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PADCO

PLANNING AND DEVELOPMENT COLLABORATIVE INTERNATIONAL, INC.

PRIVATE SECTOR DEVELOPMENT OF HOUSING EASTERN EUROPE

STRATEGY FOR TECHNICAL ASSISTANCE AND TRAINING IN SLOVAKIA

February 1993

PROVIDES GOVERNMENTS AND PRIVATE CLIENTS WITH SERVICES IN PLANNING, HOUSING, MANAGEMENT, FINANCE, ECONOMICS, ENVIRONMENT, GEOGRAPHIC AND OTHER INFORMATION SERVICES, AND TRAINING.

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PRIVATE SECTOR DEVELOPMENT OF HOUSING EASTERN EUROPE

STRATEGY FOR TECHNICAL ASSISTANCE AND TRAINING IN SLOVAKIA

Prepared for

United States Agency for International Development
Office of Housing and Urban Programs
Washington, DC

Prepared by

Howard Henward
James Lynch
Miriam Maxian

PADCO, Inc.
1012 N Street, NW
Washington, DC 20001

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PRIVATE SECTOR DEVELOPMENT OF HOUSING EASTERN EUROPE

DRAFT STRATEGY FOR TECHNICAL ASSISTANCE AND TRAINING IN SLOVAKIA

EXECUTIVE SUMMARY

1 REGIONAL OVERVIEW

The goal of this contract is to assist the countries of Eastern Europe achieve an efficient transition from their state-dominated housing delivery systems to market oriented, private sector-dominated systems. While there are similar ongoing A.I.D., Office of Housing technical assistance programs in each country, there are important differences in approach, scope and substance. These differences reflect not only the unique conditions in each country but also the way in which the technical assistance (TA) and training programs are being designed and delivered.

A number of factors should be taken into account in the development of a technical assistance program: acceptability of foreign assistance, potential access to decision makers, the delivery "vehicle" for training and TA, the sheer complexity of many issues and several others. The complexity of some issues, for example, requires legal, financial, technical and managerial input for comprehensive solutions to be developed.

2 STRATEGY FOR SLOVAKIA

The A.I.D. Office of Housing and Urban Programs has been involved in the Czech and Slovak Federal Republic (CSFR) since late 1990.

The goals and objectives of the Private Sector Development of Housing Contract can be expressed by the single phrase " to get housing built". This infers a focus on the production of housing, i.e., contractors and developers, but it does not mean the other factors that affect the private sector's ability to deliver housing should be ignored. Indeed the overall legal, regulatory, financial, economic and market environment within which the private producers of housing work is of critical importance to their success.

The Technical Assistance and Training Strategy for Slovakia has been developed to embrace the broad environment within which the private sector housing producers must operate. The following are the key elements that form the framework for the Strategy:

- Land
- Infrastructure
- Building Materials/Manufacturers
- Construction/Contractors
- Development/Developers
- Regulations/Regulators
- Finance/Bankers
- Markets/Consumers

For each element there are key issues that impact the delivery of housing that need to be addressed. Some of these issues can and should be addressed under this contract while others should be addressed under parallel contracts or by the Government of Slovakia (GoS).

The responsibility for delivery of technical assistance (i.e., PADCO, ICMA, UI, NAR, GoS, etc.) and the likely mode of delivery (i.e., long term advisors, training, short term advisors, demonstration projects, etc.) are key components of the Strategy. The Strategy encourages collaboration between all the contractors involved in the sector. AID must decide how collaboration is to be fostered and how coordination between contractors (and donors) is to be achieved.

This draft Strategy is based on information obtained in the field and contains an overall strategy paper with supporting annexes. A large number of reports and policy papers produced over the last two years by the GoS, Czech and Slovak institutions, the Urban Institute, PADCO and other consultants. The proposed Strategy is summarized in the Chart contained on the following pages.

PRIVATE SECTOR DEVELOPMENT OF HOUSING IN THE SLOVAK REPUBLIC
DRAFT STRATEGY - KEY ELEMENTS AND ISSUES

Key Elements	Key Issues	Current/ Committed Coverage	Proposed Responsibility	Priorities for **Assistance**	Modes of Assistance	Indicators
Land						
▪ availability	▪ limited, controlled by local and district governments	▪ limited, ICMA	▪ ICMA/UI	▪ land inventories & disposition strategies	▪ long- & short-term TA to local governments	▪ policy actions, land inventories
▪ title	▪ clear title difficult to obtain due to poor land records	▪ none	▪ PADCO	▪ cadastral mapping/GIS, reconstruction of land records	▪ Long-term TA to selected local governments and cadastral offices	▪ working cadastral systems
Infrastructure						
▪ availability	▪ limited or non-existent on urban periphery	▪ limited, ICMA	▪ ICMA	▪ infrastructure upgrading & expansion	▪ long-term TA to local governments	▪ projects for expansion or improvement of infra-structure
▪ financing	▪ local governments have no means to finance	▪ limited, ICMA	▪ ICMA	▪ financing mechanism(s)	▪ short-term TA at local & republic level	▪ enactment of national & local policies
▪ cost recovery	▪ no tax assessment or collection system in place; required by 1/1/93	▪ limited, ICMA	▪ ICMA	▪ cost recovery system	▪ short-term TA	▪ enactment of national & local policies
Building Materials/ Manufacturers						
▪ quality	▪ domestic products generally inferior to imports; standards outdated	▪ none	▪ PADCO	▪ methodology for norms & standards development	▪ long-term TA to MoPW&T and MoE ▪ TA to TSOS	▪ methodology for devel-oping, adopting, and implementing new norms & standards
▪ cost	▪ high due to lack of competition	▪ none	▪ N/A	–	–	–
▪ technology	▪ low, but improving with imports	▪ none	▪ PADCO	▪ new products for domestic production	▪ training program in applications and U.S. study tour	▪ numbers of new products produced

LEGEND:
N/A = not applicable
S.A.E. = Slovak Association of Entrepreneurs
TBD = To be decided

PRIVATE SECTOR DEVELOPMENT OF HOUSING IN THE SLOVAK REPUBLIC
DRAFT STRATEGY - KEY ELEMENTS AND ISSUES

Key Elements	Key Issues	Current/ Committed Coverage	Proposed Responsibility	Priorities for Assistance	Modes of Assistance	Indicators
Construction/ Contractors						
▪ management skills	▪ limited knowledge of business, finance, marketing	▪ PADCO; proposed workshop, TA	▪ PADCO	▪ business planning and finance	▪ workshops - S.A.E. TA - to firms, follow-up TA; medium-term training	▪ institutionalization of training/education
▪ technical skills	▪ limited to traditional methods and materials	▪ PADCO; workshops; TA	▪ PADCO	▪ value engineering, construction; project management for owners	▪ short-term training & follow-up TA - S.A.E.; medium-term education - TBD	▪ institutionalization of training/education
▪ privatization	▪ first wave complete, process and criteria have changed for second wave; process not fully effective	▪ none	▪ PADCO	▪ TBD	▪ TBD	▪ TBD
▪ cost	▪ high compared to affordability	▪ none	▪ PADCO	▪ cost and time reductions	▪ long-term TA to firms - S.A.E.	▪ projects assisted
Development/ Developers						
▪ effective demand	▪ currently unknown	▪ none	▪ PADCO	▪ develop indicators of effective demand	▪ short-term TA through S.A.E.	▪ acquire indicators of effective demand
▪ financing	▪ lack skills and understanding of requirements	▪ none	▪ PADCO/UI	▪ TBD	▪ TBD	▪ TBD
▪ management/ technical skills	▪ limited knowledge of business, finance, marketing and development process	▪ none	▪ PADCO	▪ business planning, management, the development process	▪ TA - to firms through S.A.E.; short-term training; long-term training - TBD	▪ developers assisted
▪ availability of investors	▪ limited primarily to contractors; foreigners, in commercial projects	▪ none	▪ PADCO	▪ legal, financial investment climate	▪ long-term TA - MoE; short-term training - S.A.E.; long-term training (investment workshops) - TBD	▪ enactment of policies to promote investment in housing

PRIVATE SECTOR DEVELOPMENT OF HOUSING IN THE SLOVAK REPUBLIC
DRAFT STRATEGY - KEY ELEMENTS AND ISSUES

Key Elements	Key Issues	Current/ Committed Coverage	Proposed Responsibility	Priorities for **Assistance**	Modes of Assistance	Indicators
Regulation/ Regulators						
▪ development controls	▪ process is lengthy and unpredictable	▪ limited, ICMA	▪ ICMA	▪ clarify process for private developers	▪ TBD	▪ number of cities assisted
▪ bonding, warranties/ guarantees/ contracts	▪ not available or not enforceable	▪ none	▪ PADCO	▪ development of standard contracting requirements	▪ short-term TA through MoE or MoPW&T	▪ rules, regulation on policies introduced
▪ codes and standards	▪ too many, prescriptive and outdated, inconsistent with EC	▪ none	▪ PADCO	▪ methodology (see materials) for developing, adopting, implementing	▪ long-term TA through MoE or MoPW&T	▪ methodology produced
Finance/Bankers						
▪ construction loans	▪ not currently available	▪ very limited, UI	▪ UI	▪ TBD	▪ TBD	▪ TBD
▪ mortgage loans	▪ not currently available	▪ limited, UI	▪ UI	▪ TBD	▪ TBD	▪ TBD
▪ appraisals	▪ market appraisals, not currently available	▪ PADCO	▪ PADCO	▪ establish private appraisal industry	▪ TA to develop association & prepare curriculum and licensing requirements	▪ association established; curriculum introduced; regulations enacted
▪ credits	▪ business loans, supplier credits not available or only with high collateral	▪ none	▪ TBD/PADCO	▪ collateral & lien laws	▪ TA through TBD	▪ banks lending for business operations
Market/Consumers						
▪ market studies	▪ limited information, limited knowledge of skills required	▪ none	▪ PADCO	▪ preparation of market studies, market analysis	▪ short-term training through TBD	▪ market analysts trained
▪ real estate agents	▪ no formal network, unlicensed agents	▪ none	▪ NAR	▪ development of real estate brokerage industry	▪ TA & training through TBD	▪ established curriculum, certification, and licensing
▪ multiple listing services (MLS)	▪ no formal service, lack of information	▪ none	▪ NAR	▪ development of real estate market information	▪ TA & training through TBD	▪ network/MLS established

1 REGIONAL OVERVIEW

1.1 Goals and Objectives

The goal of this contract is to assist the countries of Eastern Europe achieve an efficient transition from their state-dominated housing delivery systems to market oriented, private-sector dominated systems. The objectives to be achieved are the following:

1. Introduce policy reform to stimulate private sector housing production;
2. Activate/access new housing finance systems;
3. Privatize housing production (e.g., materials, construction and development);
4. Establish formal housing markets;
5. Rationalize the role of local governments in housing production; and
6. Achieve sector-wide (e.g., the three AID contracts) coordination for optimum impact.

1.2 Approach

Under Request for Services (RFS) Number Three PADCO was to "carry out a brief reconnaissance of current Office of Housing activities underway in the region which relate to private sector development of housing". Priority initiatives were to be recommended for each country and an initial work program developed for review with PRE/H. Once initial elements of a work program were agreed with A.I.D. for a particular country, an overall country strategy would be developed under a separate RFS. The strategy would address not only what areas, issues or problems would be targeted but also how the assistance would be delivered (i.e., training, technical advisors, demonstration projects, exchange programs, etc.).

1.3 Status

While there are similar ongoing A.I.D. Office of Housing programs in each country, there are differences in approach, scope and substance in these programs. These differences reflect not only the different country situations but also the way in which the technical assistance (TA) and training programs are being designed and delivered.

The overall objectives to be achieved through this contract are being used to review current and possible future activities related to private sector housing development in each of the countries in the Region. The following general criteria were identified to guide the development of a strategy for each country:

1. The stated goal and objectives of this contract should be used to formulate future programs of assistance in each country (in each republic in the case of Czechoslovakia);

2. Country programs should be clearly customized to the current needs and evolving context in each country;

3. Lessons learned, not necessarily the same approaches, should be employed across the Region;

4. To achieve the goal of supporting the evolution of a private sector housing delivery system, all of the issues or problems associated with each of the key elements of the system should be considered and, if requested by the respective country officials and agreed to by AID, assistance should be provided to address them;

5. Programs should be designed to achieve a "technology transfer" or to demonstrate "how to" and should have a clearly identifiable impact; and

6. Finally, a strong preference has been expressed for the involvement of fellow practitioners as opposed to theorists and academics in delivering TA.

1.4 Constraints and Opportunities

A number of constraints exist to the development of the type of program characterized above: acceptability of foreign assistance, access to decision makers, the delivery process for training and TA, the sheer complexity of many issues, and several others. In some cases foreign training or TA is not seen as a priority or is unwanted for political or other reasons. Access to both the operational and decision making levels in the public sector is crucial but not always possible. Delivery of TA to small entrepreneurs (i.e., contractors and developers) requires a rational outreach program. The complexity of some issues requires legal, financial, technical and managerial input for comprehensive solutions to be developed.

To a certain extent programs should be opportunistic. They should take advantage of demonstrated strong interest on the part of a current or proposed TA recipient to make a major in-depth contribution to the transformation of the sector. This also applies to different levels of government and institutions. Where the opportunity may exist to work at the national and local levels on the same issues or at the decision making and operational level in public and private institutions, the opportunity should be taken. The opportunity also should be taken to continue to build on in-country knowledge and contacts as well as to take advantage of other AID and US government programs that are available. Lastly, collaboration with the other Office of Housing contractors in designing more comprehensive, cohesive packages of training and TA (i.e., the legal, financial, technical and management issues related to housing rehabilitation) should be seen as an opportunity. However, being opportunistic does not mean undertaking work without having an actual client as has been the case in some instances.

2 STRATEGY FOR SLOVAKIA

2.1 Background

The A.I.D. Office of Housing and Urban Programs has been involved in the Czech and Slovak Federal Republic since late 1990 with the majority of the work having been performed by the Urban Institute. The Republic has stated its intention of splitting into two republics as of January 1, 1992 and therefore a Strategy has been developed for each of the Republics as separate programs are envisaged. PADCO's involvement under this contract did not begin until May of 1992 and has been limited to three rather focused activities: a workshop and technical assistance to private firms on the subjects of project management and construction management; technical support to a US trade mission; and an initial assessment of the status of a private appraisal industry. Therefore, while key issues have been identified, in some cases further input from the field will be required to determine the most appropriate client and the best mode for delivery of assistance.

2.2 General Approach

2.2.1 Key Elements

The goals and objectives of the Private Sector Development of Housing Contract can be expressed by the single phrase " to get housing built". This infers a focus on the production of housing, i.e., contractors and developers, but it does not mean the other factors that affect the private sector's ability to deliver housing should be ignored. Indeed the overall legal, regulatory, financial, economic and market environment within which the private producers of housing work is of critical importance to their success. In fact to a large extent this overall environment will determine the participation of private investors and entrepreneurs in the housing sector. Hence the Strategy for technical assistance and training has been developed to encompass all the aspects that impact the role and success of the private sector in the production of housing.

The following are the key elements that have been taken into account:

- Land
- Infrastructure
- Building Materials/Suppliers
- Construction/Contractors
- Development/Developers
- Regulations/Regulators
- Finance/Bankers
- Markets/Consumers

It is the consultants' view that across-the-board intervention in the sector will be required to effectively transform what was a centrally planned housing production system

to a truly market-oriented system. The "order takers" must be replaced by developers who are prepared to take risks.

2.2.2 Identification of Key Issues

For each element there are key issues that impact the delivery of housing and that need to be addressed. Some of these issues can and should be addressed under this contract while others should be addressed under parallel contracts or by the Government of Slovakia.

The proposed Strategy for the private sector contract evolves from an identification and analysis of these issues. In some cases further assessment is required to clarify issues, identify the most appropriate client and the desired products and to propose a mode of delivery. The consultants utilized the products of current RFSs as well as previous work in the sector by the Urban Institute (UI), PADCO and others to complete this analysis.

2.2.3 Responsibilities and Delivery

The responsibility for delivery of technical assistance (i.e., PADCO, ICMA, UI, GoS, etc.) and the likely mode of delivery (i.e., long term advisors, training, short term advisors, demonstration projects, etc.) are key components of the Strategy. The consultants have discussed some of these issues with GoS officials, representatives of Slovak public and private institutions and other consultants in an effort to determine the appropriate solution. It is clear that the overall effort will be shared by a number of public and private entities, that collaboration is desirable and that coordination is essential.

2.2.4 Collaboration and Coordination

AID must decide how collaboration is to be fostered and how coordination between contractors (and donors) is to be achieved. Both AID and the consultants should be increasingly sensitive to the complaints by some GoS officials that they are not fully informed about donor assistance activities. The Housing sector is no exception. The large number of public and private assistance programs, the obvious potential overlap in scope and the limited information available about what is ongoing and what is proposed are obvious problems. The Strategy detailed in the following sections seeks to incorporate the responsibilities of other contractors and institutions in accordance with their scope of work or areas of interest.

2.3 Land

2.3.1 Status

Virtually all urban land in Slovakia was nationalized after the war. Decentralization policies have resulted in the redistribution of these land (and building) assets to the local (city and town) and district governments. In most cases the local and district governments have not completed an inventory of these land assets. Significant land areas also

appear to remain in the hands of State-owned-enterprises (SOEs) and cooperatives. The reprivatization program, whereby land and buildings previously nationalized have been returned to their previous owners, has overwhelmed and led to the closure of the land registry offices operated by the Geodetic Institute in some areas. Hence no land title research could be undertaken and no property transfers completed.

Land ownership is further complicated in many Slovak cities by the lack of up-to-date land records. Generally, land records were not kept current from 1964 until recently and many land records will need to be reconstructed. Further, the eighty six offices of the Geodetic Institute in the CSFR are to be converted to cadastral offices as of January 1, 1993 and there are limited funds for staff, equipment and training to undertake this work.

2.3.2 Key Issues

The development of housing by the private sector, the sale of this housing and its financing each in turn depends on the availability of land with clear title. From the perspective of the private developer of housing and other real estate, the key issues that should be addressed with regard to land are the following:

a. **Availability.** The control of the majority of the vacant land by local and district governments is currently constraining its supply.
b. **Title.** Clear title is only available in individual cases where land records have been previously researched or the property has been restituted to the original private owners.
c. **Cost.** The price of well located serviced land, with clear title is very high forcing most private developers to the periphery of urban areas. Appraisal regulations result in valuations not based on market values, leading to distortions.

2.3.3 Priorities

The first priority should be to address the issue of land titling since without up-to-date land records housing can neither be developed, sold or financed. Fully operational cadastral offices are necessary and revised cadastral maps and reconstruction of title records is essential.

Another top priority is land availability. The city, town and district governments need to prepare land inventories and develop mechanisms for the release of land for the private sector development of housing. Similarly an inventory of surplus urban land assets held by State-owned-enterprises (SOEs) that are being liquidated or privatized should be undertaken.

Resolution of the title and availability issues will in large part reduce land costs by creating a competitive land market. Appraisal methodologies based on market valuations will be needed.

2.3.4 Responsibilities

The major issues effecting land should be dealt with at the city and district government level through the Local Government contract (ICMA). The use of GIS/cadastral mapping technology could be directly accessed through the Private Sector contract (PADCO).

2.3.5 Mode of Delivery

The delivery of technical assistance is dependent upon having a willing client and a defined objective. Apparently several major cities as well as Bratislava are searching for assistance in producing "price maps" or a new cadastral system. Bratislava has already begun to develop their own digitized cadastral maps but have expressed strong interest in receiving assistance to complete the task of computerizing the land records and developing several GIS applications. It is recommended that AID initially sponsor pilot cadastral/GIS programs in two cities to demonstrate the broad utility of state-of-the-art technology. Technical assistance should be provided by PADCO in conjunction with local firms. Short and long term advisors to the municipalities, provided under the ICMA contract, should be used to assist the municipalities develop land inventories and strategies for releasing their land to the private sector for housing production.

The inventory of SOE urban land assets could be assisted by a long term advisor to the Ministry of Public Works and Transportation (MoPW&T) or the Ministry of Economy (MoE).[1] This advisor would address several other priority issues identified in this Strategy.

2.3.6 Performance Indicators

The measure of performance with regard to cadastral/GIS mapping is the completion of a set of maps that can then be used to implement a property tax assessment and collection system and to plan and invest in municipal infrastructure services. The performance of the senior advisor in the MoPW&T or MoE would be measured by the emergence of a clear policies regarding SOE land assets and other issues.

2.4 Infrastructure

2.4.1 Status

The status of infrastructure services in selected Slovakian cities is being reviewed by ICMA during their current scoping and strategy work. Investment in roads, sewerage, water supply, drainage and district heating has generally not kept pace with the needs of the cities over the last ten years resulting in inadequate distribution and capacity. The most serious problem is the lack of public sector financial resources to expand or upgrade infrastructure. This places severe restrictions on the development of large tracts

[1]The dissolution of the Ministry of Construction (MoC) has resulted in the functions of the MoC being transferred to either the Ministry of Public Works and Transportation or the Ministry of Economy.

of unserviced land as developers can not afford to finance trunk infrastructure, especially in the current economic climate.

2.4.2 Key Issues

Although infrastructure is clearly a responsibility of the Local Government contractor (ICMA), from the perspective of the private sector, it is important that three key issues be addressed if housing development is to occur. These include the following:

a. **Availability.** Limited capacity within existing service areas and limited or non-existent distribution on the periphery of urban areas further reduces the available land for housing development.
b. **Financing.** Cities currently have no means to finance infrastructure that would open up land for development.
c. **Cost recovery.** Without updated land records and a property tax assessment system local government's only recourse would be to recover costs from developers or through special assessments.

2.4.3 Priorities

Priority should be given to developing alternative means of infrastructure financing so that serviced land can be made available for housing development.

2.4.4 Responsibilities

The local government contractor (ICMA) should have responsibility for this work.

2.4.5 Mode of Delivery

Financing of infrastructure will require national and local government policy decisions. Technical assistance in the form of long term advisors at both levels of government should be provided through the ICMA contract.

2.4.6 Performance Indicators

The measure of performance should be the enactment of national and local policies that make it possible to finance infrastructure and increase the availability of serviced land.

2.5 Building Materials/Manufacturers

2.5.1 Status

The precipitous drop in housing production since the late 1980s has led to an oversupply of basic building materials. Distribution remains poor due to the continued domination of the building materials industry by regionally-based SOEs. The introduction of new materials and building products remains slow, at least in terms of local production. Imports from Western Europe are becoming readily available. The use of large concrete panel technology as the principal housing construction technique is ending with

no obvious new technologies to replace it. Knowledge of the Slovak building materials industry remains limited and further data and assessment will required.

2.5.2 Key Issues

From the perspective of the private contractor, the apparent demise of the large concrete panel systems and the return to traditional construction techniques is a welcome event. Traditional construction and other more labor intensive construction techniques allow smaller builders to compete. Several key issues need to be addressed, however:

a. **Quality.** Access to better quality materials, domestically produced, requires an upgrading of standards and a better distribution network that fosters competition.
b. **Cost.** Lack of competition seems to account for the relatively high price of construction materials.
c. **Technology.** The introduction of new building products and materials is needed to reduce construction time and to improve quality and energy efficiency.

2.5.3 Priorities

Priority should be given to the development of new norms and standards based on performance. The Technical and Construction Testing Agency (TSOS) is currently responsible for revising existing structural norms and the testing of new insulation materials. The Agency has expressed its strong interest in receiving assistance. Quality and cost will then improve with competition. Priority should also be given to the introduction of new high quality, energy efficient and economical building products that can be domestically produced.

2.5.4 Responsibilities

PADCO should address the need for revised norms and standards. The interest of Slovakian construction firms in building technology appears focused on access to and application of a broad selection of new products.

2.5.5 Mode of Delivery

The senior advisor to the MoPW&T or MoE, with the assistance of a short term advisor, should be responsible for providing advice on a methodology to develop performance norms and standards. Training programs for contractors on building technology, organized by PADCO and the Slovak Association of Entrepreneurs (SAE) should seek to accelerate the introduction of new materials and products. However it appears that a study tour of the U.S., including a visit to the NAHB Show, selected manufacturers and building sites would be much more effective in demonstrating the application of various new technologies and systems.

2.5.6 Performance Indicators

The measure of performance with regard to standards should be the establishment of a Slovak government program to develop, adopt and implement a new set of norms.

2.6 Construction/Contractors

2.6.1 Status

Given the fairly narrow scope of the work AID has asked PADCO to perform to-date in the CSFR, limited information is available on the actual structure of the Slovak construction industry. A much more indepth knowledge base will be required if appropriate TA and training are to be provided. However experience gained during the recent project and construction management workshop and TA to individual firms suggests that while the private construction industry in Slovakia is growing steadily in volume and market share, assistance in internal management procedures (i.e., business plans, bidding procedures, etc.) and assistance in construction management techniques should be a priority.

The first wave of privatization has been completed and the second and last wave is about to commence, although under a different set of guidelines. One hundred sixty construction companies were selected for the first wave out of a total of about three hundred. At the end of the process about one hundred were restructured, thirty were sold and only ten actually attracted private investment. The privatization of the industry has been aided by the general economic conditions and the cut-off of subsidized financing for housing. This has forced many large vertically integrated construction firms (kombinats) and smaller SOEs to restructure into smaller more competitive units or face bankruptcy and liquidation. However, many private Slovak contractors complain the SOEs and their descendants create an "uneven playing field."

The growth of the private sector housing construction industry is currently constrained by the overall economic environment, legal and financial impediments and the lack of effective demand (affordability).

2.6.2 Key Issues

The emergence of a private sector housing construction industry in Slovakia, an industry dominated by small, medium and large scale private enterprises as opposed to SOEs, is essential to the rebuilding of the country's housing production capacity. While the process is underway, these newly formed firms are struggling with a myriad of problems in order just to survive. The key issues that need to be addressed are the following:

a. **Management Skills.** Business planning and management skills are in need of upgrading. Financial management and marketing also need to be addressed.

b. **Technical Skills.** Contractors need assistance in value engineering, project management and construction management (cost estimating and control, scheduling and coordination) and owners or procurers of construction services need to better understand the project management and procurement process for construction services.
c. **Privatization.** Growth and fair and open competition in the industry are apparently not being achieved by the current privatization process and this is impacting the growth of private sector firms.
d. **Cost.** Construction costs have generally risen with inflation while wages have generally not kept pace. Opportunities to cut construction costs should be explored.

2.6.3 Priorities

The argument that technical assistance should not be provided to contractors until there is effective demand for housing and a working housing finance system is shortsighted. On the contrary it is an opportune time to provide contractors with the management and technical skills to more effectively respond as the market demand for housing increases and new housing finance systems are introduced. Priority should be given to the development of these skills.

An assessment of the effect of the privatization process and construction cost reduction are of lessor priority but important.

2.6.4 Mode of Delivery

Technical assistance should be provided directly to firms through the SAE as well as to the housing construction industry in general through the MoPW&T or MoE. A combination of short, medium and long term training along with project related technical assistance using long term SAE based advisors is proposed. A long term advisor attached to MoPW&T or MoE should also be provided to deal with housing construction subsector issues and policy.

2.6.5 Performance Indicators

Initially performance in this area should be measured by the success in institutionalizing training and educational programs that will assist the industry in obtaining state-of-the-art management and technical skills. Ultimately performance should be measured in the number of housing units that are produced by private sector firms that have benefitted from this training.

2.7 Development/Developers

2.7.1 Status

While there is significant real estate development interest by both local and foreign firms in and around Prague, little information is known about the Slovak real estate development industry. Private contractors, in the absence of clients, are attempting to become housing developers on a modest basis while SOEs and their descendants continue to dominate the construction industry.

Further, if the risk/reward ratio of housing investment versus other investment opportunities is relatively unattractive it does not bode well for attracting investors into housing development in the near term.

2.7.2 Key Issues

The following key issues should be addressed with regard to the real estate development industry:

a. **Effective demand.** No firm information has been obtained regarding the effective demand for housing. While inflation has abated, the relationship between wages and housing costs in Slovakia and the currently high and rising unemployment probably are constraining demand.
b. **Financing.** Construction or mortgage financing is not currently available and, in any event, private developers have no experience in financing construction through bank loans and banks have no experience lending to private developers. The early prospects for housing finance are not good.
c. **Management/technical skills.** Slovakia's private developers, whether they were previously large or small contractors, investors or entrepreneurs, are not fully conversant with the development process and need training/education in a number of areas.
d. **Investment.** Private housing developers will not emerge unless investment in housing becomes less of a risk and/or provides better returns. Legal, tax or financial incentives may be necessary to attract private investment, especially to produce moderately priced housing.

2.7.3 Priorities

As a first priority a better understanding of effective demand for housing should be sought as the biggest constraint to housing development may be the lack of effective demand. Given effective demand and access to land and financing, the private housing development industry will thrive. At this stage priority should be given to providing developers with the tools necessary to assess their markets and to develop innovative ways for financing their projects. The other issues relate to government policy and are also important. They should be pursued through MoPW&T or MoE and the Ministry of Finance.

2.7.4 Mode of Delivery

Providing Slovakia's private developers the skills necessary to prepare, finance and implement projects will be a complex process involving a variety of training and educational programs. However in order to provide immediate impact, one or two selected projects should be targeted for intensive "hands on" TA to move them through the development/construction process to have a demonstration effect. The SAE has expressed a strong interest in such an approach. These projects could also be used as case studies in the training programs to further this demonstration effect. This TA would be provided through the SAE by PADCO.

2.7.5 Performance Indicators

The measure of success will be in the number of developers that participate in the training/educational programs and the number, through TA, that actually implement projects successfully.

2.8 Regulations/Regulators

2.8.1 Status

The regulation of development and construction is the responsibility of the local governments. Some infrastructure related approvals may remain the responsibility of State agencies. While the approval process appears to be both complex and lengthy, it is probably less so than that experienced in the U.S. or Western Europe. Contractors and developers perceive the problem as the lack of consistency in the application of the rules and procedures. Further, information is often difficult to obtain from the local governments, development policies have not been prepared and corruption is common.

Another aspect of regulation concerns the construction industry itself. Standard forms of contract, bonding and insurance requirements and construction warranties or guarantees are all required for a private sector construction industry to function efficiently and responsibly.

The third aspect of regulation that effects the private sector is building and building material codes and standards. CSFR codes and standards are outdated and not performance based. There are over 24,000 norms and standards compared to only 8,000 in Germany. This tends to retard the introduction of new materials and technologies and perpetuate inefficient design and construction techniques, thereby making cost reductions more difficult to achieve. As mentioned in section 2.5.3, Slovakian authorities have requested assistance in revising their codes and standards.

2.8.2 Key Issues

The key issues that should be addressed under regulations include the following:

a. **Development Controls.** The development approval process needs to be systematic and predictable. Local governments need to have a clear development policy which the regulations should be used to support.
b. **Contracts, Bonding and Warranties.** Standard contracts, bid and performance bonding, liability insurance and warranties on construction, construction materials, and equipment should be introduced to ensure fair competition and to protect both owners and contractors.
c. **Codes and Standards.** Performance based codes and standards, consistent with EC norms, need to be prepared.

2.8.3 Priorities

Direct assistance to the private sector can best be achieved by giving priority to contracting procedures, bonding and warranties. Codes and standards are also important in the effort to introduce new technologies and to reduce costs.

2.8.4 Mode of Delivery

Technical assistance in these areas would be best delivered through a long term advisor to the MoPW&T or MoE supported by short term specialists provided through the PADCO contract. Assistance related to development controls should be provided to the local governments by ICMA.

2.8.5 Performance Indicators

The introduction and passage of legislation or implementing rules and regulations would be an appropriate measure.

2.9 Finance/Bankers

2.9.1 Status

Slovakia has adopted the contract savings approach to housing finance. The Slovak State Savings Bank is being assisted by an Austrian and a German bank in establishing the systems. However recognizing that the first housing loan will not be made for several years and that the loan amount will be only a small fraction of the cost of new housing construction, the Mutual Credit Bank and others have expressed interest in establishing other forms of housing finance in the interim.

A private, market appraisal industry does not yet exist and business loans and credits for purchases of equipment are not normally available due to inadequate collateral laws. Bonds and insurance are not available to local contractors.

2.9.2 Key Issues

The key issues that should be addressed in this area are the following:

a. **Construction Loans.** Owners, developers and contractors will need construction financing if significant amounts of housing is to be built or rehabilitated over the next few years.
b. **Mortgage Loans.** Mortgage loans will be available in about five years, in limited amounts, under the contract savings scheme being established. Other sources of mortgage financing will be necessary in the interim if housing is to be built in any quantity.
c. **Credit.** Credit must be available to the construction industry if it is to expand, function efficiently, purchase necessary equipment and pay suppliers regularly.
d. **Appraisals.** The current approach to real estate appraisal, based on current regulations, is not market based and discussions with PADCO consultants are underway to develop a market based appraisal industry. Market appraisals will need to be performed if construction and mortgage lending is to occur.

2.9.3 Priorities

Assistance in the area of construction and mortgage financing should be thoroughly reviewed by UI again to determine if real interest exists on the part of the Slovak banking industry. PADCO should continue its initiative in the private appraisal industry and, through the MoE and the MoF, provide TA to assess the credit needs of the industry. In fact, the MoF has already submitted a request to the AID Resident Representative.

2.9.4 Mode of Delivery

If there is interest in housing finance TA and initial and probably periodic training will be required for banks. Training should also utilize the demonstration projects recommended as part of this Strategy. The UI contract should be used for this purpose. The appropriate client for TA and training to a private appraisal industry must be found first. The long term advisor to the MoPW&T or MoE, assisted by a short term specialist, should address the industry's credit needs.

2.9.5 Performance Indicators

The measure of performance should be successfully accessing construction and mortgage financing.

2.10 Market/Consumers

2.10.1 Status

The current market for housing is unknown due to limited information about effective demand. The gap between affordability and housing costs, especially when no financing is available, is probably significant. Only a small proportion of the population will likely be able to enter the new housing market.

There are few real estate agents and no common listings of properties on the market or is there information on completed property transactions.

2.10.2 Key Issues

In order for a real estate market to function information is required by the developer, the banker and the consumer. Information about the demand for housing, the supply and the prices at which transactions are taking place are essential. Hence the following are the key issues:

a. **Market Studies.** Training in the conduct of different types of market studies will be necessary for developers as well as bankers to understand the markets in which they are operating/lending.
b. **Real Estate Agents.** A real estate brokerage industry will be necessary to collect and provide information to buyers and sellers as well as appraisers, lenders and market analysts.

2.10.3 Priorities

Both of these key issues deserve priority.

2.10.4 Mode of Delivery

The establishment of a real estate brokerage industry can be achieved through a pilot or model regional program that is assisted by TA and training through the NAR contract. Training in market studies would be undertaken as part of developer training through the PADCO contract.

2.10.5 Performance Indicators

The successful establishment of a brokerage industry in one region and the completion of training programs in market analysis would be the measure of performance.

3 IMPLEMENTATION

The TA and Training program for the Private sector in Slovakia should be implemented through the MoPW&T and/or the MoE, the SAE and several training or educational institutions yet to be identified.

3.1 MoPW&T and MoE

It is recommended that an Advisory Unit be established in either the MoPW&T or the MoE, staffed by a long term advisor, to provide policy advice in the following areas related to housing, construction and development:

a. Methodology for developing and implementing new norms and standards;
b. Policies on contract forms, bonding, insurance and warranties;
c. Pilot programs for housing rehabilitation;

d. Credit needs of the housing construction industry; and
e. Legal, regulatory, tax and financial incentives that should be considered to attract private investment into housing.

The advisor would be supported by foreign and local specialists on a short term basis as needed. Initial actions should focus on (a), (b) and (c).

3.2 SAE

The SAE has shown that it is willing and capable to provide services to and assist its membership and should be used as a vehicle to deliver TA and short term training to both developers and contractors. Long term advisors should be attached to the SAE to provide ongoing assistance to firms.

3.3 MoF

The development of a market based real-estate appraisal industry should be coordinated through and perhaps sponsored by the MoF.

3.4 Institutions for Training and Education

A short list of institutions to be considered as training and educational vehicles for the private construction industry should be developed (see the Project and Construction Management Workshop/TA Report). The initial action should be to select the institutions and commence developing the curriculum(s) with them. A similar approach should be taken with the developer training and educational programs. For developers, priority should be given to training in the financial management and marketing areas as well as the development process as a whole.

3.5 Coordination and Collaboration

Coordination of all AID contractors should be the responsibility of the AID PRE/H in Washington in collaboration with the AID representative in Bratislava. They would be assisted by the long term PADCO advisors, in the case of the private sector. The strategy seeks to achieve collaboration between the contractors (NAR and PADCO) involved directly with the private sector.

The strategy should also seek to achieve coordination with non-AID U.S. contractors and programs (U.S. Treasury Bank Training, Czech and Slovak Enterprise Fund, etc.) as well as European initiatives (i.e., PHARE).

3.6 Monitoring of the Sector and Amendment of the Strategy

Continual changes in political and economic policy in Slovakia can be expected as the new country develops its internal and external policies. These changes are likely to have far reaching implications for the housing sector. The sector itself, because of these

changes and the adverse economic environment, is likely to continue to undergo a rather slow transformation to an open market, private sector dominated industry. The proposed strategy for assistance is meant to be flexible and adaptable to changing national or sectoral policy and should be reviewed and amended annually.