

**USAID PROJECT TO DEVELOP LAND AND REAL ESTATE MARKETS IN
MOLDOVA**

Date: July 28, 2000

To: Mr. Jim Thompson, USAID/Washington
Mr. Tom Lofgren, USAID/Chisinau
Mr. Ken Lyvers, USAID/Chisinau
Ms. Penny Hong, USAID/Washington
M/OP/ENI/PER
PPC/CDIE/Acquisitions Unit

Re: Contractor: Booz-Allen & Hamilton, Inc.
Contract Number: EPE-I-00-95-00058-00
Country: Moldova
Reporting Period: 2nd Quarter 2000
Title of Task Order: USAID Project to Develop Land and Real Estate Markets in
Moldova
Task Order Number: OUT-EPE-I-800-95-00058-00

I. Background

The main objective of this task order is to transfer land from state ownership to private ownership and to develop a private land and real estate market within Moldova. The task order objectives originally agreed to by Booz-Allen & Hamilton (BA&H) and the United States Agency for International Development (USAID) in September 1998 were recently modified by a task order amendment on March 15, 2000. The table below shows the task order requirements as amended. The BA&H project team intends to accomplish the task order objectives by:

- 1) Implementing a National Land Program to prepare up to 2.7 million land titles and register the land associated with Moldovan collective farms that desire to break-up and distribute land and other assets to the members.
- 2) Preparing land titles and registering 130,000 independent farmers who previously withdrew from collective farms and now cultivate their land independently.
- 3) Assisting the Department of Privatization to privatize the land associated with 1,800 enterprises.
- 4) Assisting private entities to complete 1,500 private land transactions.
- 5) Collating parcel files for the mass registration of up to 3.0 million agricultural land parcels in collaboration with the National Cadastre Agency.
- 6) Promoting legal and regulatory reforms to further simplify the laws and regulations relating to privatization of agricultural and enterprise land and the development of a private land and real estate market.
- 7) Developing a pilot mortgage credit market where land can be used as collateral for a loan.

- 8) Continuing to educate the public on the development of a private market for all types of land and informing citizens of their land ownership rights (i.e. sale and purchase, mortgage, exchange, lease, etc.).

II. Expected results

The amended task order specifies ten tasks with specific results for each task. The following table summarizes these tasks and the results to date.

Task	Results to date
<p>1. Design and implement an organizational structure for a national land titling and registration program.</p>	<ul style="list-style-type: none"> • The program’s organizational structure and a detailed system for reviewing private surveyor work product are in place. The team’s project managers, surveyors, and lawyers review and approve all maps and work product that private survey firms present to the project for payment. • The project team established a regional land titling center in Chisinau, the capital city. The center offers private surveyors computer training on land parceling and titling software; training on surveying and mapping issues; assistance in solving political problems; and, assistance in resolving logistical issues. • The latest amendment to the task order eliminates the need for any additional regional centers. Based on its experience during the first two phases of the National Land Program, the project team recommended, and USAID agreed, that no additional centers be established.
<p>2. Expand the private surveyor network. No less than 20 firms are to be selected to complete work on the National Program. Execute performance-based contracts for all survey and titling work. Institute proper monitoring and training of private survey firms to ensure their ability to complete the National Land Program.</p>	<ul style="list-style-type: none"> • The project team conducted an open tender to select the 50 private survey firms that are working on land titling and registration as part of the National Land Program. • The project team has signed contracts with each private firm for surveying and titling work. The contract sets out an eight-step scope of work. The project team pays the private survey firms only after verifying that the surveyor has properly completed a step under the contract’s scope of work. The contract sets forth a timeline for the completion of each step and a review and verification process for each step. • The project team offers training for private survey firms both at the Chisinau regional center and in the field. • The project team procured electronic distance measuring equipment (i.e., “total survey stations”) for the survey firms working on the National Land Program. Specialists from the equipment manufacturer trained the surveyors to use the equipment in April 1999. As a result of USAID’s purchase of the new equipment, surveyors have increased the speed and accuracy of their fieldwork. Private survey firms that meet their contractual timelines may qualify for up to a 50 percent discount on the equipment procured and transferred to the firm by USAID.

<p>3. Implement land parceling and titling methodology as part of National Program.</p>	<ul style="list-style-type: none"> • The project team encountered serious delays in start-up of the National Program in 1998 due to problems relating to the resolution of the outstanding debts of collective farms. Until the Parliament passed a law in October 1998 allowing the distribution of moveable property (i.e. tractors, combines, etc.) necessary to cultivate land, the National Land Program teams could not distribute land or property of the collective farm. • As of June 30, 2000, as part of the Moldovan National Land Program, survey work on over 861 collective farms is finished. Base maps needed to begin land distribution are completed for 837 farms. Land distribution tenders are completed for 823 farms, thereby allowing the difficult process of grouping and arranging individual owners in the respective fields of the farm to begin. Grouping and arranging of landowners by field (a process described in Section III below) is completed for 764 farms. The project has prepared 1,073,518 land titles for 377,520 individual owners and given these to village mayors to sign and distribute to new owners. • Under the National Land Program as of June 30, 2000, the project has prepared an additional 379,324 ownership titles for 116,937 independent farmers (i.e. individuals who withdrew from collective farms years ago and cultivate land independently). • Including the 186,298 titles prepared as part of the 72 farm pilot and roll-out phases of the Moldovan land reform program, the USAID project has prepared over 1.63 million titles for 566,000 private landowners in Moldova. The project team is responsible for preparing and delivering title certificates and the completed land registry to the local mayor. The mayor is responsible for signing, issuing, and delivering the completed titles to the individual landowners. Our team tracks the issuance of titles by mayors and reports that over 70 percent of the owners living in villages where the titles are prepared have received their titles from the mayor.
<p>4. Expand the organizational structure of the land sales program.</p>	<ul style="list-style-type: none"> • The project team established a regional center for land sales in Chisinau in 1998. The center provides services for both privatization of land and land sales between private owners. • The latest amendment to the task order eliminates the need to establish another 2 to 3 regional land sales centers. The centers are not necessary because the project team has already established a network of real estate agents throughout the Republic. • The project established four private sector real estate brokerage firms that offer all types of real estate services. In cooperation with ACDI/VOCA, the project team conducted seven days of business and real estate training and five days of intensive training on land appraisal for the owners of four private real estate firms. Under the task order objectives, the firms will continue receiving technical assistance, training, and business support to establish viable and self-sustaining

<p>4. Continued</p>	<p>offices. The project has executed subcontracts with each private firm under which BA&H will pay a fixed fee for each completed enterprise land privatization and private land sale. The project’s financial support for the private firms will diminish over time as they begin to collect a greater percentage of their fees from clients rather than USAID.</p>
<p>5. Disseminate the land sales methodology across the entire nation. Train and recruit additional regional and local land sales consultants.</p>	<ul style="list-style-type: none"> • The project team has established four private real estate firms and has trained more than 50 local consultants, or “real estate agents,” in concluding and registering properly both privatization and private land sales. The new private firms continue to recruit sales consultants in villages that have completed the National Land Program to expand their presence in Moldova. • The team conducts formal training for its consultants on the process of land sale and purchase; the use of mortgage financing in real estate transactions; and, techniques to market land parcels for sale. The project has held seminars for local and regional consultants on the process of land privatization and the process to complete private land sales. The project team and private firms also work with local agents to provide on-the-job training as real estate transactions are closed. • The project team has drafted two training manuals for real estate agents. The first addresses privatization sales and the second addresses real estate sales of privatized land between private parties. Each manual includes sample forms and other information regarding the completion of land sales. In the coming months, the private firms will continue on-the-job training for new “agents.”
<p>6. Continue activities to improve and streamline legal and regulatory processes ensuring ownership of land.</p>	<ul style="list-style-type: none"> • The project team actively comments on all draft amendments to laws, regulations, and other normative acts that relate to land issues. • The project team maintains a good working relationship with the project counterpart, the Ministry of Economy, and with the National Agency for Cadastre, Land Resources and Geodesy, the agency responsible for land mapping and creation of a unified cadastre (i.e., registration system) in Moldova. These relationships give our team the ability to comment on all draft laws and regulations relating to land and real estate issues. • The team has drafted a manual on land sale, exchange, donation, etc. The team also drafted a manual for land purchasers explaining how to obtain a mortgage loan for the purchase of land. Both of these manuals are distributed to interested individuals and officials to educate the public on important issues related to the development of the real estate market. • In the 2nd Quarter of 2000, BA&H opened 8 legal Problem Solving Team offices throughout Moldova. The Problem Solving Teams employ lawyers and economists to assist new landowners in understanding and enforcing their rights to land, and to defend landowners whose rights are being ignored by large farmers that often “lease in” their land. Most cases involve the non-payment of rent or the illegal occupation of land by larger farmers. Since April 15, 2000, the

<p>6. Continued</p>	<p>Problem Solving Teams have helped over 7,000 new landowners enforce their rights, often negotiating settlements on the spot during meetings between the lessee and the landowner.</p>
<p>7. Continue to implement public information activities.</p>	<ul style="list-style-type: none"> • The project team continues to inform the public and targeted interest groups on issues related to land titling, land registration, and land sales. The team conveys such information to the public by publishing the monthly “Farmer’s Hour” newsletter; drafting press releases on issues related to land privatization and land market development; and, sponsoring a weekly radio program for farmers. During the 1st Quarter, BA&H implemented a volunteer newsletter “deliveryman” system to increase the readership of its newsletter from 5,000 readers to 20,000 readers. As of June 30, 2000, Farmer’s Hour has over 18,000 individual subscribers in over 1,000 villages throughout Moldova, with that number growing rapidly each month. BA&H has hired a publisher to oversee the production of the newsletter and has assisted the newsletter to become an independent publication in Moldova. The Farmer’s Hour newsletter is also attracting paid advertising to help cover the costs of printing and distribution. The content of the newsletter is no longer mainly project “propaganda,” but rather concentrates on practical information on legal rights, farming operations, credit, tax, and other economic issues. All of these issues are major concerns to rural villagers and farmers, the target audience for the newsletter. • The BA&H team, in cooperation with Citizens Network for Foreign Affairs (CNFA), is actively promoting a program to provide farmers with mortgage credit for the purchase of land. The team uses the newsletter as a regular forum to inform readers of issues related to mortgage lending and land purchases using mortgage credit.
<p>8. Develop a private sector land and real estate market. Work with commercial banks and other donor projects to develop a mortgage credit market where land is used as collateral for loans.</p>	<ul style="list-style-type: none"> • The project team is active in establishing a private sector capable of rendering services to the new land and real estate market. To date, the project has signed contracts with over 50 private survey firms to complete land surveys, prepare land titles, and prepare land arrangement maps for agricultural land that is being subdivided and transferred from the State to private owners. The team has trained the owners of four new private sector real estate brokerage firms in business administration and real estate brokerage issues. These firms assist citizens with all types of real estate transactions and train their employee/agents to serve the needs of individuals involved in real estate transactions. • The project’s land sales office in Chisinau is a “one-stop shop” at which individuals interested in completing private land transactions can seek advice on all matters including: land subdivision; surveys; title preparation; legal consultation; contract and other document preparation; marketing of land for sale; and, registration of landowners rights. The four private real estate firms established with the help of the project are active participants in the developing real estate market on a fee-for-services basis.

8. Continued	<ul style="list-style-type: none"> • The project has established a mortgage component that cooperates with CNFA and works actively with farmers and other land purchasers who wish to obtain credits for the purchase of agricultural land. The mortgage team assists borrowers to prepare business plans and financial documents needed to obtain loans for the purchase of land from commercial banks. The mortgage team also assists the commercial banks to evaluate mortgage loans, prepare loan documentation, and close such loans. • As of June 30, 2000, two commercial banks have made a total of twenty-three mortgage loans worth over \$185,000 with the assistance of our mortgage team. Money from these loans was used to purchase over 250 hectares of agricultural land. • In May, the BA&H team began working with the rural Savings and Credit Associations to implement a mortgage lending program for the purchase of small tracts of agricultural land. The team, in cooperation with CNFA and the Rural Finance Corporation, has selected 6 Associations and is teaching each Association to make mortgage loans available to its members.
9. Mass register up to 3.0 million agricultural land parcels privatized under the National Land Program.	<ul style="list-style-type: none"> • The project and the National Cadastre Agency signed a Memorandum of Understanding (MOU) in October 1999 that formed the basis for the mass registration program. Mass registration is the systematic transfer of land ownership rights from the local land registry to the newly established Real Estate Registry. Our team assists the Territorial Cadastre Office (TCO) by collating the cadastre file for each agricultural land parcel to be mass registered. According to the MOU with the Cadastre Agency, the TCO's have agreed to mass register all parcels within 30 days of receipt from our project team. As of June 30, 2000, the project team has prepared over 900,000 agricultural land parcels for transfer from the local land registry to the new Real Estate Registry at the TCO's. To date, the TCO's have registered 650,000 parcels for which our team has prepared cadastre files. • The National Cadastre Agency does not have sufficient funds in its budget to perform mass registration of the 2.4 million agricultural parcels that the National Land Program expects to create. USAID has agreed to make limited funds available to pay the Cadastre Agency for such registration, in order to ensure the completion of all USAID mass registration activities by December 31, 2000.
10. Design a phase-out plan for the National Land Program activity.	<ul style="list-style-type: none"> • A phase-out plan should be completed by September 30, 2000.

III. Major Activities in Process

A. Break-up and land titling of collective farms and titling of land to independent farmers.

1. The break-up and titling of collective farms continues. There are 8 steps to break up the collective farms and to complete surveying, titling, and registration of land parcels to new private owners. The major steps in the process, and progress on these steps through all three phases of the USAID project, are as follows:

Description of step	Total number of farms completed (since 1996)
1. Contract signing and mobilization.	939
2. Complete field surveys.	934
3. Group and arrange of landowners based on land tenders. A land tender is the process by which individuals group themselves by the field in which they want their parcels to be located. Arranging of landowners is the process by which each individual, taking into account his preference to be located next to family or other individuals, is located in the field.	837
4. Prepare a final land arrangement project (a map approved by the local mayor's office that shows the exact location of all parcels; the unique identification number for each parcel; and, the dimensions of each parcel and access roads, as well as other information); land title registry (legal registry of landowners that is maintained by the local mayor's office); and, the land title certificates (documents that confirm an individual's private ownership of land).	687
5. Prepare the final file for presentation to the proper authorities.	613

2. Work on the National Land Program is progressing well. Our team anticipates that by December 31, 2000, 95 percent of the farms that participate in the National Land Program will complete all steps, allowing new landowners to receive their land titles. We expect farms that entered the Program after May 1, 2000 will have difficulty completing all steps necessary to get their land titles. In such cases, the farms will need to obtain other sources of funding to complete the process of preparing land titles for each owner. Most of the farms that are unlikely to complete the process are located in Gagauzia (a semi-autonomous region in Southern Moldova), where the local government did not permit privatization until this year.

B. Privatization of enterprise land.

The privatization of enterprise land (i.e., land associated with privatized former state enterprises and land associated with enterprises formed with private capital) continues. During the last quarter, 119 enterprises purchased their associated land parcels. As of June 30, 2000, a total of 1,713 enterprises purchased 2,030 parcels of land with the assistance of the project team. All sales of associated land are properly registered. The total surface area of the sold parcels is

796.8 hectares. The contract price of all these sales totals 47.1 million lei, of which no less than 18.2 million lei has been collected by the state and local budgets. Recently, the project team began to promote the idea that land beneath privatized enterprises should be given away for a symbolic price of one lei per hectare. The World Bank has adopted this recommendation, and has suggested in an October 1999 letter to the previous Government that Moldova adopt such a policy. Due to instability in the current Government, the project team has had difficulty generating further support for this position. Now, USAID has asked BA&H to design a new strategy to accelerate enterprise land sales in Moldova, emulating to the extent possible the enterprise land privatization model used by a USAID-funded BA&H project in the Republic of Georgia. During the 3rd Quarter, BA&H will conduct a survey of enterprise managers, Government officials, and the general public to formulate recommendations to USAID on a new strategy.

C. Development of a private land market.

1. Development of the private land market in Moldova continues. During the last quarter, the project team assisted private individuals to complete 501 private land transactions. The total number of completed private transactions since February 1998 is now 1,935. Over 980 of these private transactions are agricultural land sales, with another 925 sales of residential land. The team has also assisted with 8 exchanges of agricultural land.

2. During the last quarter, the Parliament passed amendments to the Law on Notaries that sharply curtail the power and authority of the Notaries Union and transfer power over the notaries to the Ministry of Justice. The Parliament passed the amendments to the law in response to an International Monetary Fund (IMF) conditionality. Yet even with the new amendments, it is not clear whether the Ministry of Justice will exert its authority and closely monitor illegal activities of local notaries that obstruct the ability of ordinary citizens to conduct real estate transactions and inheritance proceedings.

D. Mortgage loan program

1. The project team continues to work with Citizens Network for Foreign Affairs (CNFA) on a pilot mortgage lending program. The objective of this program is to promote the use of land as collateral, especially in the case where an individual wishes to purchase land using credit (i.e., "purchase money mortgages"). As of the end of the 2nd Quarter, two commercial banks had made 23 loans totaling over \$185,000 with our team's assistance. In addition to assisting in obtaining mortgage loans for the purchase of land, the team assists many of the banks' clients to obtain short-term working capital loans.

The project team assists the commercial banks to make purchase money mortgage loans using a standardized procedure. The availability of commercial financing sources for the purchase of land will help to promote the rapid development of the market for privately owned land. To reach this goal, the project team intends to continue providing technical assistance to the banks in developing proper mortgage lending procedures. The team's expatriate mortgage advisor is in Moldova and continues to advise the banks on (1) loan documents; (2) procedures for closing loans; (3) underwriting standards and guidelines; (4) land appraisal techniques; and,

(5) loan monitoring procedures. The team also advises borrowers throughout the entire loan process.

2. In May 2000, the project team started a new lending program, also in cooperation with CNFA. This pilot program works with rural Savings and Credit Associations (SCA's) to teach them how to make small mortgage loans for the purchase of agricultural land. The loans will be made to SCA members who wish to purchase land and expand their farming operations. Using a CNFA loan fund of \$20,000, the BA&H mortgage team has assisted SCA's in making four loans for the purchase of agricultural land totaling \$5,000. More loans are pending approval and BA&H expects that entire loan fund to be loaned out by August 31, 2000. At that time, the program will need additional funds to continue.

The BA&H mortgage team is providing training to the SCA's on mortgage lending procedures, loan evaluation and loan documentation. BA&H also works with the SCA members to assist them in preparing the business plans and financial projections needed to obtain such loans. The entire program requires our team to provide intensive training and step-by-step instructions to the SCA boards, so that all loans are properly made and documented. The program's goals are to help the SCA to offer a new financial instrument to its membership and to assist the SCA member to generate a well-documented credit history that will permit him to "graduate" from unsecured micro-credits to commercial bank loans for larger sums of money in the future.

E. Energy sector privatization and land issues

In the 3rd Quarter of 1999, the BA&H team completed a legal analysis of the land issues related to the privatization of the energy sector distribution companies. Since land is not on the balance sheet of the energy companies, under the current law the Government may only dispose of the land associated with each distribution company after the sale of its shares to a strategic investor. Our team's report addresses the existing land rights associated with the companies and the options available for the distribution companies to purchase or lease land after the sale of shares to a strategic investor. The report also sets out land-related problems and issues that a strategic investor should research further before purchasing the shares of the distribution company.

In order to assist the continuing privatization of the energy sector, the BA&H team is preparing land surveys; price calculations for associated land parcels; and, land use titles related to selected energy sector companies. BA&H is working on land use titles for the parcels associated with the RED – North and RED – Northwest distribution companies and the 2 CET generation companies. It appears likely that USAID will ask the BA&H team to prepare the land use titles for an additional 57 parcels associated with the generation enterprises, as well as an undisclosed number of parcels associated with Thermocom heating companies.

F. Property tax involvement

Over the last 9 months, the BA&H team has been actively cooperating with technical advisors of the KPMG Barents group to develop the property tax law. Title VI of the tax law, which deals with property tax issues, was recently passed by the Moldovan Parliament. The

Parliament included many of the comments made to the draft law by the BA&H team. By being involved in the drafting process, the BA&H team was able to help create a better property tax system and better safeguard both local governments, which are dependent upon this tax for budget revenue, and landowners, who must pay these taxes.

G. Mass Registration

1. In October 1999, BA&H signed a Memorandum of Understanding with the National Cadastre Agency to assist with mass registration of all privatized agricultural land parcels. Mass registration is the systematic transfer of existing land ownership rights from the land registry in the mayor's office to the regional Real Estate Registry located at the Territorial Cadastre Offices (TCO's). The process is an important safeguard to the land ownership rights of all individuals obtaining ownership of agricultural land from the State during privatization. Registration of land rights in the new regional Real Estate Registry, maintained under the Cadastre Agency structure, is necessary for an individual owner to conduct a transaction relating to his land. Mass registration costs the landowner nothing. Once registered in the regional Real Estate Registry, the landowner may execute land transactions at a lower cost than if he were not previously registered in the regional registry.

2. Recently, the BA&H team was informed by the World Bank that there was insufficient funding for mass registration activities under the World Bank First Cadastre Project. BA&H and the National Cadastre Agency agreed upon a plan to mass register over 2.4 million parcels by January 31, 2001. The World Bank claims that funding for this volume of work is not included in the project loan, which, if true, jeopardizes the ability of the BA&H team to complete its mass registration goals for this year. After several meetings with USAID and the World Bank team, the BA&H team and the National Cadastre Agency have begun to negotiate a solution. USAID has approved the payment of 1.5 lei to the Cadastre Agency for each parcel mass registered by the end of this year. BA&H is working with the Cadastre Agency to implement this plan and payment scheme so that all agricultural parcels created during the National Land Program can be systematically transferred from the local cadastral registry to the new regional Real Estate Registry.

To date, the Cadastre Agency has mass registered 650,000 parcels. The Agency is prepared to accelerate its efforts to complete the mass registration of substantially all 2.4 million agricultural parcels by January 31, 2000. The BA&H team believes that the Cadastre Agency can complete this work on schedule, so long as the parties reach agreement on the payment from USAID in the near future.