in the future will be placed on stimulating the economy and on establishing a better balance among settlements in the immediate region.

Legal and Regulatory Framework

Split has had a continuing problem with illegally built housing units, which now amount to almost 30 percent of the overall housing stock. Attempts have been made to incorporate this type of housing development into the new city plan. A law on regulating illegal housing has also been passed, which has legalized all previous illegally built housing. The current perception among the population is that even illegal housing built after the passage of this law will eventually be legalized in much the same way. Although sanctions for illegal construction can include the demolition of the house and a large fine, which could amount to 10 times the average household's annual income, these drastic actions are rarely applied.

3.3 Rijeka

3.3.1 Basic Socioeconomic Conditions

Rijeka is the capital of the Primorje and Gorski Kotar Zupanija. It is situated on the Adriatic Sea and surrounded by areas that are primarily oriented toward tourism.

The city at one time was divided into two distinct parts. The part of the city to the west of the Rijecina River was called Fiume and belonged to Italy, while that to the east of the river was called Susak and belonged to Yugoslavia. Only in 1947 was the city merged into a single entity. Three years ago, the city was administratively divided into the City of Rijeka and eight separate adjacent municipalities.

Population

The overall agglomeration of Rijeka includes close to 270,000 inhabitants. The city itself has roughly 160,000 inhabitants living within an area of some 44 square kilometers. The surrounding municipalities, or immediately adjacent suburbs of Rijeka, include an additional 50,000 or more

inhabitants. An estimated 13,000 displaced persons from the war have also moved to Rijeka over the last few years.

Economy

Rijeka served as major transit port for all of Yugoslavia during the pre-independence period. Since the breakup of the former Yugoslavia and the war, port-related activity has declined considerably. Less than half the 5,000 port workers are still employed.

3.3.2 Basic Characteristics of the Housing Stock

Physical Characteristics

Housing Occupancy and Ownership

The City of Rijeka is the only city in Croatia that has been fully involved in tenancy and housing maintenance issues over the last several years.

Ownership of the social housing stock has changed dramatically since 1991 when private ownership of these units was virtually nonexistent. Out of a total of some 43,000 dwellings, 33,329 are now privately owned, while 4,593 continue to be owned by the city. The city expects to own no more than 2,000 dwelling units when the process of privatization ends on July 1,1996. In addition to city-owned public housing, there are still some 1,520 dwellings owned by the enterprises.

Housing Management and Maintenance

Management and maintenance of socially owned housing units in the past was carried out by basic agreement and not according to any economic or financially based approach.

Since 1994, the city has regulated its own relationships with the tenants of social housing units. All tenants that received an apartment from the city after 1994 were obliged to sign a lease that forbade the subsequent transfer or sale of the unit to anyone else. The average rent for such a unit was set at 2.70 Kuna, or the equivalent of 0.75 DM, per square meter. The city also set an average maintenance fee for the dwelling units that it maintains of 1.4 Kuna, or the equivalent of 0.38 DM, per square meter. This fee is not adequate to cover capital investments or major repairs, but is enough to cover management, normal maintenance, and everyday repair of the housing stock provided by the city. While the imposed rents and maintenance fees more closely reflect the actual economic conditions, they are not yet equal to the market costs of rents or maintenance.

Housing Privatization. The privatization law for socially owned housing units set the terms and conditions for their sale, as well as the percentages of revenues that had to be returned to the central government. Roughly 55 percent of the funds collected from the privatization of the socially owned housing stock in Rijeka were turned over to the central government in return for bonds that could be sold after January 1, 1997. The other 45 percent was kept by the city and merged into its budget. About 10 million DM from the city's revenues will be invested in some 200 new rental housing units. More than 3,300 applications have already been received to obtain one of these units.

Resident Associations. A major component of the privatization process has been the formation of resident associations for each apartment building. Once a resident association has been formed, the apartment owners choose a representative to interface with the city officials and departments concerned with housing management and maintenance. Selection of a representative by a resident association represents a genuine, micro-level democratic activity, which is not generally influenced by the current political parties. The keeping of a maintenance balance sheet for the building is one of the key responsibilities of this elected representative.

The knowledge and acceptance of maintenance responsibilities by the owners of newly privatized apartment units is one of the major problems faced by the city as it tries to ensure the proper management and maintenance of the existing housing stock. No new law has been passed to deal with such problematic issues as the maintenance of roofs, etc. The city can apply its own regulations to help resolve these situations, but has little recourse to any formal action if the owners do not agree.

Maintenance. A number of discrepancies exist between the still-valid laws related to the maintenance of socially owned housing units and the current practices given that private apartment owners have now become owners of the common building areas as well. The solution being followed in Rijeka calls for resident associations to execute a management and services contract with the city or with a private firm. In either case, private companies are employed to carry out the actual maintenance.

The city made an offer, valid until December 31,1995, to provide standard housing management and maintenance to resident associations. Roughly 90 percent of all apartment owners agreed. After this date, the city will only provide management and maintenance services based on specific contracts with new resident associations wishing to engage its services. In large buildings, more than 50 percent of the apartment owners need to accept the management and maintenance services contract before it can be signed.

The city has estimated that it would cost 2.5 DM per square meter per month to adequately maintain the apartment units through the proposed group effort. Despite this estimated need, owners have been asked to pay only a much lower, below market rate of 0.38 DM per square meter based on affordability constraints and the recognition that better maintenance is not yet possible.

Out of the 0.38 DM per square meter monthly maintenance fee, 0.10 DM per square meter has been used for management and, most importantly, for the payment of insurance. Another 0.10 DM per square meter has been used for normal maintenance and put on the account of the city department responsible for maintenance. Much of the normal maintenance that is carried out concerns the functioning of elevators. The last 0.18 DM per square meter is to be used for emergency and repairs, the largest part of which goes to the repair of older buildings. Only a small number of major repair activities can be planned each year due to their high costs. Major repairs focus on roofs, balconies, elevators, central heating systems, etc.

Roughly 52 percent of the costs of emergency repairs involving fire, broken mains, electrical installations, elevators, etc. to date have been reimbursed through insurance. The total amount of insurance paid for the privatized apartment buildings serviced by the city has been about 2 million DM per year. The city is able to obtain lower insurance rates due to its stronger bargaining position based on the total number of units it serves. Individual resident associations seeking to pay their own insurance can not obtain such favorable rates. The city also uses a specialized insurance company, which helps to improve service and reduce costs.

Another major maintenance issue centers around the difficult economic situation of new, but poor apartment owners who are financially unable to contribute to any significant repair of the deteriorating buildings in which they live. Chronically insufficient maintenance of these buildings over a long period of time has made their repair more difficult and costly than the average.

3.3.3 Housing Supply and Demand

Housing Need

The city of Rijeka has estimated an annual need for about 3,000 housing units. The city also feels a need to provide apartment units to professional and other individuals who are considered to be important to the development of the city. The mayor can approve the lease of 10 apartments per year to achieve this objective.

3.3.4 Housing Production

No entirely new construction has been undertaken since 1991. Only buildings that had been planned or under construction before that date have been completed over the last few years. The city built about 1,000 units per year before independence.

3.3.5 Principal Housing Components

Land

The city of Rijeka has a large amount of buildable land scattered throughout the city. The size and location of these parcels make it difficult for the city to manage or to make effective use of their development to orient future growth. Some of this land was nationalized after World War II and most likely will be returned to the previous owners. The city will continue to manage the nationalized land, however, until the law on denationalization has been approved by the Parliament and decisions have been made for dealing with this land.

The city has sold 12 out of 15 non-residential lots that have been put up for sale through public auction. The starting bid prices for these plots were set very high, which appears to have prevented all of the lots from being sold. One lot in the center of the city, which provided a gross buildable area of 25,000 square meters, was sold for 4.5 million DM. The city also required that the potential buyer provide a garage space for 1,000 cars, of which a third of the spaces could be sold while the other two-thirds had to be given over to city management. Four 600-square-meter lots were also auctioned off at an average price of about 40 DM per square meter or around 24,000 DM per lot.

Infrastructure

Recent changes in the city's boundaries have meant that some of the surrounding areas and suburbs are no longer administratively part of the city. The city continues to provide services to these areas without being able to recover their associated costs.

The fees charged for land preparation include the costs of planning and development, which generally range from 1.5 DM to 3 DM per square meter, the costs of the demolishing on-site buildings and resettling existing tenants or owners, and at least the minimum land cost as determined by the city.

The average lease price, therefore, varies according to the degree of site preparation for construction. Buildable land inside city boundaries has been classified according to five geographic zones. There are also four land use codes. Various combinations of geographic and land use criteria can change the price of land from 10 to 150 DM per square meter as reflected in the starting bids for the public auctions.

The auction prices of land are the primary way that city infrastructure costs are recovered. There is no property tax and a tax is imposed only when property is sold.

Construction

The city government of Rijeka has recently gone ahead with the construction of 137 new housing units financed by revenues from the privatization of the socially owned housing stock. The city is not even considering any additional investments in housing construction at this time. The railroad has recently handed its houses over to the city.

Costs and Financing

The cost of a new apartment unit has been estimated to be 1,400 DM per square meter. Renters pay 0.75 DM per square meter per month. Very low-wage people do not have to pay rent for a government-provided apartment, but do need to apply for a waiver and have their situations reviewed every six months.

The number and amount of housing loans provided by the Zagrebacka Banka in Rijeka were shown in Table 2.1.

City officials expressed concern that the Rijeka Bank has been changed from a shareholder to state bank. The Bank is 55 percent state-owned and 45 percent owned by former, state-owned companies that have now been privatized.

3.3.6 Enabling Framework

Planning

Planning studies related to the future development of Rijeka and its surrounding communities are now in progress and the city hopes to complete a new master development plan within the next 18 months. The city would also would like to implement a more modern approach to land use planning, particularly in the western part of the city where primary infrastructure is being

installed and where there is still approximately 20 to 30 percent of the land free for development.

Illegal housing construction, primarily including units built without a permit, amounts to only about 19 percent of the housing units and has not been a major problem in Rijeka. Those housing units, which have been built in accordance with existing urban plans, but without building permits, have recently been legalized. There is only a very small number of housing units that have been built in non-residential areas based on the city plan and that will be removed in the future.

Regulatory System

The slowness of bureaucratic processes presents a major problem to the efficient delivery of housing in Rijeka. It takes, for example, an average of about 20 months to obtain all the necessary ownership papers. The fact that laws are not applied in an effective manner further complicates the situation.

3.4 Osijek

3.4.1 Basic Socioeconomic Conditions

Population

There were 104,761 people living in the city in 1991 based on the results of the Census.

3.4.2 Basic Characteristics of the Housing Stock

Physical Characteristics

The 1991 Census indicated 38,383 housing units within the boundaries of the city. Roughly 21,000 of these housing units were large apartment buildings managed through the city housing fund. The rest were individual houses or small apartment buildings with less than three dwellings units.

The average size of the apartment units was about 50 square meters, while that of the rest of the housing stock was around 80 square meters.

Housing Privatization

Since 1991, most of the former socially owned housing units have been sold. Only about 5,000 units remain within public control. A large number of the units remaining under control of the city were nationalized in the late 1950s.

Maintenance

A standard fee amounting to of 37.5 percent of the rental rate is charged for maintenance, whether the apartment is owned or rented. Rental rates are essentially determined by the presence of central heating and elevators, the type of construction, etc. The location of the building is only a minor consideration.

Previous collection rates for rents and maintenance fees have been around 70 percent. The housing fund has financed only emergency maintenance in the past.

3.4.3 Housing Supply and Demand

Reconstruction

All types of buildings and housing units were damaged during the period of the war between 1991 and 1992. Approximately 38 percent of the socially owned units were damaged, of which some 75 percent were units that received a direct hit or required major repairs. Municipal communities that had the highest degree of damaged houses included "30.Svibanj," with almost 1,900 units or 60 percent of its housing, "Gornji Grad IJ.J. Strossmayer," with about 1,500 units or 55 percent of its housing, and "Sjenjak," with about 1,460 units or 56 percent of its housing.

Table 3.3 presents information on registered housing damage as of the end of June 1993. Much of the damage within the city itself and a large number of the damaged housing units have already been repaired. No organized actions involving the repair of dwelling units receiving major or total damage have been undertaken as yet.

Table 3.3
Housing Situation in Osijek as of June 30, 1993

Description	Number of Housing Units	%	%	Repaired CCA %
Housing Units	38,383	100		
Registered Damaged Housing Units	14,631	38	100	
1. Housing Units w/Minor Damage (broken glass, woodenware, walls, facade)	1,102	2.9	7.5	50
2. Moderately Damaged Housing Units (living possible)	2,118	5.5	14.5	60
3. Directly Hit Housing Units (living possible after minor repairs)	4,944	12.9	33.8	70
4. Major Repairs Needed on the Building and Fittings	5,898	15.3	40.3	40
5. Heavily Damaged Housing Units (living impossible)	239	0.6	1.6	—
6. Totally Destroyed Housing Units	330	0.8	2.3	

Roughly 4,000 credits have been granted for the purpose of repairing minor damage and an even greater number of residents have improved their damaged housing using their own resources. Donations have also played an important role in this repair. Assistance has been mainly directed to the suburbs of Osijek in order to allow temporarily evacuated households to return to their units.

From the start of the war in September 1991 until the end of 1995, approximately 19,500 written requests were filed for repairs. Some 15,000 cases were addressed by the housing fund. Another 13,000 war-damaged houses were repaired using financing provided by the Ministry of Reconstruction and by the Croatian Bank for Reconstruction (HKBO).

There are three settlements under the jurisdiction of the city that are still occupied.

3.4.4 Housing Production

A total of about 8,000 dwelling units were built between 1979 and 1989 for an annual average of approximately 800 units. Roughly a third of these units were built by private owners, another third by the enterprises, and the final third by public sector agencies. Housing construction has virtually ceased since the war began in September 1991. Only the GRADNJA construction firm has been building and financing a very small number of housing units in Osijek.

3.4.5 Principal Housing Components

Costs and Financing

The square meter rental housing rates have been regulated by the city. They were set at an average of 1.94 Kuna per square meter.

There has been a basic lack of formal housing loans for new construction. Loans for housing construction are generally not available. Small, short-term loans with repayment periods of one year can be obtained from banks such as the Slavonia Bank. The City Bank of Osijek, a private bank, is now considering the possibility of offering long-term loans for housing construction. The Bank has 50 million DM of citizens' deposits of which 30 to 40 percent can be used for housing finance. The down payment for housing loans will be 30 percent.

The number and amount of housing loans provided by the Zagrebacka Banka in Osijek were shown in Table 2.1.

3.4.6 Enabling Framework

Planning

Both the county and the city are using the same planning institutes to develop their required plans. The fact that the same people are working on both plans reduces the possibility for disagreement between the county and the city. The city is currently following the general plan from 1988, which allows it to implement decisions in a flexible manner during this reconstruction period. Development standards are determined in the county-level plan. The city is intending to complete detailed development plans within the next three years.

Elaboration of the new city plan involves inputs from citizen organizations through the process of public hearings. The conclusions reached based on these public discussions become part of the plan and are to be implemented.

4 Housing Delivery System: Issues and Constraints

The urban housing sector in Croatia is undergoing a fundamental transition from public sector production of a large number of socially owned apartment units to private sector production of individual market-oriented units for virtually all segments of the population. There are no policy or institutional frameworks in place through which this transition can take place. This chapter provides a brief analysis of the housing delivery system for urban areas and some of the basic issues and constraints that are now being faced.

4.1 Basic Analysis of the Housing Delivery System

Table 4.1 summarizes the status of the various components of the urban housing delivery system. Major components include land, infrastructure, construction, and financing. The table points out some of the major gaps in the system and what can be done to resolve them.

4.2 Issues and Constraints

Many housing issues are currently unresolved due to continuing uncertainties in the housing sector. A brief discussion of a few of the more evident issues and constraints is included in this part of the report.

4.2.1 Lack of Policy Framework or Leadership in the Sector

Two very distinct paths to housing were firmly in place prior to Croatian independence: private individual housing and multi-family social housing. Since independence, the government has discontinued the social housing approach, privatized the majority of socially owned housing units by selling them to their tenants, and drafted a number of new, housing-related laws that will begin to produce changes in the housing sector over the next few years. What the government has not put into place, however, is any of the institutional or policy-related framework necessary to support private sector provision of housing for the majority of the population, nor has it identified the necessary leadership to achieve this transition. The result has been a very inactive housing sector and very little production of housing.

A special committee formerly advised Parliament on housing sector policies and programs. This committee no longer functions and there is now no formal process to openly discuss housing policy and performance within the government.

The National Committee for Habitat II is currently the only recognized, national-level group involved in the overall review and analysis of housing sector performance. Members of this committee include representatives from the Ministry of Physical Planning, Civil Engineering and Housing, the Ministry of Foreign Affairs, the Ministry of Development and Reconstruction, the Ministry of Finance, the State Office for Displaced Persons and Refugees, the Central Bureau of Statistics, and the City Bureau for the Development Planning and Environmental Protection of the City of Zagreb. The broad-based composition of this committee provides a reasonably

Table 4.1
Summary of Basic Housing Delivery Constraints and Their Impact

Housing Delivery Component			
Land	**Infrastructure**	**Construction**	**Finance**
Basic Constraints • Poorly developed residential land markets • Outdated land titles and registration system • Large area of city land to be denationalized • Few if any private sector land developers • Public land auctions not conducive to individual, owner builder housing • Little flexibility in zoning regulations to encourage development in key areas • Inefficient land use planning in socialist-style high-rise neighborhoods • Land development standards too high for individual low-income housing development	**Basic Constraints** • Generally adequate infrastructure and services except for sewage treatment • Inadequate incorporation of environmental considerations into infrastructure decisions • Maintenance revenues diminished with changes in the housing funds • No property-related taxes used to finance infrastructure development and/or services • Alternative methods of financing infrastructure not fully defined or tested • City capital investment planning for infrastructure inadequate to guide private sector development	**Basic Constraints** • Urban housing production capacity cut to less than half by discontinuation of social housing funds • Few if any private sector housing developers • Housing cooperatives no longer active as such • Reconstruction needs due to war will require major GOC resources • High construction costs reduce affordability for majority of urban households • Housing standards not affordable to majority of households • Regulatory practices slow and cumbersome	**Basic Constraints** • Previous social housing funds discontinued as source of housing finance • Little construction financing available to private sector builders • Limited long-term housing finance available for house purchase or construction • Banks not experienced in working in market economy • Terms and conditions of available loans in state of flux • Overall interest rate policies not established • Financing of housing reconstruction liable to prejudice future viable housing finance
Impact/Response • Very limited access to residential land for individual housing construction within urban areas • Laws on property ownership and denationalization will help but need to take actions to stimulate private sector land markets	**Impact/Response** • Need to encourage development in areas that are already supplied with basic infrastructure • Immediate focus on maintenance and upgrading of existing infrastructure as opposed to new extensions	**Impact/Response** • Capacity to produce urban housing dramatically reduced • Respective roles of public and private sector housing suppliers are currently unclear • Housing production not responsive to needs	**Impact/Response** • New housing unaffordable to majority of households due to lack of finance • Reduced financial resources for housing construction and improvement • No financial incentive (i.e., possibility of loan) for households to follow building regulations

good forum for the discussion of appropriate housing policies and programs, which could be developed into a more permanent steering committee or national-level advisory group on housing.

The extent to which cities will be involved in the formulation and/or implementation of housing sector policies is currently unclear. While cities have traditionally provided some guidelines on housing in the past, their role in future housing sector activities remains to be clearly defined. The extent to which the new city development plans will address housing policies and/or outline strategies for future housing programs is an area that needs to be clarified. Future roles of the central government and the individual cities in the development of future housing policies and programs need to be clearly defined to avoid conflicting overlaps and potential bottlenecks.

A simple approach toward developing appropriate housing policies would include a determination of housing needs, development of a broad-based strategy to address these needs, definition of target groups and related institutional responsibilities for housing delivery, and formulation of policy and procedural recommendations.

4.2.2 Substantial Gaps in the Delivery of Urban Housing

The attempt to introduce fundamental, post-independence changes within the housing sector has resulted in major housing delivery gaps for urban housing. Two of the most obvious ones concern the large number of apartment units formerly provided through the social housing funds and the important number of middle-income housing units built by cooperatives.

The termination of the solidarity-based housing funds, which produced a very large part of the urban housing stock since World War II, has been the most significant change in the housing sector since independence. These solidarity housing funds made it possible for moderate-income workers to obtain acceptable apartment units at reasonably low prices. There are no policies or programs currently in place to fill this very large gap. The government is currently providing only a limited number of social housing units to war veterans, widows, and other socially disadvantaged households.

The cooperative housing movement is no longer effective in providing affordable housing. The handful of cooperatives that are currently in operation function more like small private developers than cooperatives.

The gaps left by the disappearance of these two former paths to housing are substantial and will require a significant amount of time and effort to fill. While a few construction companies are developing housing for sale or rent, they are not producing units that are targeted to moderate- and low-income groups. The private sector has little experience in providing large numbers of housing units for these types of urban workers and will need to work closely with the government in order to establish a clear understanding of what to do and how to do it.

4.2.3 Outdated Regulatory Framework

Regulatory policies define the general framework within which efficient housing development can take place. Clear and definite regulations are necessary so that government can maintain control over the type of development that takes place and so that private sector housing providers can work in confidence.

Urban land and housing delivery in Croatia are in a state of transition from a highly planned and centralized public sector approach to an individual, private sector approach that involves a much greater degree of local participation. The success of this new approach will require much more open and democratic decision-making systems than those employed in the past.

Five major principles should govern modern land and housing regulatory systems:

- health and environment;
- comprehensive planning;
- cost-efficient provision of infrastructure;
- affordability/equity; and
- security of tenure.

The current regulatory system must be reviewed and revised to make the housing delivery system work as efficiently as possible. Long bureaucratic delays have plagued housing delivery in the past and are likely to be an even greater impediment to a much-expanded future provision of housing by the private sector. Controls that lead to misuse, design monotony, weak, and arbitrary administration, conflict with rationally developed public policies and plans, and add time and costs to the development process and/or exclusion of certain groups from the system should be avoided.

It should also be kept in mind that planning and zoning have very different and often incompatible orientations. Planning is a forward-looking activity that has traditionally emphasized land uses ignored by the market, such as open space, visual amenities, and community facilities, and those people who cannot easily compete for housing, such as low-income groups, the elderly, etc. Zoning, however, is oriented toward the status quo by emphasizing compatibility with existing land use and established interests. Flexibility in zoning techniques is required in order to maintain a correct and positive balance between these two conflicting points of view, one that will encourage and control private sector development.

Some basic criteria for the effective management of flexible zoning techniques and development regulations can be described as follows:

- regulations must have a sound policy base;
- standards that define the range of allowable discretion must be made clear in the ordinances so that landowners and developers have a reasonable idea of what they can and cannot do on their land and so that communities have adequate guidance in making decisions;
- professional assistance should be provided in design and administration;
- excessive secrecy and/or appearance of any conflict of interest must be avoided;

- specific controls should be selected that respond to local needs and desires and can survive a legal challenge; and
- local application of regulations should be subject to national level review.

4.2.4 Inadequate Financing for Infrastructure and Housing

There was no real need for mortgage financing under the past solidarity approach to housing. Urban land was effectively owned and/or managed by the city, while the construction of socially owned housing was financed through the salary tax. Individual housing finance was not essential to obtaining a decent house and no traditional form of collateral was in place on which loans could be based. The high rates of inflation also discouraged banks from making long-term loans with fixed interest rates. Banks were encouraged to invest in the business sector and, as a result, their investments in housing amounted to only about 1 percent of their total investments.

The lack of credit available for private housing will be a major obstacle to the future development of housing. Problems and inefficiency in the supply of urban housing in Croatia will increasingly be due to the continuation of banking sector policies that reduce financial resources for housing and prevent individuals from building and/or purchasing homes. The end result will be the increasing development of illegal housing construction.

4.2.5 Poorly Developed Land and Housing Markets

The government has decided to reinstate fully functioning private sector land and housing markets in urban areas. The long review and approval process of pending legislation on the denationalization, however, continues to constrain access to urban land and impede its development.

Market relations in real estate transactions were not able to function freely under the previous system and are still a long way from being developed to a satisfactory degree. While there are a large number of natural and legal persons involved in real estate transactions, there is only a small number of them who are actually professionally qualified to do so. There is also no information system for real estate transactions.

The way in which the management of the city's property is currently organized and managed does not correspond to the new circumstances of more open land and housing markets. City-owned real estate provides one important source of financing essential infrastructure and the services that the city, as a unit of local self-government, is obliged to provide to its citizens under the conditions of a market economy and new ownership relations.

The current change involves moving from a mono-linear economy to one that is led by market initiatives and governed by market forces. This change must be carried out in a fair and equitable way that takes into account the rights of all citizens and prevents unwanted speculation and distortions from developing within future land and housing markets.

4.2.6 Unclear Management and Financing of Housing Maintenance

The management and maintenance of the former, socially owned, but now privatized housing stock has been cited by all of the four major cities as a key concern. The privatization of these apartment units has been carried out without putting into place the necessary policies and procedures by which to manage and maintain them. While legislation is now being reviewed by Parliament to help resolve some of the major issues, a considerable amount of local level work remains to be done. Particular attention needs to be placed on the organization and functioning of the residents associations and on the cash flows and financing of maintenance.

Significant problems are expected to occur in the management and maintenance of multi-family apartment buildings. Owners will be generally unfamiliar with their new obligations. They will also have different interests to reconcile while attempting to reach agreement on building management and maintenance. One difficult problem that almost always occurs concerns the maintenance of roofs (especially flat roofs) and elevators.

The normal maintenance fees charged to apartment owners have been inadequate to cover the independent maintenance of buildings. Problems will occur because the fees that were collected cannot cover all of the building maintenance costs due to the poor financial status of many of the individual apartment owners and to the lack of appropriate legislation by which maintenance is established as an obligation.

4.2.7 High Cost of Construction and Problems of Affordability

Housing construction costs in Croatia were very high even before the current changes in the economy and the housing sector began to take place. The high cost of construction and problems of housing affordability have become a major stumbling block to the provision of new housing in urban areas. Unless appropriate measures are taken now, the gaps between the cost of housing and affordability will only continue to grow in the future.

There is a need to determine the causes for the high building costs and to identify ways in which reductions can be made in material and overall construction costs as a result of greater efficiency and competition in the housing construction process. The private sector, incremental approach to individual housing also needs to be investigated in detail to understand more fully its ability to respond to the needs of low- and moderate-income households in urban areas.

Starter homes for young professionals and various forms of tax relief may provide some of the ways to reduce the costs of housing for specific target groups within the urban population.

4.2.8 Extraordinary Housing Reconstruction Needs

Damage to housing and infrastructure as a result of the war has been extensive in certain areas that cover almost one third of the area of the country. Based on estimates made by the State Commission for the Evaluation of War Damages, there were 135,000 housing units — nearly 8.6 percent — of the housing stock that were damaged or destroyed by the war. Nearly 34,000 houses were utterly destroyed.

The number of displaced persons in Croatia peaked in 1992 at more than 700,000 persons. As of 1994, there were still a total of about 380,000 displaced persons and refugees. Many of the displaced persons and refugees from within Croatia have relocated in the larger cities. Zagreb, for example, has experienced an increase in population of almost 80,000 people or about 10 percent of its population.

The Ministry of Development and Reconstruction has been involved in attempting to assist households in the repair of their housing units through its 25,000 Family Houses Project. The government intends to finance the reconstruction of these housing units through a combination of funds from the state budget, the Croatian Credit Bank for Reconstruction, and other sources. The total contribution from the budget is expected to reach approximately US$550 million, with another US$230 million coming from the Bank and US$1,400 million from other sources. This represents a major housing effort whose policies, procedures, and standards will have an important impact on the rest of the sector.

4.2.9 Public Participation in the Planning and Development Control Process

Successful land and housing management and development depend to a considerable degree on public participation and support for planning and development controls. Adequate procedural requirements for consultation and public participation need to be established in order to promote the formation of local stakeholders in the planning and development process and to engage necessary community support. Plan-making and development control processes will be rendered more open and democratic by greater public awareness, transparency, and administrative accountability.

Formal public hearings are an important safeguard for public participation in the plan-making and development control process. Such hearings can help avoid future complaints concerning the lack of information provided to the general public on important planning matters. There is a need to work out relationships between public sector agencies and the local population who will be making investments in housing and infrastructure.

5 Proposed Work Plan

The urban housing sector in Croatia has been virtually inactive since a state of fundamental transition began with the country's independence in 1991. The majority of urban housing built during the prior 30-year-long period while the country was part of Yugoslavia included multi-family apartment buildings. During this period, housing construction was financed through an average salary tax of roughly 3 percent, buildings were owned by society in general, and individual apartment units were inhabited by tenants with very strong occupancy rights. Under this system, urban housing was relatively inexpensive and affordable for those lucky enough to obtain an apartment. The success achieved in building a substantial number of units built for workers in urban areas, however, resulted in the ever-growing maintenance problem for the city governments charged with this responsibility. In Zagreb alone, for example, some 160,000 units were considered to be socially owned units whose maintenance was the responsibility of the city.

Because of the new government's need for capital, it acted very quickly in selling socially owned housing units to sitting tenants. Unfortunately, there was no accompanying effort to put in place an institutional structure to maintain these units or to set out new policy guidelines for the provision of urban housing. Government activity until now has focused almost entirely on drafting a new set of housing-related laws for Parliamentary approval. At the same time, there has been no leadership or policy guidance in the housing sector and urban housing production has essentially ceased for at least the last two or three years. Only those units that were started before independence were completed.

Because of this situation, there are many areas within the housing sector that could benefit from USAID-sponsored technical assistance. A mission by UNCHS/Habitat, for example, suggested a specific need for expatriate assistance in housing policy, land management, institutional relationships, and problems of transition. While there are many qualified professionals in Croatia, the sought-after fundamental change in the orientation of the housing sector requires a certain amount of international assistance.

The basic strategy for USAID involvement in both the municipal and housing sectors is to:

- strengthen democratic processes by supporting actions to improve the performance of local government particularly in the provision of infrastructure, services, and housing; and
- encourage a more stable society by improving infrastructure, municipal services, and housing conditions to meet the needs of as many citizens as possible.

The basic outlines of a strategy for municipal services and finance have been noted in the assessment on municipal infrastructure and services. Several of them apply to the housing sector as well and include:

- focusing on the four largest cities of Zagreb, Split, Osijek, and Rijeka, which, because of their size and importance, will have a substantial impact on municipal performance and accountability and on the development of urban housing policies and programs in Croatia;
- assisting in the reconstruction of war-damaged infrastructure and housing as a way of introducing sustainable policies and approaches that are responsive to the real needs and financial capacities of the country and its population;
- improving communication and fostering information sharing among the cities involved in the project, other cities interested in project activities, local consultants, and research institutes;
- using local consultants and institutions to increase project effectiveness in the short run, building local sustainability and reducing costs;
- focusing on specific issues of high interest to the cities as a means of disseminating market-oriented approaches and systematic change;
- leveraging technical and capital resources to accomplish project goals; and
- focusing on achievable activities that can produce tangible and quantifiable results by the end of the project.

5.1 Resident Advisors

A successful integrated work plan requires a closely coordinated use of a resident advisor and timely short-term assistance. A resident advisor alone will not be able to provide the necessary impetus or detailed analysis and recommendations concerning the wide range of issues that currently face Croatian cities and the provision of affordable housing. The provision of a long-term resident advisor, therefore, must be linked to and supported by targeted short-term assistance that will focus on producing rapid improvements in the management and delivery of municipal infrastructure and housing.

The resident advisor will be responsible for providing the essential initiative and follow-up support to proposed policy and operational improvements. A key role will be to help focus and maintain the policy debate for municipal management and housing both during and after the passage of new legislation. The timely injection of short-term assistance will provide high-quality technical assistance on the key issues and/or constraints to the emergence of new approaches to municipal management and finance and housing.

Given the fundamental changes that are taking place in Croatia's urban housing sector, a considerable amount of work on policies, regulations, procedures, and institutional roles within the sector will need to be determined even after the numerous laws regarding urban property and housing have been passed by Parliament.

There are three major areas of transition in the housing sector that will require considerable assistance. They are:

- management and maintenance of the former socially owned housing stock;
- establishment of an enabling environment that can support private sector development of housing for the majority of the urban population; and
- reconstruction of war-damaged housing to allow displaced persons to return to their homes.

Given the provision of a separate resident advisor to work on Sector East, only one long-term resident advisor is currently envisaged for this project. This advisor should be assigned to the City of Zagreb. He/she should have a municipal management and finance orientation with considerable experience in housing.

The major areas of focus for this resident advisor would include, but not be limited to:

- providing assistance to the city in recovering the costs of urban infrastructure and services, planning and programming new investments, interacting with the local community, etc.;
- examining the feasibility of using of municipal bonds to finance the development of urban infrastructure, services, and housing;
- assisting in organizing the management and maintenance of the newly privatized socially owned housing stock, including the formation of resident associations and implementation of the financial provisions of the new law;
- development of one or more pilot infill commercial/housing projects through public-private partnerships and/or land reparcellation;

- helping the city improve its budgeting, management, and operation of urban services;
- working with the city- and national-level agencies to elaborate a policy component and interim action plan for housing in the upcoming 1999 city plan; and
- helping increase community participation in the development and implementation of city plans.

It is suggested that the resident advisor in Zagreb work directly with the city's Executive Council and on a day-to-day basis with the Department of Public Works, Housing and Transport and the Department of Planning, Development and Environment. The advisor would also work with the cities of Split, Rijeka, and Osijek on an as-needed and periodic basis. Communication between cities within the project would be achieved and maintained through joint strategizing sessions, seminars, workshops, and active participation by the project cities in an association of cities. Appropriate manuals, research, and results of the workshops, etc. would be published and distributed to cities and towns throughout the country. A considerable amount of work has already been done on municipal development and housing sector privatization in transitional Eastern European economies and elsewhere that could form the basis for discussion and be adapted and applied in Croatia.

The reintegration and reconstruction of Sector East will have a special emphasis on housing. The generation of considerable financial resources for development will provide a suitable "testing ground" for new public and private sector approaches to infrastructure and housing development. Specific attention will be placed on:

- working with the local planning institutes and county and city planning offices to incorporate housing policy considerations and action programs into the new county and city development plans;
- establishing pilot projects for new, culturally sensitive housing in reconstruction areas based on realistic and affordable standards;
- working with the Zagrebacka, Slavonia, and Reconstruction Banks to develop short- and possibly medium-term lending programs for financing the reconstruction of infrastructure and housing; and
- working on policies and procedures concerning the reconstruction and re-occupation of socially owned housing units damaged and left unoccupied as a result of the war.

5.2 Short-Term Assistance

Short-term assistance will play a major role in the project. A series of initial activities would be scheduled during the first three months of the project in order to:

- jump start its implementation;
- provide a valuable joint learning experience for both USAID-provided advisors and Croatian counterparts;
- build working relations and professional credibility; and
- target areas of improvement to be pursued by the participating cities during the course of the project.

Short-term technical assistance activities would be carried out through a judicious combination of local and expatriate consultants and institutions.

Initial technical assistance areas might include:

- establishment of a steering committee and an agenda for housing policy formulation based on Habitat II;
- issuance of bonds for infrastructure and land development;
- administrative and financial arrangements for housing maintenance and improvement;
- application of public-private sector partnerships to residential development;
- customer-oriented provision of city services; and
- mechanisms for community inputs into the city planning process.

Examples of initial short-term assistance involving mainly local consultants and institutions would include: a study of housing construction costs and the availability and use of local building materials; finance opportunities for housing reconstruction and/or improvement; and standards and procedures for different housing approaches that could make the resulting units more affordable to low- and moderate-income families.

Short-term technical assistance activities would result in reports that would be widely distributed in Croatia to further the discussion on a new set of guidelines for the provision of affordable housing. Such discussion and debate is extremely important in resolving the current uncertainty in the sector. In the past, there was a specific parliamentary committee on housing to advise on housing policy and programs. This committee no longer exists. There is, however, the Committee for Habitat II, which consists of representatives from different ministries and agencies and which has the potential to evolve into a steering committee for housing policy.

Short-term activities can be described as those requiring immediate action to get the project started and those whose implementation could be carried out later in the project.

5.3 Initial Focus Areas for Assistance

The initial focus areas for assistance would include: city development bonds; joint public-private sector development; housing policy and city planning; management and maintenance of privatized housing units; and construction industry, costs, and building practices.

5.3.1 City Development Bonds

Until now, the county of Istria has been the first and only unit of local government to issue bonds. Roughly 2 million German marks worth of annuity bonds with repeated serial maturity were offered on the Croatian market through a network of Croatian banks and brokerage firms in December of 1994. The purpose of these bonds was to finance part of the cost of building a wastewater treatment plant for the City of Pazin. The issuance of these bonds appears to have succeeded in raising capital for the project.

One area of immediate investigation would be to determine the possibility of using this bond approach to finance needed trunk infrastructure in the target cities, either through the city itself or through the utility companies. Bond-generated funds could also be used to improve sub-standard housing, sanitation networks and treatment systems, and/or community and cultural facilities in any of the participating cities. Central city areas, for example, could be redeveloped and reinvigorated to provide greater benefit to the city's population through the issuance of bonds and/or the use of public/private sector partnerships.

5.3.2 Joint Public-Private Sector Development

Another aspect of land and housing development to be investigated early in the project concerns the potential use of public-private sector partnerships. When local governments can no longer afford to develop land on their own, the private sector can help meet the need for affordable housing through joint development. The principal public roles and resources that can be brought to joint projects include the contribution of land (or land write-down), land assembly, construction of site improvements and installation of infrastructure, coordination and/or pre-approval of development approvals, access to lower-cost funds, tax incentives, sale or long-term ground lease, and financial risk sharing. The challenge to local governments is to structure the partnership in such a way as to capture the public's fair share of the economic and financial benefit of development projects through revenues, equivalent housing, or other assets without discouraging potential private sector investors. The participating city would retain considerable public control over what is built, where it is built, and who builds it, while also reducing the administrative costs of administering and maintaining the land and increasing potential revenues over time from taxes and fees on local property, profit, and income.

5.3.3 Housing Policy and City Planning

As previously mentioned, there is currently no leadership or guidance in the housing sector. Whether Parliament or the cities will respond to this need is not yet clear. The UNCHS/Habitat mission in 1993 recommended that short-term international assistance be provided in four main areas:

- identification of a National Housing Strategy;
- land management;
- improving the relationship between central government and the municipalities; and
- resolving the problems of transition in the country.

There are three ways in which the project can contribute to improvements in the operation of the housing sector. These would be to do the following.

- Work with the National Committee for Habitat II in laying out the basic foundation for the elaboration of a national housing policy. Current members of the Committee include representatives from the Ministry of Physical Planning, Civil Engineering and Housing, the Ministry of Foreign Affairs, the Ministry of Development and Reconstruction, the Ministry of Finance, the State Office for Displaced Persons and Refugees, the Central Bureau of Statistics, and the City Bureau for the Development Planning and Environmental Protection of the City of Zagreb. This activity should be initiated by the resident advisor supported by short-term assistance early in the project.

- Include housing policy and program considerations in the development of new city plans.
- Use the opportunity presented by war-related housing reconstruction to introduce new housing approaches able to respond to the needs of low- and moderate-income families.

Setting the framework for technical assistance in the above-mentioned areas will be one of the initial activities of the long-term advisor.

5.3.4 Management and Maintenance of Privatized Housing Units

Another high priority area for short-term assistance involves the management and maintenance of privatized housing units. The new law related to housing condominiums and maintenance is now in the process of being reviewed by the Parliament. This law will establish the basic framework for resident associations and maintenance procedures related to recently privatized apartment buildings. City personnel in both Zagreb and Rijeka believe that the city itself should be responsible for sensitizing the local population concerning their responsibilities under the new law, organizing resident associations, and managing the procurement of maintenance services. The argument for continued involvement by the city in the maintenance of these units is that the city has already developed considerable experience and contacts in the area of housing maintenance and is best qualified to continue. The city of Rijeka, for example, can also obtain more favorable insurance rates for the new apartment owners because of its credibility and the volume of units to be insured.

The management and financing of maintenance for the roughly 160,000 formerly socially owned apartment units that have recently been privatized is a major concern to the city of Zagreb. One existing proposal that merits further analysis and discussion is the development of a housing maintenance bank that would hold the required individual savings accounts for maintenance and provide loans for major maintenance and repairs. Interest would be paid on deposits and charged to any loans. Such a bank could later expand into a housing finance and mortgage bank once it had developed more experience and confidence in the market.

While a housing maintenance bank would provide the base on which to develop a bank focusing on small savings, small housing loans, and moderate-income families, other banks could also be encouraged to increase their activity in making home improvement and renovation loans. For example, in 1995, the Zagrebacka Bank made a total of 6,539 housing loans, of which 4,639 or 71 percent were for housing improvement. Only about 4 percent of the loans (282) involved new construction. The total amount of money lent by the bank was around 625 million Kuna (US$120 million), of which 283 million Kuna or 45 percent was for home improvement loans. The average home improvement loans amounted to around 62,000 Kuna (US$12,000). During the same year, a total of 2,954 loans were made for the cities of Zagreb, Osijek, and Rijeka, of which 1,928 (65 percent) were for housing renovation and improvement. The total amount of money lent was around 354 million Kuna with 119 million lent for home improvement. All of these loans were made despite very difficult lending conditions. Once the necessary property and housing laws have been approved, there should be considerable opportunity to improve the performance of the housing finance sector as well.

5.3.5 Construction Industry, Costs, and Building Practices

Another priority area for investigation mainly by local consultants and institutions concerns construction costs and practices. The high cost of construction and problems of housing affordability have become major stumbling blocks to the provision of new housing in urban areas. The purpose of this short-term activity would be to determine the causes for these high costs and ways in which reductions could be made in material and overall construction costs as a result of greater efficiency and competition in the construction process. The private sector, incremental approach to individual housing would also be investigated in order to understand more fully its ability to respond to the needs of low- and moderate-income households in urban areas.

5.4 Subsequent Focus Areas for Assistance

There are several other areas that should be covered by short-term assistance as the project progresses. Additional needs may also be identified.

5.4.1 Land Reparcellation

No development can take place unless current land-related issues and constraints are satisfactorily resolved. The nationalization laws of the late 1950s allowed the government to take over a considerable amount of vacant land within the boundaries of the major cities. Some parts of that land have been developed, while others continue to be vacant. A denationalization law is now being prepared that will address the return or compensation for urban land that was nationalized from private individuals. A rapid evaluation of the situation of vacant land within prime development areas needs to be undertaken in each of the four major cities concerned by the project.

The new city plan for Zagreb, for example, will focus on sustainable development and a more efficient use of resources and existing infrastructure. Sensitive infill development will be a key element of this plan. A reparcellation approach could be applied to vacant but previously nationalized land within the city as part of implementing the plan. The land could be developed for housing or other uses with a certain amount of the resulting serviced land offered as compensation to the former owner. This would allow the city to proceed with the development of key areas, while continuing to search for the original owner and determine compensation.

5.4.2 Real Estate Swaps

The laws concerning property ownership and the denationalization of private property previously seized by the government are still awaiting Parliamentary approval. In the meantime, real estate swaps and, perhaps more importantly, land reparcellation could possibly be used to free up property for development that would otherwise be blocked until new laws are passed, necessary systems put into place and fully operational, and individual property issues resolved.

At least one housing cooperative/developer in the city of Zagreb has recently made a deal with the city to compensate the former owner of the property to be developed by putting aside a number of apartment units in the developer's own buildings that would be given to the property owner as compensation following passage of the denationalization law. The apartment units to

be offered as compensation will be held by the city until the denationalization law has been passed and the actual amount of compensation determined. The approach is possible because of the involvement of the city as "guarantor" of the process. While this approach would apply to only a small number of properties, it indicates how some flexibility in the system could be used to free up properties in critical development areas. It might inspire an approach by which the city can improve old and dilapidated nationalized housing in the city center while taking into account the rights of former owners. Similarly, developers could also be encouraged to build new housing units for the tenants of rundown, city center units in return for being able to renovate these centrally located buildings for more lucrative, business-related uses based on a rezoning of the area.

The application of these approaches would enable the city to undertake a more proactive role in its development and to maximize the use of existing resources and infrastructure.

5.4.3 Land Auctions

Some vacant urban land, however, will remain in the possession of the cities, possibly providing them with a very valuable asset for development. The city of Zagreb, for example, has already begun auctioning off part of its land based on starting fees for different areas or zones of the city. The current auction process should be reviewed and compared with similar approaches in other transitional economies. Emphasis would be placed on reducing risks by identifying highly marketable sites for auction, setting realistic starting prices, pre-approving infrastructure connections, and granting development approvals in advance of designating the site allottee.

Private control of vacant and underutilized land encourages the efficient and productive use of land by giving developers and owners more flexibility to respond to the changing conditions of supply and demand. The transfer of land to private owners can provide initial sales revenue and, in all cases, constitutes a potential source of taxable wealth for financing infrastructure, municipal services, and social housing. The transfer of direct control of property to the private sector reduces public administrative costs and generates employment through new development projects. Some short-term technical assistance could be used in reviewing current procedures and making recommendations to improve the auction of city land.

5.5 Land Registration and Titling

Land registration and titling provides the fundamental legal support for efficient and fully functioning real estate markets and private housing development. The adoption of computerized information retrieval systems, data handling processes, and valuation systems for the purposes of real estate taxation will facilitate the establishment of systems of legal property descriptions and geographic links for future expansion able to include broader cadastral information.

Until the 1970s, the former Yugoslavia had a cadastral system that was kept relatively up-to-date. Since land ownership was not a concern to the government in urban areas, however, land ownership records and any changes in the land became increasingly outdated. Two separate registers are currently maintained: a manual and outdated register of property ownership maintained by the city court and a computerized register of land use managed by a city institute. There is an obvious need to update and reconcile these two sets of records to implement the law

on denationalization. A short study concerning how this can be achieved needs to be undertaken to establish a new land title and registration system that will be comprehensive, convenient, and simple to use.

5.6 Land Regulation and Zoning

A growing number of housing units within certain Croatian cities are being built illegally. The situation is likely to worsen given the changes that are now taking place in the legal framework for housing and the substantial bottlenecks that exist in the delivery of housing in urban areas. Part of this problem is due to the way in which urban land is zoned and used. The city of Zagreb, for example, uses seven zones to determine infrastructure fees and rents. More flexible and uniformly applied modern land use regulations are required to encourage and guide private development.

Proper zoning can promote private investment in housing by stabilizing and preserving property values, allowing a broader range of choices on how land may be developed, offering greater security to private interest, and encouraging better functioning land markets. Because private markets encourage the highest monetary return on investment, land will be developed to its full potential within the limits of the zoning regulations. Societal interests will be served by the realization of the full development potential of land with commensurate job and tax revenue generation from new land development.

A short study is needed to examine the application and effectiveness of current zoning practices and the potential use of innovative zoning procedures in the new city plans (e.g., incentive zones, enterprise zones, floating zones, planned development units, etc.).

5.6.1 Construction and Mortgage Financing

Construction and mortgage financing were not in great demand during the period of socially owned housing in urban areas. The construction of housing units was financed through housing funds and inhabitants of the units made only monthly payments. While these payments were difficult to meet during the first few years or residency, they became progressively easier thereafter. A few housing loans were in fact made, but there was only limited demand and supply. Currently, there are only a few banks making loans for housing under very difficult terms. A further study of the possibilities of housing finance needs to be made. The need for housing reconstruction provides an environment in which housing finance will be required to meet the needs of reconstruction and repair and where more innovative approaches can be tried.

5.7 Conclusion

This preliminary work plan has attempted to focus on technical assistance needs that have become apparent as the result of a relatively short in-country mission. It is impossible to have addressed all of the potential needs that exist and/or to know all that there is to be known about the sector. Additional priorities and/or requirements for assistance no doubt will become clearer during the course of the project. While some flexibility should be left in the project to address these unforseen needs, it is also very important to be able to jump start the project with certain high-priority, short-term activities. The relation between assistance provided to the four major cities and to the Sector East is also critical because of the ability to actually put into place and

to "test" certain municipal infrastructure and housing approaches that can later be applied on a country-wide basis. Consequently, there should be a very close relationship between the two programs of activity.

APPENDIX A

Appendix A

1 City Profile of Vukovar

The municipality of Vukovar covers an area of some 600 km2, which includes 30 settlements, 2 towns, and a total population of approximately 76,000 people. It is anticipated that this population will increase to around 95,000 by the year 2000.

Vukovar is currently a multi-ethnic area with a relatively high percentage of non-Serbs.

The Parliament was elected in 1993 and appointed the Executive Council, which elected the current Mayor.

The Municipality has seven secretariats or major departments, which include:

- administration;
- documents;
- urbanism, building communal housing, and property issues;
- cadastre and surveying;
- finance;
- economy; and
- culture, social and sports, education, and health.

The Executive Council operates according to laws and regulations determined by Parliament. The council is autonomous in making plans for reconstruction. Its activities are financed by the municipal budget.

According to the Executive Council, the municipality started working on plans for reconstruction soon after the fighting stopped. They essentially reviewed the existing master and considered certain modifications as a result of the fighting. The master plan includes the entire city. There are also detailed plans for the reconstruction of various sectors and of basic urban services. Priorities that were addressed during the first year after the war included the restoration of the water supply, the electricity, hospitals, and schools. The basic approach was to create conditions for women and children to come back.

The city has been able to reconstruct part of the water network and to supply roughly 280 liters per second of purified water to the city. Water is obtained from both the Danube and a number of very deep wells around the city. The capacity of the wells is adequate to increase the supply of water, but there is a problem with the level of iron in the water. There have also been pollution problems related to the Danube. The water supply company is a public company. Pipes have been inspected for leakages. Water is regularly controlled and there are no major problems.

Electricity is bought from the Serbian grid without any subsidy. While the quality and supply of electricity is adequate, a number of high- and low-tension lines need to be rebuilt.

In terms of economic development, all of the companies in the municipality have been inventoried. The city intends to focus on economic development as the basis for other types of development.

In Vukovar, there were 15,200 dwelling units in 1991. About 25% were buildings with more than two floors; the remaining 75% were small, single-family housing units with up to two floors. Most of the larger buildings were public apartments.

Beli Manastir is a smaller town with about 4,300 dwelling units, Ilok with 3,200, and Erdut with 3,500 housing units.

Before the war, in the towns of Eastern Sector, the number of households was slightly higher than the number of housing units.

It has been estimated that close to 90% of the housing in Vukovar has been significantly damaged or destroyed in the war.

2 Proposal for a Strategic Planning Approach to Assist in the Reconstruction of Vukovar and the Peaceful Reintegration of the Eastern Sector

Introduction

The following proposal sets out a strategic urban and reconstruction planning approach for the Eastern Sector and the municipality of Vukovar that can play a positive role in the peaceful reintegration and development of this area.

Recent meetings with both the existing Executive Council of the municipality of Vukovar and the Office for Transitional Administration in Osijek have indicated that both the current Serb-run municipality and the Croatian municipality-in-exile in Zagreb are working on plans for the reconstruction of Vukovar that will take the city into the next century.

Despite the massive damage throughout the city, the current municipal administration has been able to restore most of the basic infrastructure and urban services and has been able to generate a total of almost 34 million DM in revenues in 1995.

The Office of Transitional Administration in Osijek is responsible for the peaceful reintegration of the Eastern Sector into Croatia. The Government of Croatia has stated that all ethnic groups in Croatia will be allowed to remain in the country as citizens and that all property rights will be protected.

The fact that both the existing Executive Council in the municipality of Vukovar and the Croatian-led municipality-in-exile in Zagreb are working on reconstruction and development plans for the future of Vukovar presents an opportunity to provide technical assistance in planning that will encourage the two groups to communicate on the future of the city and lead to a practical and generally agreed-on plan for the future. The preparation of such a plan will also provide a means of coordinating future international assistance to the area.

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Rationale for a New Planning Approach

Conditions surrounding the large-scale reconstruction of the Vukovar area and the Eastern Sector require a reconstruction planning approach that can cope with the unique social, political, economic, and physical devastation of these areas and that can make maximum use of the available human and financial resources. The static planning and zoning approaches employed in the past will not be able to address present problems and will only hinder communities in the Eastern Sector in attempting to seize evolving development opportunities and to rebuild their societies. A more open and participatory planning process is required that can also serve as a model for other cities in Croatia.

Reconstruction planning within the Eastern Sector requires self-sustaining community initiatives that address the obvious social needs related to ethnic reconciliation, the resettlement of displaced persons of all ethnic groups, community involvement in elaborating a common vision for the areas future, the installation of democratic processes in local planning and development, and the restoration of a viable economy and livable physical environment.

The complexities of reconstruction and development in the Eastern Sector and the interdependence of issues require:

- a more efficient and practical assembly, analysis, and use of planning data;
- more sophisticated tools for measuring the benefits and costs of alternative actions to meet citywide development objectives; and
- greater emphasis on the coordinated roles of public and private organizations at the central and local government and neighborhood levels.

Emphasis should be placed on establishing an "enabling" environment whereby the main efforts of the public sector are aimed at supporting and guiding private sector development in ways that will capitalize on the energies and resources of individual households, community groups, and commercial enterprises.

The way in which to achieve this is through a strategic planning process that will enable the Vukovar municipality to meet its overall development needs and ambitions within the context of its existing opportunities and constraints. Strategic planning is a process that most effectively combines physical planing, investment planning, resource projections, and institutional requirements.

The strategic planning process will also help the Vukovar municipality develop a future vision of itself and become aware of the dimensions of its freedom to choose. The municipality can then define the tasks at hand and begin to carry out the necessary actions that will make the area a better place in which to live for all ethnic groups.

Basic Description of the Approach

The strategic planning process is characterized by:

- a focus on selected issues;
- the explicit consideration of resource availability;

- an assessment of both the strengths and weaknesses of the municipality and the general conditions that surround it;
- the consideration of major events and changes that have been taking place outside of the community and that provide the municipality with both problems and opportunities; and
- an orientation toward action and implementation with a strong emphasis on practical results.

The strategic planning proposed for Vukovar will help the municipality to define appropriate long-term directions for community change and a short-term operating framework through which this change can be achieved. It involves an approach to achievable incremental change. The effective combination of strategic and action planning will enable the municipality of Vukovar to maintain a development balance among its economic, cultural, and physical environments, while making best use of existing resources to respond to new opportunities. A wide range of opportunities will no doubt present themselves with the peaceful reintegration of the area into Croatia.

The strategic planning approach is also oriented toward a wider environment that extends beyond a city's administrative limits and/or planning boundaries. It is a conscious tool for innovation in many areas, which requires continuous intelligence gathering and highly responsive strategy formulation and adjustment.

The key to stimulating this type of planning process (and to reaching a desired level of consensus) is to involve the general public, interest groups, and various government agencies in all phases of the process. A variety of links to the local citizenry (including both those who are currently living in Vukovar and will remain and those who will return) must therefore be established in order to generate the necessary mutual understanding and trust among divergent interests.

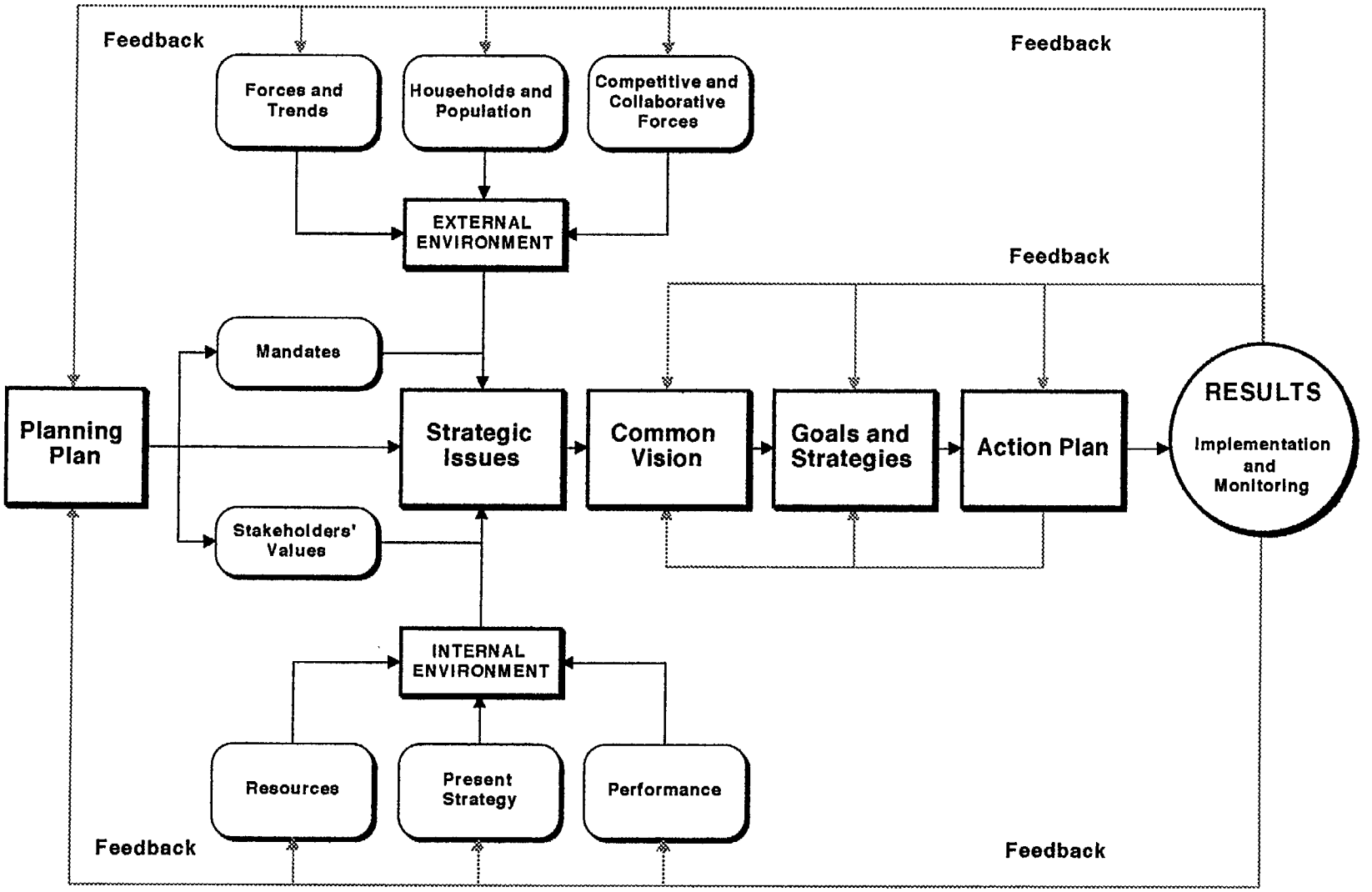
Implementation of the Approach

The basic steps in the implementation of a strategic planning process are shown in the accompanying figure and include the following.

- A Development of a Plan for Planning

  The very first step is to agree on basic process. Both the existing municipal council and the one in exile, as well as both public and private sector participants in the development of the city, need to be involved in developing the basic framework and approach to be followed in the planning process. Various "core" and "working groups" will be established to carry out a continuous dialogue, to determine work programs and timetables for the planning process, and to identify and eventually apply potential incentives and disincentives to different types of development . The review and sharing of agency mandates and stakeholder values among all participants is a key starting point to the establishment of this dialogue.

OUTLINE OF A STRATEGIC PLANNING PROCESS



Source: Adapted from "Applying Private Sector Strategic Planning in the Public Sector" by Bryson and Roering, APA Journal, Winter 1987

- Assessment of the External and Internal Community Environments

  The current challenge in planning the future reconstruction and development of Vukovar is to re-establish sustainable, multi-ethnic communities that are democratic, affordable, efficient, scaled to human proportions, and environmentally sound. This makes it essential to develop an accurate understanding of the internal and the external strengths and weaknesses possessed by the area as it attempts to address the critical issues with which it is faced.

  Consequently, an integrated assessment of both the external and internal environments surrounding the municipality of Vukovar should be used as the basis for identifying the strategic issues that will set the public agenda.

  The assessment of the external environment will include an analysis of the national and regional forces and trends acting on the community, projected patterns of resettlement and demographic change, and competitive and collaborative forces that affect the area's economic productivity.

  The assessment of the internal environment will focus on existing conditions, emerging situations in terms of available resources, and future prospects for development. It is also important to understand both the successes and failures of the city prior to the war in order to consider suggestions and alternatives for the future. The city's recent political, physical, and economic development and the impact of former planning and zoning practices on the pattern of development should be thoroughly studied.

- Identification and Analysis of Strategic Issues

  A thorough assessment of the major issues that are likely to influence the planning and reconstruction of Vukovar in the future must be made.

  The following broad categories of issues could be used as a basis for this assessment involving the Eastern Sector:
  - economic development;
  - local government capacities;
  - infrastructure and urban design;
  - shifts in revenue sources;
  - quality of life considerations;
  - housing reconstruction and delivery;
  - transportation;
  - demographic change;
  - land use;
  - education;
  - technology; and
  - environmental quality and energy conservation.

  Using a number of predefined categories to determine the main issues can facilitate data gathering and filtering and help in consensus building. The focus, however, must be kept on those critical issues for which precise statements of objectives and actions can be made and for which creative approaches can be developed.

- Establishment of a Common Vision of the Future and Critical Success Factors

  A key step in the strategic planning process involves the development of a clear and common vision of the municipality's future. A wide range of viewpoints need to be incorporated into the process in order to effect a real choice. Widespread local participation in establishing this vision will not only help the planning process to work more smoothly, it will also provide insurance that community preferences will be considered in the many choices made by individuals about where they live and work.

- Setting Goals and Development of Strategies

  Strategies are general approaches used by organizations in achieving their objectives and in resolving critical issues. The results of goal setting and strategy development provide the general policy directions on which to base detailed planning and management decisions over a multi-year period. Specific goals, objectives, and strategies related to the development of Vukovar can be elaborated and target figures established once a common vision of municipality's future has been outlined.

  Potential criteria for evaluating alternative strategies will most likely include:
  - overall public acceptance;
  - financial constraints;
  - required capital expenditures;
  - long-term impact;
  - municipal staffing requirements;
  - compatibility with community vision;
  - relevance to strategic issues;
  - cost effectiveness;
  - flexibility;
  - timing;
  - client or user impact; and
  - coordination/integration with other services and programs.

- Development and Adoption of Short- and Medium-Term Action Plans

  Once a preferred scenario for the development of Vukovar has been selected based on the strategic planning process and a common vision of the city's future, the selected scenario will be elaborated into an Action Plan, which includes the proposed phasing of investments.

  The resulting Action Plan should harness available resources from both within and outside the municipality's boundaries. It should respond to a broad array of policy issues and should include practical policy and program strategies that are able to address these issues.

  Key focal points in the Action Plan will address issues related to:
  - employment and economic development;
  - population and housing;
  - general growth and development; and
  - quality of life.

  The Action Plan will include specific short-term outputs that can be incorporated into the long-term strategic plan. An incremental approach will be established whereby a small

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number of elements are addressed at the beginning with a more comprehensive approach being developed later in the process based on available resources and interest. The Action Plan will also be implementation-oriented, short-term, and more detailed than traditional planning documents. It will require local involvement, an assured resource base, and genuine constituency support in order to be successful.

The proposed Action Plan will be operational and precise in specifying budgets, scheduling activities, assigning responsibilities, and quantifying the desired results. It will also include an investment program with cost estimates for the specific components of the recommended development scenario and a schedule of priorities to be addressed within short-, medium-, and longer-term time frames.

The Action Plan will also include the comprehensive treatment of areas that have been selected for intensive reconstruction or development over a short period of time due to their major development need or potential.

- Proposed Planning Framework

The strategic and action planning process described above can be implemented successfully within a "dynamic urban spatial planning" (DUSP) approach. The DUSP approach uses analytical methods and participatory processes that will enable Vukovar to deal creatively with its situation and to engage the broad-based participation and involvement of the local community.

Experience in many countries has shown that, without the active participation and involvement of the local community, any type of development plan will not be able to reflect local values and to motivate positive compliance. The dynamic qualities of urban spatial planning are based very much on the strategic and market-sensitive perspective that it encourages. The dynamic urban spatial planning approach has four important operational aspects, which include:

- the use of quantitative, empirical, and objective data and criteria on which to base decisions;
- the use of working and core groups in order to obtain local participation. Multi-disciplinary groups of local officials, professionals, community leaders, and concerned private citizens are organized into functional Working Groups to discuss both problems and opportunities on assigned topic areas. The results of these discussions are included in the preparation of action-oriented programs for subsequent review by local government and agency decision makers. A Core Group of senior managers, under the leadership of the Mayor, reviews the proposals of the individual Working Groups and establishes a consensus about the most appropriate actions to take. Professional planners or "facilitators" ensure that all aspects of the various planning proposals are thoroughly understood and that adequate communication takes place among all of the working groups;
- the development of a strategy and work program based on the objective information and recommendations provided by the Working Groups; and
- the use of planning tools related to land, infrastructure, and finance that act as incentives and/or disincentives to development.

Within this context, the integration of strategic planning and operational decision-making through action planning should be perceived not as an isolated occurrence, but as an ongoing responsibility of those who are involved. The process is used to open up lines of communication and to transform the current planning process from a reactive to proactive one.

Croatian Government Support

The full support of the Croatian Government, the Office for Transitional Administration, and the Vukovar municipality-in-exile must be obtained in order for this shared strategic planning process to be successful and to serve as a means of encouraging the peaceful reintegration of the Eastern Sector. Croatian development agencies at all levels must be willing to work with the proposed planning effort as necessary.

Suggested Level of Effort

It is anticipated that the implementation of this strategic and action planning effort for the municipality of Vukovar will require approximately 20 person-months of expatriate assistance:

- 4.0 person-months of a Team Leader Senior Planner
- 4.0 person-months of a Planner/Housing Specialist
- 3.0 person-months of a Croatian-speaking Planner
- 3.0 person-months of a geographic information systems (GIS) specialist/Data Manager/Cartographer
- 3.0 person-months of a Municipal Finance Specialist
- 2.0 person-months of a Municipal Engineer
- 1.0 person-month of a Regional Planner

Two local planners would be hired for the duration of the activity. The project would also require the purchase of necessary satellite imagery for the municipality and the minimum computer equipment in order to implement the GIS and municipal database.

Estimated Cost

A very rough estimate of the cost of this activity would be around $600,000.

Anticipated Verifiable Outputs

1. The development and testing of a strategic planning process that encourages community involvement and can be applied to other Croatian cities.

2. A strategic plan and Action/Investment Plan for the municipality of Vukovar that can be used as the basis for local and international investments into the area's reconstruction.

3. Up-to-date planning documents, maps, and database for the municipality of Vukovar.

List of Contacts

The City of Osijek

Mr. Zeljko Koski, Head, Department of Spatial Planning, Building and Environment
Mr. Krunoslav Sibalic, Head, Housing Section

University of Osijek, Civil Engineering Faculty

Ms. Medaric

The City of Rijeka

Mr. Zeljko Hlaca, Housing Management Subdepartment
Mr. Sergio Gobic, Planning and Development Subdepartment

The City of Zagreb

Mr. Slavko Dakic, Director, City Bureau for Development Planning and Protection of Environment
Ms. Valerija Pepeonik
Ms. Greta Augustinovic Pavaicic, Head, Department of Public Administration
Mr. Zlatan Frohlich, Member of the Executive Council, Economic Institute

City Land Registry Office

Ms. Irma Holup
Mr. Mijoc

United States Agency for International Development

Mr. Charles R. Aanenson
Ms. Slavica Radosevic

Institute of Social Studies, Zagreb

Dr. Dusica Seferagic

UNTAES

General Jacque Klein

Ministry of Reconstruction and Development

Mr. Berislav Mance
Ms. Kulenovic

Law University of Zagreb, Department of Social Work

Mr. Gojko Bezovan

Housing Cooperative "ZAGREBSTAN"

Mr. Grga Jelinic
Mr. Mahecic

Ministry of Physical Planning, Building and Housing

Mr. Tito Kosty
Ms. Broka Bobovec

Housing Cooperative "Sava"

Ms. Ana Karlovic