Republic of Moldova

SOCIAL HOUSING PROJECT
FEASIBILITY STUDY

February 2011

DRAFT

Introduction

This report has been prepared to assess the feasibility and the social and technical relevance of a social housing project submitted by the Government of Moldova to the CEB for financing support. The project is proposed by the Ministry of construction and regional development (MoCRD), it would deliver a total of 1347 housing units according to three different financing schemes; its total value is of 43 MEuros (approximately 694,88MMDL). If approved, it will be the second phase following an on-going CEB supported project for 227 housing units with a loan of 4,9 Meuros (F/P 1569). New figures have been communicated in the course of the preparation of this report; the total project value is estimated at 65.4 MEuros for component one and two and the amount requested from the CEB at 42, 5 Meuros, to which 11,3 Meuros should be added for component three.

The project described in this report has been prepared by the PIU created within the Directorate general for architecture, housing and construction for the management of the on-going first CEB project. The Directorate is part of the Ministry of construction and regional development (MoCRD). MoCRD is the beneficiary of the project with the Ministry of Finance being the borrower.

For the purpose of understanding the context in which this project would be implemented, the consultant met with a number of key local actors, including representatives of the Ministry of Finance, State Treasury and National Bank as well as of three private banks and of all participating local authorities: Ialoveni, Calarasi, Glodeni, Singerei, Briceni, Basarabeasca, Ceadir-Lunga and Anenii Noi were visited as well as sites in Chisinau, Hristo Botev Street, Alba Iulia Street, Hincesti Street and Grenoble Street. The CEB PIU has extended full support to the consultant during this mission in understanding the project. It has also organized meetings and logistics and a work space has been provided to the consultant at the Ministry.

Further to a narrative of the project, comments and recommendation are provided starting on page 15 below.

The project context

This social housing project takes place in a context which is best illustrated by the number of unfinished structures which dot the landscape of Moldovan cities. Abandoned at various degrees of completion, from foundations only to load bearing skeletons, unfinished buildings are there to witness both the abruptness of the downturns which affected the local economy and the lack of maturity of the actors of a newly privatized housing sector. Disrepair conditions of the existing privatized stock, whether from the Khrushchev and Brezhnev eras or more recent also show a lack of care and investment for collective housing.

More generally, this project takes place in a country slowly recovering from several economic shocks since independence in 1991. Moldova ranks 65th in the Economist Intelligence Unit Democracy Index and is categorized as “flawed democracy”, it is 99th in UNDP’s HDI ranking, and has a 2.9 (out of 10) corruption perception index according to Transparency International; it is the poorest country in Europe. As described in more detail below, these unfavourable conditions have a heavy bearing on housing conditions in the country.

1. Objectives and beneficiaries of the project

The objective of the project is the provision of affordable housing to categories of the population which cannot access a satisfactory housing solution due to the severe supply and affordability gaps affecting the housing sector in Moldova. Through two types of schemes, one intended to provide rental housing and a second one home ownership through mortgage, the project will enhance housing supply in Chisinau and nine other cities with a total of 547 housing units, plus another 829 units through an unfinished buildings buyback scheme focused on the capital city. For 323 of the 547 planned units, the project intends to complete unfinished buildings structures in public ownership. This approach will allow to deliver apartments at a lower cost and getting rid of the eyesore of building skeletons, often situated in prime locations.

More specifically, the project will target two social groups: the poor and vulnerable, according to criteria defined for the first CEB project, with the first component and young professionals and young families which it intends to contribute to retain and attract in provincial cities as, according to the 2009 UNDP NHDR, each of the 65 municipalities in Moldova except Chisinau is loosing population. The mortgage component, 276 units with publicly-owned uncompleted buildings and a part to be determined of the 11 preselected privately-owned unfinished buildings, will target this latter category.

Finally, the project should contribute to building capacity within the MoCRD and participating local authorities, as already started with phase one. Namely, the implementation of the CEB loan builds up experience in terms of project management, procurement and delivery process, as well as in the various aspects of social housing: housing finance, beneficiary selection, finance modelling, institutional set up. Ultimately, the project could lead to the preparation of a needed new policy document on affordable and social housing.

2. Socio-economic context

Moldova is a 33,846 square kilometre landlocked country between North East Romania and South West Ukraine; in 2009, its population was estimated at 3,567,500 millions excluding the Transnistrian Territories. As a former RSS, Moldova went through a rapid transition from command to market economy started with the declaration of independence from USSR in 1991. Hasty privatization and insufficient integration into the world economy, with Russia absorbing almost a quarter of exports and Ukraine and Russia together providing over a third of imports, has led to a considerable shrinkage of industrial and agricultural outputs causing high unemployment rate and massive emigration, especially in rural areas. Independence was to be followed by a severe ten year recession and after recovery in 2000-2005 a series of shocks affected the country from 2006 to 2008 with 2009 being a particularly bad year.

Overall however, income per capita has been growing since 1995 and the economy has shown signs of recovery last year with a GDP growth of 3, 6% at $5,357 billions and a GDP per capita estimated at $2500. Inflation has also picked up and is estimated at 7.3% for 2010. A large part of Moldovan population still needs to seek a livelihood abroad and an estimated 600,000 to a million Moldovans are living and working in a foreign country, Russia, Ukraine or Romania or Western Europe. As a consequence, Moldova is the 4th country in the world in terms of the proportion of remittances in its GDP, estimated 36.3% in 2007. No initiative seems to have been developed to turn this dependency into an advantage, especially with respect to housing finance.

As part of its new Westward leaning, the country joined NATO Stability Pact, the Council of Europe, WTO and is an aspiring member of the EU; it is participating in the European Neighbourhood Policy and benefits from support from the World Bank, the IMF, EBRD, EIB, NIF and the EFSE. It remains a member of the Commonwealth of Independent States (CIS).

Table 1. Most recent economic indicators:

Source: WB, IMF, MoF		2006	2007	2008	2009
Real GDP growth	%	4.8	3.0	7.8	- 6.5
CPI	%	12.7	12.4	12.7	0.0
Budget balance	% of GDP				
Current account	% of GDP		- 16.5	-17.3	- 9.4
External debt	% of GDP		62.7	55.9	68
Poverty rate*	% of Pop.				45

Tables 3 and 4 below show the distribution of households' income per activities and levels. These are particularly relevant with regard to housing issues. As can be seen in table 4, the share of population below the minimum subsistence level, 65€/month or around 1060MDL, is 45%; the share of households able to enter the housing market through a mortgage, as mortgage is currently practiced, is 13 %.

Present economic conditions on the one hand and present functioning of the housing market and of the banking system on the other hand are precluding not only the poor to access a home but also the whole middle class, i.e., households with a disposable income comprised between 1000 and 2500 MDL/month. This mismatch between demand and offer is compounded by the withdrawal of the State from the housing sector except for the most vulnerable in society.

Table 2. Structure and distribution of disposable income

STRUCTURA VENITURILOR DISPONIBILE ALE GOSPOD_RIILOR

_________ _____________ _______ ________ ________

STRUCTURE OF DISPOSABLE INCOMES OF HOUSEHOLDS

procente / ________ / *percentage*

	2007			2008		
	Total ____ *Total*	Urban ____ *Urban*	Rural ____ *Rural*	Total ____ *Total*	Urban ____ *Urban*	Rural ____ *Rural*
Total / _____ / *Total*	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
including incomes from:						
remunerated activity	41.4	56.2	26.6	42.9	56.5	28.0
self-employment in agriculture	15.1	2.0	28.4	10.5	1.2	20.7
self-employment in non-agricultural sector	6.4	8.4	4.4	7.5	8.8	6.1
Property	0.3	0.5	0.1	0.3	0.4	0.1
social payments	13.6	11.9	15.2	14.9	13.6	16.3
other sources	23.2	21.2	25.3	23.9	19.5	28.7

Table prepared by the PIU for this study

Table 3.

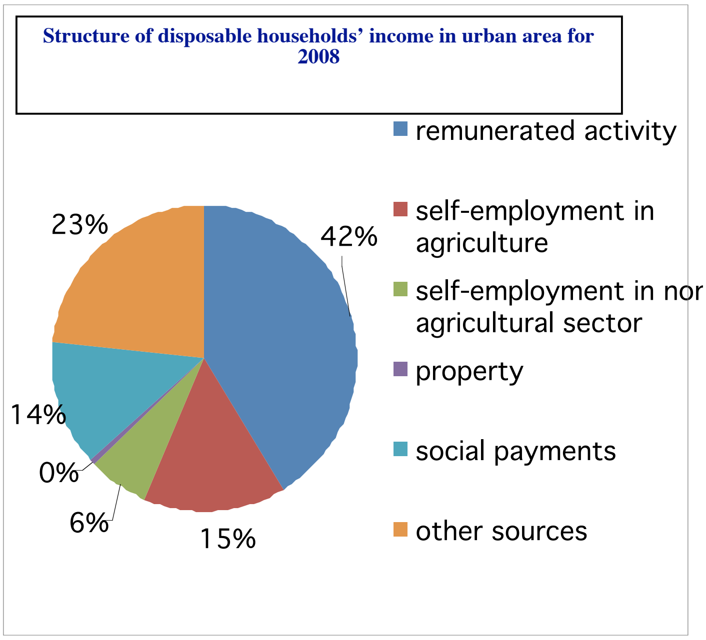

Table prepared by the PIU for this study

Table 4.

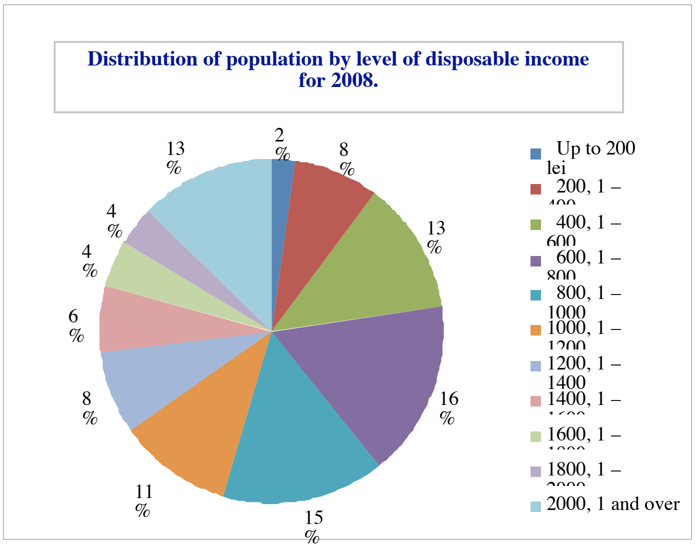

Table prepared by the PIU for this study

3. Sector context

As in most countries of the region the housing sector underwent drastic changes further to the regime change and economic liberalization. In Moldova, the privatization process, to sitting tenants of collective housing blocks, started in 1993. Whilst most individual homes in rural areas were in private hands before privatization, flats were financed, built, managed and allocated by the State in urban areas, these are now owner- occupied for most of them and 96% of the housing stock is now private. For collective housing this often means a deterioration of both flats and common parts (stairs, elevators, facades, roofs, etc) as the 2000 Condominium Law does not provide for efficient cost sharing mechanisms and residents are both reluctant to enter into such agreements and with very limited means.

Housing production is mostly left to the market nowadays and mostly concentrated in Chisinau. Most of the supply caters to high income households and is delivered through banking schemes with two digit interest rates financing only half of the unit cost. In 2010, 2,670 flats were delivered by the private sector, which is 78% the previous year. For this same year, almost 90% of housing production was by private developers. Despite the passing of a mortgage law, banks are very reluctant to enter into more comprehensive financing arrangements with less strict guarantee requirements, financing for a larger share of housing cost and off plan financing. In finance terms, the environment is not conducive to the supply of affordable housing and trust is quoted as the main issue by bankers.

In policy terms, housing supply has mostly been left to the market with unsatisfactory results as, in effect, close to a majority of income categories are encountering difficulties to find a home, whether for rental or buying. The narrow definition of social housing, i.e., dedicated only to vulnerable and very poor families with income not being a key criterion is leaving out many households. This project is an opportunity to broaden the focus of central and local authorities to categories of income left out of by the market and to develop a policy which is both income and supply based.

Despite the preparation of a number of framework documents including *a National Housing Concept* in 1994, a *Housing and Real Estate Market Strategy* in 1999 and a draft *Housing Law* prepared this year but not adopted, which will repeal a number of previous dispositions, laws and ukase passed between 1984 and 2002, the housing sector does not benefit from a clear policy or legal context. In 2004, the City of Chisinau adopted a *Housing Strategy* and a new local plan (*Mesmerizing Moldova* with support from UNDP) has been prepared. Except for the provision of land reserves zoned residential and collective residential, the capital city does not seem to have a housing strategy based on present and future needs. At the national level, information on housing needs is limited to the number of applicants for housing aid which is a biased reflection on actual conditions as criterias are very restrictive.

II. Project Framework

The project is the continuation of project F/P 1569 *Provision of social housing to disadvantaged population*. The latest evaluation of this project by the CEB Technical Advisory Directorate in April 2009 gives its implementation a "hardly satisfactory" global mark (p.5) due essentially to weaknesses in the environmental and sustainability aspects. Namely, the mission expressed its concern with regards to: actually meeting the project social objectives in terms of beneficiaries' selection; construction standards, including the structural evaluation of the selected unfinished buildings and energy efficiency; institutional, economic and environmental sustainability.

Based on successes and lessons learned in F/P 1569 *Provision of social housing to disadvantaged population*, the present project has a more ambitious objective as it intends to also deliver housing units through a mortgage scheme and to buy back privately owned unfinished buildings. This expansion of the project deliverables should allow targeting a wider population group, from vulnerable people to low-to-middle income young families. It also involves new implementation modalities and new risks. These are discussed in *VIII. Risk assessment, mitigation measures* and *IX. Comments and recommendations* below.

A. Project scope

Beneficiaries for the rental component are socially vulnerable families currently unable to access satisfactory housing conditions. These are selected locally by an *ad hoc* commission according to a scoring system. Selection criteria include housing, employment, family, health, education. People targeted by this component are in the vicinity of the official minimum subsistence level (65€/month). People in this income group (disposable income) account for around 60% of the population (according to the income distribution figures from the National Bureau of Statistics). Victims of the Chernobyl accident are also included in this project with 80 units to be delivered in Chisinau.

Beneficiaries for the mortgage component are young families with children, preferably graduates. Housing units intended for this population are expected to help retain and attract them in provincial cities which are all loosing population. Targeted population include doctors, teachers, engineers, technicians, nurses, etc, whose disposable income does not allow entering the property market. At present, the underdeveloped mortgage system does not allow families under 12,000MDL/month of disposable income (742€) to borrow to acquire their home. This scheme is supposed to be managed through selected "Participating Financial Intermediaries". These would be financed through the share of the loan proceeds dedicated to this component, i.e. 65% of 11.6 millions Euros or 7,540,000 millions. PFIs would operate within a subsidiary financing agreements with the MoF and under the control of the Credit Line Directorate; they would service the share of loan used to finance these mortgages.

Unfinished privately-owned building structures are numerous in Chisinau. 11 of them have been preselected for the project's 3rd component; they are complete at 61% or more. The unfinished structures are supposed to be bought back from the private developer or builder who started them; most were planned as rental housing projects. Units to be delivered through this component, 829, will be a mix of rental and mortgage. Poor business planning and several economic shocks, especially in the period 2006-2008 have caused these projects to stop.

Publicly-owned buildings included in this project were started in the 1990's by state enterprises. Until its dismantling the National Housing Agency was in charge of the completion of these buildings but was not especially focusing on the provision of affordable housing. The total stock consisted of 296 buildings nationwide for an estimated total of 20,000 units. Thanks to the CEB first project, a number of the unfinished housing residential projects will be dedicated to affordable housing.

B. Project components

The loan application as submitted by the Architecture, Construction and Housing Directorate General (MoCRD) includes three components with three different financing modalities.

Component 1, for which 16 M€ are requested is the continuation of F/P 1569 *Provision of social housing to disadvantaged population.* It covers the construction of rental flats, either through the completion of unfinished structures or the construction of new apartment blocks. This component is intended to target vulnerable sectors of the population in Chisinau and 9 other provincial cities. 271 housing units should be delivered through this component. New figures communicated by the borrower in the course of the preparation of this report indicate a total project value of 65,387,333 Meuros and a requested amount of 32,693,866 Meuros for this component.

Component 2, for which 16M€ are requested, would finance a mortgage scheme to provide entry level flats targeting young double income families of graduates. 276 housing units should be delivered through this component. New figures communicated by the borrower in the course of the preparation of this report indicate a total project value of 65,387,333 Meuros and a requested amount of 32,693,866 Meuros for this component.

Component 3, for which 11, 313 M€ are requested, has been added to the MoCTD original proposal. It consists in buying back unfinished building structures (percentage complete 61% or more) from private developers or construction companies. According to the provisional list of companies which could benefit from this scheme 829 housing units could be delivered through the completion of 11 buildings.

The rationale for the amounts requested is discussed in detail below (*IV. Cost Analysis and Appendix I*). It seems the borrower has included in them costs and expenses which are not covered by the loan proceeds which finances only 65% of the works costs and no expenses such as building survey and architectural and engineering design. The latter being part of the local contribution together with the in-kind contribution, consisting in the unfinished buildings, by the participating local authorities.

Participating local authorities (Appendix II)

All participating local authorities, whether municipalities or regional councils have been met as part of this feasibility study and all sites visited. Data and information on current local conditions in visited municipalities and regional councils vary depending on the preparedness of people met. As part of the preparation for this project, the PIU has been asked to gather information on housing needs in each city, based on registered application for housing support. Information on the selection of the uncompleted buildings to be included is not final and subject to change. Similarly, the participation of the local authorities listed below is not final; it will need confirmation, on the one hand through a vote of the local assemblies, and after positive check of their creditworthiness by the Treasury and/or Court of Account on the other hand.

Also, all costs and values indicated in the table submitted by the MoCRD are estimates, whether for land and building and prior investment value as well as for required investments and building survey and architectural and engineering design. Buildings listed for each city are also subject to change as well as whether units will be rental or ownership through mortgage.

Despite PIU's efforts, not all local authorities seemed fully informed of the project procedures. It might be useful to produce a short project manual, to be distributed prior to the formalization of the participation so that commitments and obligations are fully laid out and understood.

In most cities and regions visited the main industrial activities have either come to an halt or are experiencing a severe slowdown, most have been privatized and bought and sold by several private investors, employment and employment prospects are scarce and agriculture, small scale farming and some agro industry, is the liveliest activity sector.

Or. Ialoveni

Building selected was planned as housing for hospital staff, it is complete at 5.7%, 25 units are planned, with ten for rental, for vulnerable families and medical staff. Due to conflict between municipality and regional council Ialoveni might not participate into the project.

Or. Singerei

30 rental units are planned in this city. 1900 application for housing have been filed with the regional council. An active social policy exists there with subisidies for poor families with many children (there are several families with more than 13 children) and for young professionals (129 teachers and 8 medical doctors have filed an application for housing) with subsidies for utilities costs, 10% salary top up, credits of 25 to 30,000 MDL for housing and a land grant programme providing 600 sq.meter plots to young professionals on which they build their house with remittances. As part of their priorities for its development, local officials listed housing for professionals, doctors, teachers, engineers, technicians, nurses, etc. People met in Singerei seemed extremely motivated to go ahead with the project. The unfinished building is well located and well served and in immediate vicinity of utilities networks.

Or. Glodeni

Glodeni was part of the first CEB project. Official from both the regional council and the municipalities are very motivated to take part in the project as housing needs are quite important there. Originally, the project included two thirds of mortgage units for one third rental. The mayor of Glodeni came down to Chisinau to meet with us in January to express its budgetary concerns: the local budget would not allow to finance more than 20 units and the mayor proposed to use mortgages to finance the others. It is recommended to set up a rent-to-buy scheme instead. The unfinished building is well located and well served and in immediate vicinity of utilities networks. The building financed though the first loan seems well realized. Officials met are very motivated to go ahead with the project.

Or. Basarabeasca

This regional council counts a total of 281 families in need of a housing solution, out of these, 17 are young professionals, others are poor and vulnerable. The city, 14,000 inhabitants, and the region, 29,000 inhabitants suffer from the drastic slowdown of its large rail and freight handling facility, agriculture and wine making are the main productive activities. There is no social housing, just a shelter for the blinds. Two buildings have been identified, one is a former hostel, the other one a very good looking brick building of historic significance built by war Germans prisoners in 1949. No alteration of the exterior aspects of this building should be made. Projects in this city are fully justified and local officials very interested in entering the project but financing might be tight. The EU Border Mission to Moldova and Ukraine is present in Bsarabeasca.

Chisinau

Housing needs in Chisinau are estimated at 20,000 out of which it is estimated half could buy and half would rent, on average households considered as able to buy have a disposable income of 300€/month (4,920MDL). The municipality is implementing a mortgage scheme, *Prima Casa* (see IX. n. below) . It also has a "mansardes" building programme started in 2008 and through which 7 projects have already been delivered for a total of 60 planned, all through mortgage. The Vice-Mayor recognises the need to deliver more social appartments.

Mansardes

The location of buildings on which "mansardes" are planned to be added needs to be indicated. None of these buildings were seen during the two missions. The concept of "mansardes" is disputable, even though they are said to be cheaper to build than new buildings, this project is capturating 14, 2 Meuros or almost half of the total of required investments for 56 units only – all mortgages. From an architectural point of view "mansardes" are particularly unpleasant and look like a makeshift solution. At 450€/square meter 14,2 Meuros could deliver 31,111 square meters or 518 sixty square meter units. This project needs to be reworked and it is recommended an alternative solution, building anew rental and/or rent-to-buy flats on plots owned by the Municipality, be devised and submitted to the CEB. At the request of the consultant, the Vice-Mayor made an – excellent – presentation on Chisinau revised local plan. It shows land zoned as collective housing exist in the city, in sufficient quantity to accomodate actual needs. It is suggested the Municipality prepares a housing project, subsidized-rental, rental and rent-to-buy, for building on its own land.

Academia de Muzica, Teatru si Arte Plastice, str. Hristo Botev

Same as above, "mansardes" are not a solution of choice to deliver housing units, even if needs of the Academy to house its teachers are real. The Academy should identify buildable plots in the vicinity of its premises to build staff and teachers housing.

Ministerul Muncii, Proctectiei Sociale si Familiei, str. Alba Julia

This project is dedicated to victims of the Chernobyl accident. It is fully justified.

Ministerul Constructiilor si Dezvoltare Regionale, str Hincesti

This project is planned on a tiny back street plot surrounded by two large housing blocks. The plot is zoned as residential but is currently used as a garden and a parking lot. Building a 56 unit block there amount to an infill project, it implies the demolition of two substations, parking spaces would be lost and none would be available for the new residents, more importantly the new building would be very close to the other two. MoCRD should identify an adequate plot for this project, probably through a swap with the municipality or other public land owners.

Ministerul Constructiilor si Dezvoltare Regionale, str Grenoble

Same as above even though the plot is larger. The 104 housing block would be built where an old atomic shelter sits.

Or. Briceni

The project in this city consists in the rehabilitation of an hospital building in which would be created a health center, flats for the center's staff and social flats. This project is a kind of PPP whereby a renovated public building would house a health facility (day care, exams, lab). There is a lack of health care provision in the whole northern region as well as a lack of both social flats and flats for young professionals. Exact conditions (rent, rent pegged to profit) under which the private health facility will occupy part of the building need to be precised, as is the categories of people accepted in the center (people members of a private health care scheme or all people with social security). The promoter of the health center, Dr. Gheorghe Dodu, was part of the visit to Briceni. Local officials are strongly committed to the project.

Or. Anenii Noi

Both Mayor and President of the Regional Council need to be better informed of the project procedures. Two buildings could be included, a hospital in need of renovation and an unfinished building, the latter is a panel construction, it will need to be demolished down to foundations and built over. There are 200 persons on the housing waiting list in Anenii Noi. Flats beneficiaries, tenure and allocation criterias will need to be defined.

Or. Ceadir Lunga (Gagaousia)

Two buildings could be included in the project, one unfinished panel block and another older building in need of rehabilitation only. The Regional Council is short on funds for the project, additional checking is needed on their financial capabilities. Their interest is genuine and strong. Needs are high in this area (600 people on waiting list for housing) both for local population and migrants from rural areas. Prices are much lower in Ceadir Lunga, where 10,000 € are said to buy a room and 15,000€ a flat. Remittances account for a big part of local population income. The possibility of establishing a funding facility capitalizing on this resource should be studied (see Recommendations below), especially in this region where finances might be tight to allow the city to enter into the project. The Municipality intends to call upon Gagaousia central administration to help finance its participation.

Or. Calarasi

The Regional Council is very interested and committed to the project. The project plans to mix tenures with mortgage and rental. Mortgage should be replaced by non-subsidized but regulated rent or rent-to-buy, as in other cities where such an arrangement was planned.

Or. Lipcani

Withdrew from the project for lack of funds. Vulnerable families presently living in a damaged building there will be re-housed through the project in Briceni.

Provisional list of privately-owned unfinished buildings

None of these buildings have been visited during the two missions in Moldova in December 2010 and January 2011.

1. Str. Trandafirilor
2. Str. Mircea cel Batrin
3. Or. Cismilia
4. Str. Varsovia
5. Str. Brancusi
6. Str. Alexandru cel Bun
7. Str. Inculet
8. Str. Nistor
9. Or Balti, Str. Krilov
10. Str. Zelinschi
11. Str. Socoleni

III. Project Management

The borrower is the Ministry of Finance with the Ministry of Construction and Regional Development (MoCRD) being the beneficiary and implementing agency. Reimbursement of the loan is the responsibility of the participating municipalities in which the project is implemented. Participating local authorities are entering the project of their own will further to having been approached by the MoCTD which contacted all of them. Ten local authorities, municipalities or regional councils, expressed their interest in participating in the project. These are, Chisinau, Ialoveni, Singerei, Glodeni, Basarabeasca, Briceni, Anenii Noi, Ceadir-Lunga, Calarasi, Lipcani, according to the project proposal submitted, but participation in the project will need to be confirmed through a vote of the local assembly, either at the municipal or regional council level. In addition to local authorities, the project includes three other partners, the Academy of Music, Theatre and Arts, the Ministry of Labour, Social Protection and Family and the Ministry of Construction and Territorial Development. These three institutions will be responsible for the reimbursement of the part of the loan financing the housing units they will benefit from.

The project will be centrally managed, through delegation of authority from the MoF to the MoCRD, by the PIU created for the management of a first CEB loan of 4, 9 millions Euros currently disbursed at ??%. A Supervision Committee is to be created to coordinate and oversee the implementation of the project.

The PIU is in charge of financial and technical management, including procurement, day-to-day follow up and monitoring, reporting to the MoF and the CEB. Works supervision is outsourced. Building inspection, commissioning of architectural and engineering designs and selection of beneficiaries will be carried out locally by the municipalities.

For the purpose of the project, buildings ownership will be transferred to the PIU from the signing of local authorities' participation into the project (subsidiary subrogating Cooperation Agreements) till completion of works where they will be handed over to the municipalities (Local Public Administration). Maintenance and operation as well as rent collection is the responsibility of the Local Public Administration in each city. An organization affiliated to the MoCRD, the Office for Verification and Assessment of Construction Projects (DVEPC), will verify all projects documentation and carry out works inspection. The DVEPC is in charge of ensuring local building standards are respected.

In terms of money flow, payments will be issued by the PIU from a project account in local currency, this account will be fed by an Euro account in the same bank to which proceeds of the loan will be transferred by MoCRD from a special account with the Treasury into which the CEB will disburse the tranches of the loan. CEB disbursements will be phased according to a project provisional implementation and expenditures schedule which the PIU needs to prepare. They will be conditional to satisfactory implementation and documentation of prior phases.

Tenders are organized by the PIU. Ad hoc tender commissions will be formed for each project, they include representatives of MoCRD, the PIU, MoF, DVEPC and local authority.

The expansion of the project scope to a mortgage scheme and a buyback scheme will require additional capacities compared with the first CEB loan especially in terms of procurement and monitoring and supervision. At present the PIU counts only one construction professional, an engineer, in view of the number of tenders and projects to be managed simultaneously, 16, adding the capacity of a quantity surveyor might be useful.

IV. Cost analysis

The table below shows the project financing as per the project proposal prepared by the MoCRD (see Appendix I).

Table 5. Cost summary (in Euros). Provisional costs for project components one and two and contributors, assuming a CEB contribution of 65% as requested by the borrower. The mortgage cost being borne by the ultimate borrowers it is not factored in this table.

Based on cost of works			
Items	CEB 65%	Local Authorities 35%	Total
Building survey	0	120,511 (100%)	120,511
Project design	0	724,153 (100%)	724,153
Unfinished buildings	0	(Cash equivalent) 32,759,278	32,759,391
Works	**20,659,204**	**11,124,187 (35%)**	**31,783,391**
Total	20, 659,204	44,728,129	65,387,333
Based on total project value			
	CEB 65%	Local Authorities	
Building survey	0	120,511	120,511
Project design	0	724,153	724,153
Unfinished buildings	0	(Cash equivalent) 32,759,278	32,759,391
Works	**31,783,391 (>100%)**	**0**	**31,783,391**
Total	42,501,766 (exceeds cost of works by 10.2 M€)	33,603,942 (exceeds 35% by 10.7M€)	65,387,333

The 65%-35% contribution distribution is based on an estimated total project value of 65.4 millions for components one and two only, including, as calculated by the MoCRD, the value of unfinished construction, the value of the land, the cost of project documentation (building survey, architectural and engineering design) and the cost of works. On this basis, the requested CEB 65% contribution would be of 42, 5 Meuros for a cost of works estimated at 31.7 Meuros, with a local contribution exceeding 35% at 33.6 Meuros when it should be of 22.9 Meuros.

In this configuration, the local contribution represents 52% of the project value and the cost of works 42%. This would imply that no contribution would be made locally towards the cost of works and that the CEB would cover them entirely, which is not the CEB policy. In order to maintain at 65% maximum CEB financing of eligible costs, unfinished buildings and plots of land could be considered as the local contribution towards the cost of works but their value as estimated by the borrower exceeds the cost of works.

Due to lack of details and information, figures for component three are not included in the table above. They are shown in table 6 below. Number of units for the rental component and the mortgage component are almost the same (271 and 276). Costs shown below will probably vary however and will not remain equally distributed between rental and mortgage as the project is finalized (see table 7 below). Both types of tenure, rental and ownership are planned to be mixed in the same apartment blocks.

Table 6. Detailed cost breakdown per component (in Euros), as estimated by MoCRD.

Components	CEB		Local authorities		Total
	€	%	€	%	
1. Rental scheme					32,693,866
Unfinished building	0	0	18,878,639	100	
Building survey	0	0	362,076	100	
Project design	0	0	60,255	100	
Works	10,329,602	65	5,562,093	35	
2. Mortgage scheme					32,693,866
Unfinished building	0	0	18,878,639	100	
Building survey	0	0	362,076	100	
Project design	0	0	60,255	100	
Works	10,329,602	65	5,562,093	35	
Mortgage (PFIs)	tbd	tbd	tbd		
Mortgage (ultimate borrowers)	tbd	tbd	tbd		
3. Buyback scheme					11,600,000
Owners audit	tbd	0		100	

Building valuation	tbd	0		100	
Building survey	tbd	0		100	
Project design	tbd	0		100	
Buyback	tbd	tbd		100	
Works	tbd	tbd			
PIU		100			tbd
Total	20,659,204				76,987,732

Note: The 11 building list provided indicates a total of 5,584, 783M€ for construction value, 3,271,332M€ for investments made and 11, 600, 000 M€ as requested investments for completion. It is not clear if the investments made are included in the construction value, it is not clear either if the amount requested includes the buying price of the unfinished buildings. If it does not, the cost of this component would be 11, 600, 000 + 5,584, 783, or 11, 600, 000 + 5,584, 783 + 3, 271,332 to which project and company audit, building survey, architectural and engineering design should be added. In any case the requested amount seems to need revising as this component was insufficiently worked at the time of two missions to Chisinau and during the preparation of this report; no additional information could be obtained. See *IX. Comments and Recommendations* below.

As each sub project differs in nature from blocks of flats to completion of unfinished buildings and *mansardes*, the only way to have a clear and actual idea of construction cost per square meter would be to hire the services of a quantity surveyor. A QS could either analyse the costs of the four projects of phase one, two unfinished structures completed and two apartment blocks built from scratch and update them for 2011 or, alternatively the tender dossiers for this second phase could be reviewed and cost per sq.meter could be determined for each type of projects and according to the percentage complete of each of the unfinished structure. In effect, and making a very rough calculation dividing total project cost by number of units, phase one delivered 249 units at 30,638 each whilst phase two's would cost 58,888 each for 547 units, all types considered together. At present average construction cost per square meter is estimated at 450€, which seems quite high.

The cost of the mortgage component will be determined by the conditions of the participating banks: interest rate and expected profit, maturity, percentage of flat cost financed through mortgage, requested down payment, requested guarantee.

V. Financing plan

The Borrower is the Ministry of Finance of the Republic of Moldova. Ultimate beneficiaries of the loan are the participating local authorities who will also bear the cost of its reimbursements.

The project is made up of three components, each to be considered as a sub project with its own financing model. The total value of component one and two (around 547 units) as estimated by the Ministry is 65, 387,333M€. The CEB should finance around 65% of eligible costs which brings its contribution to 20,659,204M€. This amount includes 65% of the cost of the works; works supervision and salaries and operating costs of the PIU should be added to it. Total value of component three needs to refined, according to the PIU it amounts to 20,169,466 with 11,313,451 required for works and buyback value to determined.

The remaining 11,124,187M€ is to be borne by participating local authorities, in addition, for components 1 and 2, of an in-kind contribution, the largest part of the local contribution, in the form of buildable plots of land or unfinished building structures, as well as financing the structural inspection of the building structures and the project documentation (architectural drawings, engineering drawings, tender dossiers). The local contribution is estimated at 33,603,924 M€ broken down as: 32,759,278 M€ representing the estimated value of buildings and plots of lands, 724,153€ representing the cost of building and sites surveys and 120,511€ representing architectural and engineering design.

For component 3, the local contribution includes same as 1 and 2, except provision of plots or building structures, plus an audit of the project to be bought. The 11 building list provided indicates a total of 5,584, 783M€ for construction value, 3,271,332M€ for investments made and 11, 313, 451M€ as requested investments for completion. It is not clear if the investments made are included in the construction value, it is not clear either if the amount requested includes the buying price of the unfinished buildings. If it does not, the cost of this component would be 11, 313, 451 + 5,584, 783, or 11, 313, 451 + 5,584, 783 + 3, 271,332 to which project and company audit, building survey, architectural and engineering design should be added. In any case the requested amount seems to need revising. As this component was insufficiently worked at the time of two missions to Chisinau and during the preparation of this report, no additional information could be obtained. See *IX. Comments and Recommendations* below.

Table 7. Detailed cost breakdown per participating local authorities for components one and two (Estimate, in Euros).

Participating local authorities			Local contribution				
	Works			Bldg & land value	Bldg Survey	Project Design	Pay back €
	Required Invest.	CEB 65%	Local				
Ialoveni (RC) not confirmed	766,890	498,478	268,411	13,019,600	491,357	16,738	656,780
Singerei (RC or M)	1,578,095	1,025,762	552,333	10,000,000	487	13,421	1,351,515
Glodeni (RC or M)	627,517	407,886	219,631	2,726,336	166,453	8,132	536,101
Basarabeasca (RC)	304,321	197,809	106,512	10,240,000	48,691	18,259	260,627
Basarabeasca (RC)	30,432	19,781	10,651	1,010,000	3,043	1,826	26,063
Chisinau (M)	14,230,067	9,249,544	4,980,523	"attics"	"attics"	tbd	12,186,935
Chisinau (Academy)	200,852	130,554	70,298	"attics"	"attics"	12,173	172,014
Chisinau (Academy)	200,852	130,544	70,298	"attics"	"attics"	tbd	172,014
Chisinau (MoLSPF)	973,828	632,988	340,840	new building	new building	tbd	834,007
Chisinau (MoLSPF)	973,828	632,988	340,840	new building	new building	tbd	834,007
Chisinau (MoCRD)	2,038,953	1,325,320	713,634	new building	new building	tbd	1,746,204
Chisinau (MoCRD)	3,621,424	2,353,926	1,267,498	new building	new building	tbd	3,101,466
Briceni (RC or M)	3,590,922	2,334,145	1,256,847	4,700,000	609	33,475	3,075,403
Anenii Noi (RC or M)	973,828	632,988	340,840	484,849,000	13,513		834,007
Ceadir-Lunga (M)	1,217, 285	791,236	426,050	90,000			104,252
Ceadir Lunga (M)	tbd	tbd	Tbd	tbd	tbd	tbd	tbd
Calarasi (RC)	454,224	295,246	158,978	11,500,000		16,488	389,008
Lipcani (M)	Withdrew	-	-		-	-	-
Total	31,783,391	20,659,204	11,124,187	32,759,278	724,153	120,511	26,280,402

The cost of building survey for a number of projects, such as Ialoveni or Glodeni seems quite high, verification should be made.

Reimbursement has been calculated on the basis of a 5% interest rate, maturity of 240 months and an interest-free period of 60 months.

VI. Cost benefit analysis of the project

The project provides good value as far as component one is concerned. It both allows delivering rental units at an optimal cost to vulnerable people and contributes to absorbing the stock of unfinished building structure. Component two is less favourable as the cost and risk associated to a mortgage scheme in Moldova are quite high, its cost benefit analysis is not as good as component one. Component three combines the risk of component two in respect of the share of the units it intends to deliver through mortgage with the risk of buying privately-owned unfinished buildings at a wrong price. Unless a thorough audit and survey process are put into place to ensure the right price is paid for these structures, the cost benefit analysis for this component is not so positive.

VII. Compliance with and relevance to CEB mandate

The project is fully compliant with CEB mandate concerning component one; with regard to component two, it is not as is as it would not allow to target the population/income group most affected by the current affordability gap; in terms of beneficiaries, component three mixes those of component one and two, the same remarks apply.

VIII. Risk assessment, mitigation measures

The project is made up of three components, rental flats, mortgage and buyback, each to be considered with its own risk and possible mitigation measures. It comprises 10 subprojects in 10 different cities plus 4 in Chisinau to which should be added the 11 unfinished buildings proposed to be bought back and completed.

Component one, rental flats

The main risk with regard to this component is related to the population it intends to target. Beneficiaries of component one being poor and vulnerable people virtually no rental income can be expected for any of the subprojects and even payment of an M&O fee might not be requested from all tenants in any given buildings. In effect Municipalities or Regional Councils will have to bear initial project costs, i.e., in-kind contribution, plot and unfinished buildings; cash contribution for structural survey and architectural and engineering design, as well as running costs such as maintenance & operations and capital investment plus paying back their share of the loan. The project might then constitute a burden for the finance of participating local authorities. Transfers from central budget to local authorities amount to around 60% of their resources and the loan reimbursement will then be paid from the State transfers and not from own resources.

Three aspects might then require attention: first, the creditworthiness of participating local authorities, Municipalities or Regional Councils, must be carefully checked by the Treasury so the borrowers do not commit to unsustainable expenses and reimbursements. Second, possibilities to generate an income from the apartment blocks should be studied with an objective of cross subsidization. These could include: mixing "very social" or free units, with rent paying units; mixing rental and rent-to-buy units; mixing residential and commercial uses (offices, shops at ground level). Finally and in order to minimize cost at the onset – hence reimbursement amount – a scheme whereby the contractor is paid partly through transfer of the title deed of a number of units could be developed. In such a case a number of conditions would apply such as renting the transferred units at an agreed rent, or selling them at an agreed price so as to stay in line with the social objectives of the project.

Component two, mortgages

This component main caveat lies in the absence of a serious assessment of the disposable income and capacity to pay of the targeted beneficiaries, i.e., young graduates, or young specialists as they are called in Moldova. Similarly, banks had not been approached prior to this feasibility study and no assessment of the mortgage market had been made. Several persons told the consultant that people in Moldova "would do anything to finance their homes". This is typically a situation where extra caution should be used as the CEB does not want to promote a scheme whereby constrained borrowers would be committed to unsustainable repayment. As mentioned by the vice-minister of Labour, Social Protection and Family, "everyone is vulnerable in Moldova", and, as one banker said: "trust is the main issue to develop mortgages in this country". This component seems then to carry a lot of uncertainties and both de-risking it and make sure it would not miss its social target would require a project on it own, de-grouped from a rental scheme.

Component three, buyback

In addition to the risk linked to its mortgage part, the main risk with this component lies with acquiring privately developed and owned unfinished building structure. Unless ownership, project accounting, actual value and owners standing are thoroughly assessed the risk of not buying these buildings at the right price is very high. No procedure has been prepared by the PIU in this respect.

IX. Comments and Recommendations

The project is well conceived as far as its overall goal to palliate the housing deficit in Moldova for the poor and the low middle class is concerned. The following comments can be made however:

a. The CEB Technical Advisory Directorate Technical Report dated March 2009 stresses a number of concerns which might remain relevant for the present project. They include: the structural soundness of the unfinished buildings selected for completion and how it is assessed; energy efficiency of the blocks of flats; quality of finishes and workmanships in the building projects in relation to maintenance; the selection of beneficiaries, especially the inclusion of the most vulnerable populations into the flats allocation process; rent setting.

b. Completing unfinished building structures, often located on serviced plots in urban areas is a good approach. It saves the costs of land and infrastructure and should reduce construction costs (even though, for the first project, production costs are indicated as 590€/sq.m for new construction and between 730€ and 835€ for completion); it also allows to get rid of the eyesore of building skeletons in Moldovan cities. Most of these unfinished buildings have been left exposed to wear and tear for over 5 years. Foundations, structural stability, concrete quality, conditions of reinforcement bars should be inspected thoroughly in order to ensure the structure to be completed is safe and sound. To absorb the stock of unfinished apartment buildings is a necessity. These structures may not however be best suited to the provision of adapted and efficient lodging and using them for affordable housing should not preclude the development of dedicated housing standards for public/affordable housing. These do not exist and staff involved in the project at the MoCRD believes they should be developed.

c. Including privately-owned structures in the project also makes sense for the same reason. Extra caution should be used though with regards to the valuation of the structure and to how its selling price will be set. Land and building ownership should also be investigated. An audit of the project should be carried out and the structure itself should be thoroughly surveyed by structural engineers. Possible changes and improvement to the original design, especially in terms of floor plans, flat layout, openings and façade designs, should be sought in order to minimize cost, better match the target tenants and buyers and optimize energy efficiency.

d. **Component one** is addressing affordable housing needs of the participating cities, estimated at 1,900 families in Singerei for instance, 100 in Calarasi, 20,000 in Chisinau, according to filed applications. The provision of affordable housing will partly alleviate the present shortage in these cities provided beneficiaries are selected according to adequate criterias. This component of the project will also help reconstitute a publicly-owned stock which has disappeared further to the 1993 privatization of housing.

e. Regulations have been prepared as part of the first CEB F/P 1569, they have been modified and include: housing conditions, civil status, health conditions, education/training level, length of service, special social situations, but do not mention income anymore. According to the State Regulations, the first condition to be eligible to an affordable unit is to have an income less or equal the minimum subsistence level (65€/month). This disposition should be respected in the present project, in combination with the social criterias.

f. The Regulations also stipulate the membership of the local selection commissions to be set up in each municipality, it does not include representative of either the PIU, the Architecture, Construction and Housing Directorate General (MoCRD), or of the Ministry of Labour, Social Protection and Family. It might make sense to add to the commissions a representative of at least one of these central administrations without compromising the decentralisation of housing responsibilities to the local authorities.

g. Disposable income of the targeted population does not allow to raise a rental income which could contribute to the reimbursement of their share of the loan proceeds by participating local authorities. In view of the payment capacity of future tenants, which can be estimated at an average maximum of around 300 MDL/month, rental income would just cover maintenance and operations. The total income of a typical project such as the one in Glodeni for instance, 30 tenants, 10 of them to be totally exempted from paying a rent, 2 of them exempted at 50%, is estimated at 306€/month or 121€/month net if the Municipality's contribution for exempted tenants is factored in.

h. If very affordable housing is supposed to be heavily subsidized, these financial conditions can create a sustainability risk not only in terms of correctly maintaining the buildings and being able to make necessary capital investment over their lifespan but also in terms of the municipalities being able to service their share of CEB debt. Most of local authorities' budget comes from transfer from the central government; in this regard decentralization does not relieve the State budget. The credit worthiness and long term commitment of both municipalities and regional council should be assessed thoroughly.

i. Mixing uses and/or income categories and tenure types within one building may help generate revenue which could be used towards M&O costs. In a same building for instance, home owners, leaseholders, offices and commercial users could be mixed. In such a configuration a sort of barter arrangement could be imagined whereby a private developer or investor would cover part of the project cost in exchange for leasable and/or saleable space within a building or the totality of the cost with a number of dwellings being handed over to the municipality for use as rental affordable housing. Such an arrangement, already proposed in the CEB report mentioned earlier, may require a conducive local environment which might not be there for now, but it could be developed and tested in one of the participating cities for this project.

j. The rental component is estimated at 16M€ for 271 units. The first project supported by the CEB included 249 dwellings in 4 buildings, 2 new ones with 69 and 80 units and two uncompleted ones with 30 and 48 units; its total cost is € 7,628,879 (or € 7,904,239 at today's rate). Out of the 271 rental units, none are built anew; they are distributed in 9 apartment blocks. Unfinished structures are in similar conditions in both projects and flats are of similar characteristics. Despite these similarities, a unit in the first project comes at an average price of €30, 638 whilst it would average €59, 040 in this project, i.e. an almost two fold increase in cost. This price difference which does not seem to be justified by either the additional presence of attics in this project or a raise in the price of building materials should be explained by the PIU.

k. **Component two** is intended to deliver housing through a mortgage scheme. Meetings with the MoF, Treasury, Moldova National Bank and three commercial banks did not indicate this approach might be adapted to the objectives of this project. MoF, Treasury and MNB stressed the legal framework needed improvement, especially to finance new buildings; other unfavourable conditions were mentioned: there is no guarantee fund, private banks have insufficient resources to cater to potential demand which is estimated quite large, interest rates are too high and lending conditions too strict especially with regard to guarantee and percentage of down payment required. No information could be obtained from MNB on mortgage default, but unfavourable loans amount to 15.23% of all loans and 53, 45% of total regulatory capital of all 15 banks. The MNB director also mentioned the IMF was working on improving the mortgage law. The three institutions confirmed it is possible to develop a low interest mortgage scheme with one or several commercial banks. The MoF mentioned the possibility of a grant from the NIF and asked if the CEB would be willing to look into this. A NIF grant could be used to cover the equivalent of required down payments

l. Specific comments by banks met in Chisinau all indicated similar conditions: interest rate is between 12% and 16% except for one scheme by Mobias bank were the loan was guaranteed by the employer of a group of borrowers, in this case interest rate was 4%; the minimum monthly income required by these banks to obtain a loan is between 10, 000 and 12, 000 MDL/month, a down payment of 50% is required; most loans are in the 25,000 € region; even though the law allows to use the future building as guarantee, none of the banks would accept it, they would however accept another real asset, except Mobias but with the use of an escrow account they are setting up or if the loan is channelled through a developer with the building project as guarantee; in the case the loan is made through a developer or builder both Mobias and BC Moldova Agroindbank would finance up to 70% of project cost at 13% interest rate. Quite a different reading of the socio-economic context was made by each bank, whilst

BC Moldova Agroindbank, which is the bank managing the mortgage scheme put together by the municipality of Chisinau, sounded over confident and announces a default rate of 0.09% for all its mortgage products, Mobias heavily stressed trust issues as a main hindrance to the development of the mortgage market and would not discuss default issues. This bank was by far the most cautious.

m. BC Moldova Agroindbank, Mobias and Moldindconbank would all agree in principle to cooperate with the CEB as far as adequate guarantee is provided and an acceptable profit would be made. Mobias has experience working with IFIs and has collaborated with EBRD, EIB and The World Bank, BC Moldova Agroindbank his currently managing a 10 million $ credit line from the European Fund for Eastern Europe, the loan from EFSE is at 3.6%, mortgages at 13%.

n. No exploration has been by MoCRD of how the mortgage component would be implemented. It seems lending to individual families would not be any bank preferred solution and that unless a State guarantee is provided they would not go forward until building completion. In addition to the risk issue, the profit margin of participating PFIs will also need to be discussed. Finally, a mortgage scheme targeting a population with a monthly income of around 2,200 MDL has never been done. Even the scheme “Prima Casa” put together by the Municipality of Chisinau with BC Moldova Agroindbank requires 3,642 MDL/month as minimum salary and a 30% down payment for a 30 year mortgage at 9% for a 320,000 MDL, 40 sq.meter apartment.

o. A simulation will be made to assess the possibility of lending at realistic conditions to the targeted income group, double income and remittances might help build up a workable scheme. Alternatively, a rent-to-buy scheme could be envisaged.

p. **Component three** targets similar population as components one and two but is based on the acquisition and completion of privately-owned unfinished buildings. Including privately-owned structures in the project makes sense. Extra caution should be used though, as public funds would be transferred into private hands, with regards to the valuation of the structure and to how its selling price will be set. Land and building ownership should also be investigated. An audit of the project should be carried out and the structure itself should be thoroughly surveyed by structural engineers. Possible changes and improvement to the original design, especially in terms of floor plans, building layout, openings and façade designs, should be sought in order to minimize cost, better match the target tenants and buyers and optimize energy efficiency.

1. Preliminary conclusions: Component one is well rehearsed as it is the continuation of the first loan. Except for the issues discussed above which should all be addressed without difficulties, this component seems justified, needs based, manageable by the IA and within CEB mandate. Component two poses financing issues which will need to be worked out as present conditions in the banking system are not favourable for a mortgage scheme for low income families. Component three has not been sufficiently developed by MoCRD to be seriously assessed, additional information regarding building/companies selection and valuation has been requested from Vice-Minister Zolotcov. At this stage, the management of a rental scheme, a mortgage scheme and a buy-back scheme with a total of 1329 units seems slightly over ambitious and quite a jump from the first 249 unit projects. Separating these three components into three individual projects might be a reasonable choice.

Recommendations

i. With an extension of its scope to a mortgage and a buy-back scheme the proposed project is taking the PIU, MoCRD and participating local authorities in uncharted territories. As shown above, mortgages are both risky and do not allow to cater to the needs of the targeted social groups. If it might be useful for the country to have the CEB pioneering a mortgage scheme focused on income categories comprised between 2000 and 4000 MDL of disposable income per month, this should be the object of a specific project and a specific loan developed in partnership with selected local banks.
ii. Remittances account for a very large part of Moldovan GDP. Banks, local officials and the PIU all have stressed this “grey” income should be factored in in calculating households actual income. Unless a formal way of tapping into this resource is created however, remittances cannot be taken into

account when putting together a housing scheme. The creation of a housing saving fund, at the level of Municipalities or Regional Councils should be looked at. The fund would be fed by remittances and be used as a guarantee for either mortgage loan or rent-to-buy schemes. The CEB is well placed to help developed such a scheme.

iii. In policy terms, housing is affected by a quasi total withdrawal of the state, as a result only the poor and vulnerable can benefit – with support of financing institutions such as the CEB – from some support whereas a much wider population group is unable to access a housing solution in the present conditions of the housing market and of the banking system. A number of locally designed programmes have been started, such as the provision of plots of land in provincial cities for young professionals to build their house on, with some subsidies from MoCRD or local authorities. Such initiatives have been successful but have been aborted for lack of funds. Rather than a project mixing together several social targets with different needs and means and several tenure types, it is recommended the CEB finances carefully designed separated projects, such as: very social housing; social housing for lower middle class with rent-to-buy (0% interest loan possibly back on a remittance housing saving fund) or rental flats; mortgage (possibly backed on a remittance housing funds.

* * *

Additional Sources

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City Development Strategy for the Municipality of Chisinau, Housing Concept Paper, prepared by Dr Tsenkova with the assistance of Svetlana Dogotaru, UN-HABITAT & World Bank Project, October 22, 2006.

National Human Development Report, UNDP Moldova, 2009.

List of persons met

Architecture, Construction and Housing Directorate General, Ministry of Construction and regional development, MoCRD

Ms. Elena Bejenaru, Director, Architecture, Construction and Housing Directorate General
Mr. Veaceslav Stefanco, Head, CEB PIU
Ms. Nadejda Birsanu., CEB PIU
Ms. Stella Alexei, CEB PIU
Mr. Serghei Munteanu, in charge of urban planning

Ministry of Labour, Social Protection and Territorial Development

Mr. [add name}, Vice-Minister
(The Vice-Minister expressed his strong interest in cooperating with the CEB; this ministry might be a good partner).

Ministry of Finance

Ms. Elena Matveeva, Director General, Directorate of Public Debt
Mr. Valerian Binzaru, Head of External Financing and Debt Division
Ms. Olga Mereuta, Head of Capital Investments and National Economy Financial Division

National Bank of Moldova

Vladimir Turcanu, Director

Treasury

Ms. Nina Lupan, Director
Ms. Angela Voronin, Vice-Director

Chisinau Municipality

Mr. Nistor Grozavu, Vice Mayor

Glodeni Municipality

Mr. Iurii Evteev, Mayor
Mr. Veaceslav Boubatran, Vice Head of Regional Council

Ialoveni Regional Council

Mr. Mihail Silistraru, Head of Regional Council
Mr. Erhan Valeriu, Deputy Head of Regional Council
Mr. Mihai Busuioc, Head of Construction, Communal Household and Roads

Singerei Municipality

Mr. Gheorghe Brasovschi, Mayor
Ms. Maria Condurachi, Deputy Mayor
Mr. Vasile Doga, Head of Regional Council

Calarasi Regional Council

Mr. Ilie Rau, Head of Regional Council
Ms. Elizabetha Pavlov, Construction Department

Briceni Regional Council

Mr. Valeriu Bejenaru, Vice-President
Mr. Eugen Dumenco,, Mayor of Lipcani

Basarabeasca Regional Council

Mr. Ilie Cern_u_an, President
Mr. Ion Achiru_, Vice-President

Anenii-Noi Municipality and Regional Council

Mr. Vladimir Vîzdoag_, President
Mr. Mihail Cheiba_, Mayor

Ceadir-Lunga Regional Council (Gagaousia)

Mr. Gheorghe Marangoz Mayor
Mr. Ion Curdov, Vice-Mayor

Academy of Music, Theatre and Arts

Mr. Ion Butucea

BC Moldova Agroindbank

Ms. Anna Gheorgiu, Deputy Chairman of Managing Board

Mobias Bank

Sergiu Botnariuc, Division Head (interim)
Veaceslav Bologan, Commercial Banking and Loans
Dorin Gaidau, Economist/Coordinator

Moldindconbank

Daniel Sandu, Director, Retail and Network Development
Vitalie Groza, Deputy Chairman of Managing Board

Appendix I

Components 1 and 2, Financing Plan

A	B	C	D		F	G	H	I	J	K
CEB financing 65%	Local contribution									
Required invest.	Project Doc	Other expenses	In-kind	Local Authorities	Required invest. Euro value	CEB financing 65% (€)	L.A. financing (€)	L.A. Payback (€)	Proj Doc (€)	Other Exp (€)
12,600,000	275,000	8,073,000	13,019,600	Ialoveni	766,890	498,478	268,411	656,780	16,738	491,357
25,928,100	220,500	8,000	10,000,000	Singerei	1,578,095	1,025,762	552,333	1,351,515	13,421	487
10,310,110	133,602	2,734,820	2,726,336	Glodeni	627,517	407,886	219,631	536,101	8,132	166,453
5,000,000	300,000	800,000	10,240,000	Basarabeasca	304,321	197,809	106,512	260,627	18,259	48,691
500,000	30,000	50,000	1,010,000	Basarabeasca	30,432	19,781	10,651	26,063	1,826	3,043
233,800,000				Chisinau	14,230,067	9,249,544	4,980,523	12,186,935		
3,300,000	200,000			Chisinau	200,852	130,554	70,298	172,014		
3,300,000				Chisinau	200,852	130,554	70,298	172,014		
16,000,000				Chisinau	973,828	632,988	340,840	834,007		
16,000,000				Chisinau	973,828	632,988	340,840	834,007		
33,500,000				Chisinau	2,038,953	1,325,320	713,634	1,746,204		
59,500,000				Chisinau	3,621,424	2,353,926	1,267,498	3,101,466		
59,000,000	550,000	10,000	4,700,000	Briceni	3,590,992	2,334,145	1,256,847	3,075,403	33,475	609
16,000,000		222,014	484,949,000	Anenii Noi	973,828	632,988	340,840	834,007		13,513
20,000,000			90,000	Ceadir Lunga	1,217,285	791,236	426,050	104,252		
7,462,900	270,900		11,500,000	Calarasi	454,224	295,246	158,978	389,008	16,488	
0	0	0	0	Lipcani	0	0	0		0	
522,201,110	1,980,002	11,897,834	538,234,936		31,783,391	20,659,204	11,124,187	26,280,402	108,339	724,153
31,783,391	120,511	724,153	32,759,278							

Note: L.A. payback is calculated with interest rate at 5%, 240 month maturity and 60 month interest-free period.

Total project investment in cash (A+B+C)	32,628,055

Total L.A. cash contributions (B+C)	844,664
Total L.A in-kind contribution (D), cash equivalent	32,759,278
Total L.A. contribution (B+C+D)	33,603,942

Investments covered at 65% by CEB loan (F)	31,783,391
CEB loan (G)	**20,659,204**

Total L.A. cash expenditures (B+C+H)	11,968,851
Total L.A. financing (H)	**11,124,187**
Total L.A. repayment (I)	26,280,402

According to MoCRD		CEB 65%	Moldova 35%	
works	**31,783,391**			
proj doc	120,511	0	120,511	
other exp	724,153	0	724,153	
bldg + land value	32,759,278	0	32,759,278	**33,603,942**
	65,387,333	**42,501,766**	**22,885,567**	

Note: if, as per MoCRD original proposal, we consider the project total value (65,387,333), CEB financing (65%:42,501,766) would exceed the amount of the required investments (31,783,391) and the local contribution (33,603,942) would exceed 35% (22,885,567). This would cause to borrow more than needed (42 millions instead of 20), it would also imply that the CEB would finance 100% of the works, which is usually not the case and it is not clear what the reminder of the CEB contribution (42,501,766 - 31,783,391 = 10,718,375) would be used for.

Appendix II

LIST OF PROPOSED OBJECTS FOR THE SECOND PHASE OF THE HOUSING CONSTRUCTION PROJECT FOR SOCIALLY VULNERABLE LAYERS AND BY MORTGAGE PRIMARILY INTENDED FOR YOUNG SPECIALISTS AND YOUNG FAMILIES IN URBAN AREAS

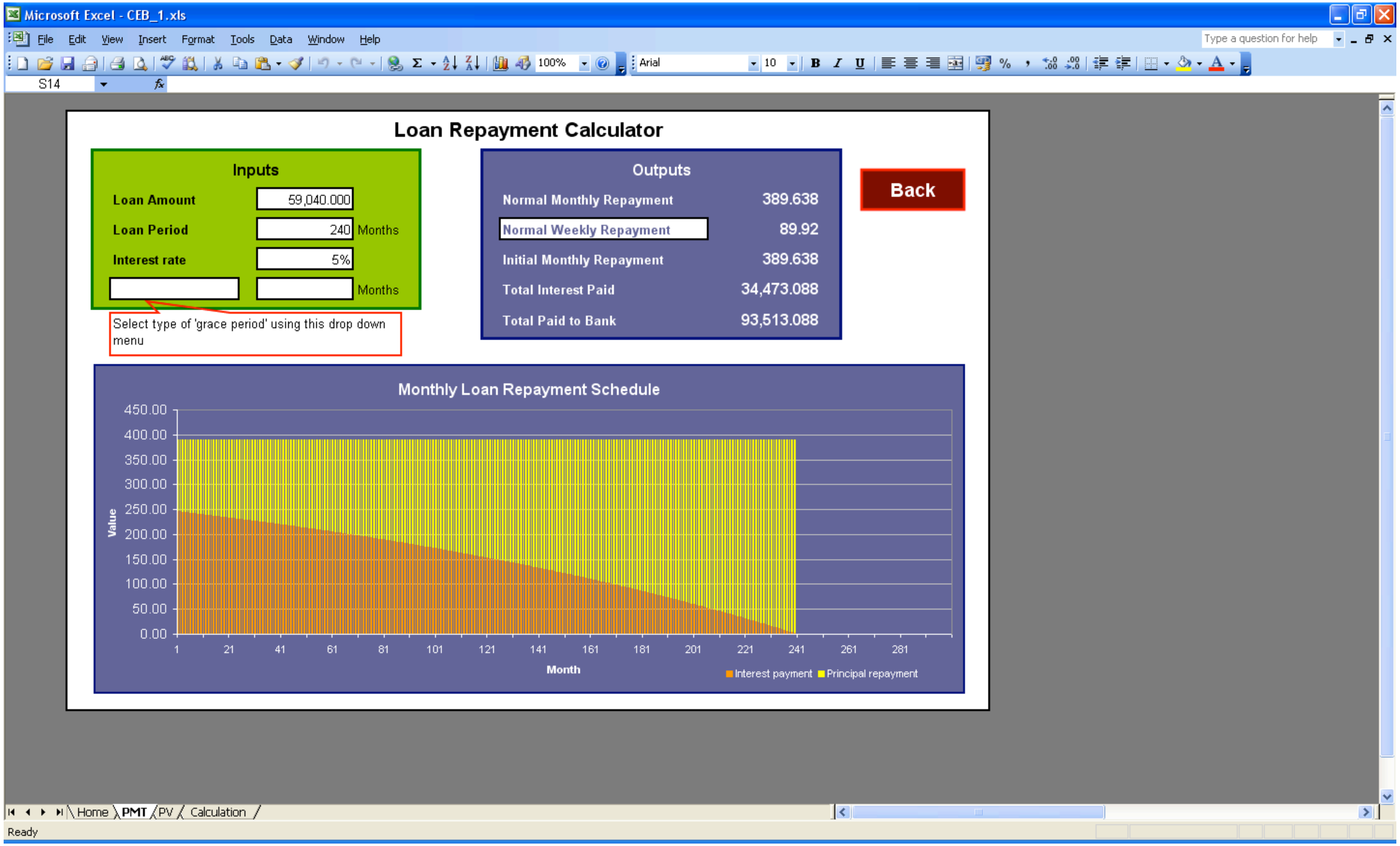
No.	Name of the object, no. of apartments, total area of apartments - m^2, address, city	Start of construction **(year)**	Percentage of execution **(%)**	Value of unfinished construction, **(thousand lei)**	Accomplished investments, **(thousand lei)**	Required investments for completion, **(thousand lei)**, including construction, finishing works, infrastructure	The cost of the project documentation and the cost of verification and expertise of project documentation, **(thousand lei)**	Land value **(thousand lei)**	Other expenses (**Thousand lei**) (the cost of unfinished construction evaluation, cost of land evaluation)	**Notes**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
					Ialoveni					
1	25 ap., 1658,4 m2, Basarabia street, Ialoveni city	1996	5,7%	12947,3	735	12600	275	72,3	807,3	15 social apartments, 10 – by mortgage
					Sîngerei					
2	Housing block, 48 ap., Sîngerei city, Voini_chi street	1989	5%	837,4	-	25928,1	220,5	162,6	8	48- social apartments
					Glodeni					
3	Housing block, 30 ap.,1720,4 m2, Constantin Stere street, Glodeni city	1994	18,3%	16650	910	31501	110	23	12,5	30%- social apartments, 70%-by mortgage
					Basarabeasca					
4	Housing block, 40 ap., 2798,6 m2, Sovhozului street 48/4, Basarabeasca city	-	-	10000		5000	300	240	800	Hostel in the past which needs capital renovation. Can be build 40 social apartments, 5 floors 2 annexes, the building was put into operation in 1995
5	Housing block, 4 ap., 200 m2, Matrosova 28, Basarabeasca city	-	-	1000		500	30	10	50	Needs capital renovation, 4 ap. by mortgage
					Chi_in_u					
6	**Prim_ria (city hall) Chi_in_u** Construction of the attics on the existing blocks	-	-	-		233800	-		-	There is a possibility for the construction of 56 attics, in mortgages
7	Hostel with 5 floors of the **Academy of Music, Theater and Arts,** of the Republican College of Arts, and Republican Choreography College, possible 14 apartments, 770 m2, Hristo Botev street 4/1, Chi_in_u city	-	-	-	-	3300 3300	-	-	-	Construction of attics for young teachers
8	**Ministry of Labor, Social Protection and Family** 2 housing blocks with 80 ap., Alba Iulia street 3B and 3V, Chisinau city	-	10%	-	-	16000 16000	-	-	-	The apartments will be intended for people who have suffered from the Chernobyl accident. The objectives belong to the Ministry of Labor, Social Protection and Family, with the possibility of transmission to

										balance Municipal Council.
9	**Ministry of Construction and Territorial Development** 1) housing block, Hînce_ti street, 56 ap. 2) Housing block, Grenoble street, 104 ap.	-	-	-	-	33500 59500	-	-	-	The apartments will be intended for persons of the budgetary sphere by mortgage
Briceni										
10	Housing block, 48 ap., 6000 m2, Eminescu street,48, Briceni city	1989	60%	4500	5700	59000	550	200	10	48 social apartments
Anenii Noi										
11	2 housing blocks, 36 ap., 1971,18 m_ Chi_in_ului street, 50 „B", Anenii Noi city	-	-	484949	-	16000	-	-	222,014	By mortgage
Ceadîr-Lunga										
12	Housing block, 40 ap., Ceadîr-Lunga city, Iubileinaia street	1988	15%	-	-	20000	-	90	-	10- social ap., 30- ap. by mortgage
C_l_ra_i										
13	Housing block with 40 apartments, C_l_ra_i city	1991	70%	11500	4037,1	7462,9	270,9	-	-	21 Social apartments, 19 apartments by mortgage
Lipcani										
14	Housing block with 30 apartments in Lipcani city	-	0	-	-	17000	250,0	200,0	-	Social apartments

Total required investments - **563, 392 million lei**
Approximately 32,212 million euro, including
16.0 million euro – in social regime,
16 million euro – by mortgage

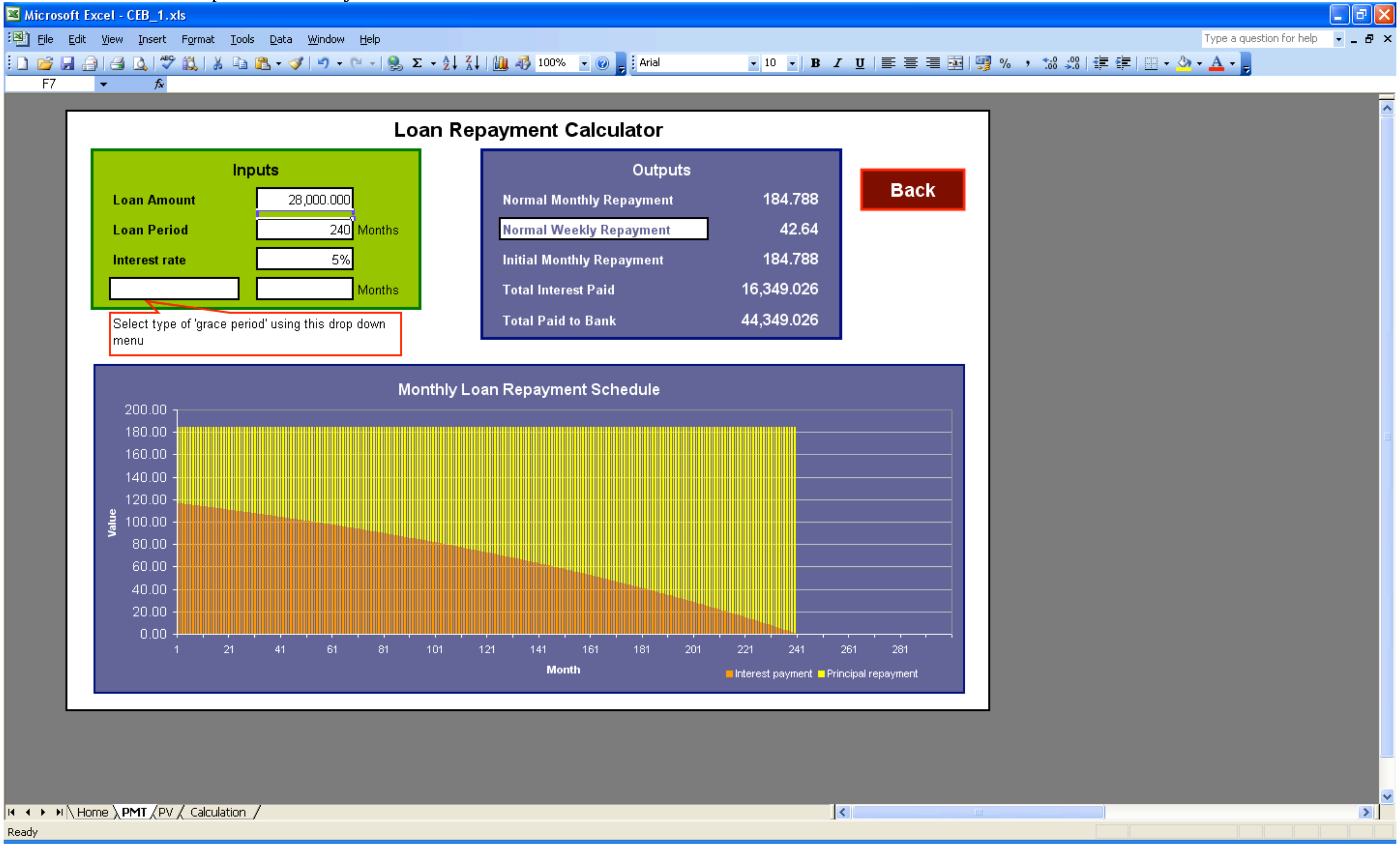
Appendix III a,

Mortgage loan simulation, in Euros, for a 59,040,000 unit, rate at 5%, maturity 240 months, no down payment. As can be seen monthly reimbursement is 389.638€ or 6,391.27 MDL, i.e., way above the income categories targeted by the project even with a double income households.



Appendix III b,

Mortgage loan simulation, in Euros, for a 59,040,000 unit, rate at 5%, maturity 240 months, with down payment of 50% of flat value. As can be seen monthly reimbursement is 184.788€ or 3,036 MDL, i.e., which is still quite high for the income categories targeted by the project. The down payment can be paid using remittances but a dedicated scheme should be developed with this objective.



Appendix IV, Regulations for the implementation of the Phase I of the Project (F/P1569)

APROVED
Ministry of Construction and Territory Development

Vladimir BALDOVICI
____
____ __________________200___

REGULATIONS

on the manner and conditions of carrying out the Project

of building social houses to be rented by representatives

of socially-vulnerable population categories

I. General Provisions

1. The Regulations on the manner and conditions of carrying out the Project of building social houses to be rented by representatives of socially-vulnerable population categories (hereinafter referred to as **Regulations**) establishes the criteria and manner of selecting social houses beneficiaries, the manner of construction organization and financing, as well as how social houses shall be rented and exploited.

2. In the context of the present Regulations, the following notions are defined:

Social House Construction Project – set of organizational, legal and financial measures directed towards the creation of social houses, their distribution and exploitation.

Social house applicant – person who corresponds to the criteria for participating in the Social House Construction Programme, established by the present Regulations.

Representative of socially vulnerable categories – persons that need or benefit from state protection: institutionalized people (orphans, pensioners, invalids), young families, people who left the Eastern districts of the Republic of Moldova, etc.

Social house beneficiary – social house applicant who was accepted to participate in the Programme in the manner established by the present Regulations.

Social house – house to be rented by the beneficiary.

Owner of the residential building with social dwellings – City hall of the locality in which the residential building is found and the social house owner, who establishes house exploitation rules.

Social house rental agreement – agreement concluded between the social house beneficiary and social house owner, which establishes house exploitation conditions.

3. Social house applicants can be citizens of the Republic of Moldova, who represent the following socially-vulnerable categories:

a) People who left the Eastern districts of the Republic of Moldova and whose status has been officially confirmed by the Decision of the Government No. 376 of June 6, 1995 on Additional measures of carrying out the national passport system;
b) Institutionalized people – orphans, pensioners, invalids;
c) Families or people who have bad living conditions or that do not correspond to sanitary requirements;
d) Families or persons with many children (no less than 3);
e) Families or persons that take care of elder people (2 or more), people with disabilities, invalids, etc.
f) Young families (family in which neither spouse has 35 years old).

4. All categories indicated in point 3 must meet the following conditions:

1) to have an income lesser or equal with the minimum living income established by the National Bureau for Statistics;

2) to be registered as persons who need an improvement of their living conditions by the City Hall of the locality where the social houses will be built or at their workplaces.
3) not possessing or having possessed another house in his/her private property or in the property of his/her family members – husband/wife, children and/or other people that are being supported.
4) not having previously obtained a plot of land for individual house construction and not having been offered interest-free credits for house construction or purchase;
5) to carry on his/her activity in the locality where the social house will be built.

II. Manner of submitting and examining the applications submitted by social house applicants

5. In order to participate in the project, social house applicants shall submit an application, its model being approved according to Annex 1.
6. The applications shall be filled in and submitted by each applicant in their own name.
7. The applications shall be submitted at the City Halls of the localities in which social houses will be built, they shall be registered in the order of receiving in the *Register of applications submitted by social house applicants* (Annex 3) and shall be examined by special commissions, created for this purpose by an Order of Mayors of those localities.
8. In order to organize the process of submitting applications by social house applicants, the City Halls shall establish and publish the date and place where applications and necessary documents will be submitted.
9. Applications shall be accompanied with the following documents:
    1) a copy of applicant's identity card;
    2) a copy of the identity card of all adult members of applicant's family and a copy of children's birth certificates.
    3) a copy of the identity card of persons supported by the applicant;
    4) a copy of marriage certificate;
    5) certificate proving the fact that the applicant was registered as being in need for an improvement of his/her living conditions, issued at his/her workplace or by the City Hall of the locality where the social houses will be built, indicating the number of family members.
    6) certificate issued by the Local Public Administration confirming that the applicant does not own a house or a plot of land for house construction.
    7) certificate from the work place accompanied by a copy of the work book;
    8) certificates regarding the health condition of the applicant or o persons supported by him/her (disability, degree of invalidity), according to the case;
    9) copy of the document proving the status of the person who left the Eastern district of the Republic of Moldova, issued by the authorized body, according to the case;
    10) certificate regarding the income of each person for the last three years.

III. Manner of examining the applications and distributing social houses for rent

With a view to selecting social houses beneficiaries, a Commission shall be established by an Order of the Mayor within each City Hall comprising at least 7 members:

1) Mayor of the locality in which the house will be built – Commission Chairman;
2) Deputy Mayor – Deputy Chairman;
3) A representative of social assistance institutions;
4) An official from the Department of Housing Resources Management from the City Hall of the locality in which the social house will be built;
5) A representative of public organizations (NGOs, Societies of Invalids, Transnistrian Refugee Movement, etc.);
6) A local councilor;
7) Person responsible for keeping the Register of applications submitted by social house applicants.

The Commission will start its activity three months prior to commissioning of the residential buildings in strict accordance with the present Regulations.

The Commission shall examine submitted applications, verify the legality of proving documents, monitor how applicants will meet conditions, especially the most important ones, and grant scores according to the Selection Criteria mentioned in Annex 2.

Finally, based on the examination results and of the obtained score, the Commission shall name those beneficiaries who will have the right to rent social houses. The final list of beneficiaries will be confirmed obligatorily by the District Council and the City Hall and published in the local media.

The Commission shall end its activity once construction-installation works in the residential building will be finalized.

IV. Financing the construction of social houses designed for rent

The total cost of the Social Houses Construction Project is of **7.600.000 EURO**, of which **4.900.000 EURO** represents the amount of the credit offered by the Council of Europe Development Bank (hereinafter - CEDB), while **2.700.000 EURO** represents the financing of the Republic of Moldova. CEDB credit was offered for 20 years, with a 5-year grace period, interest – 2,25 %, that can vary (+/-0,5) depending on the requirements on the International Monetary Fund.

Credit disbursement shall be performed in strict accordance with the Loan Agreement concluded between CEDM and the Ministry of Finance of the Republic of Moldova.

V. Organizing the construction woks for social houses designed for rent

The organization of the process of constructing social houses shall be carried out by the Project Implementation Unit (PIU) responsible for administrating, coordinating, supervising the construction works, as well as for reporting to CEDB.

After construction finalization and the commissioning of the residential buildings, PIU shall transmit the buildings and adherent land to the local pubic administration. LPA will become the successor of the rights and ensure further exploitation of the building.

VI. Manner of distributing social houses designed for rent

The living space built with the assistance of the above mentioned Project is designed for rent, and the future privatization of the apartments will not be possible until full repayment of the credit.

Social houses will be offered to representatives of socially-vulnerable categories according to the following ratio:

30 % Invalids of 1st and 2nd degree;
25% Families with many children;
20% People who lost their property as a result of natural disasters or technologic accidents;
15% People who left the Eastern districts of the Republic of Moldova;
10% Young families, specialists without homes, or people who live in dwellings that do not correspond to sanitary and technical living rules.

If in a locality one of the above mentioned socially-vulnerable categories is missing, or the number of people does not meet the percentage indicated above, the remained percentage shall be divided to other categories by a Decision of the Local Public Administration Council.

Social houses will be offered to representatives of one social category only if the Decision of the Local Public Administration Council provides this.

Social houses will be offered based on a rental agreement, concluded for an established period of time, between the City Hall and each beneficiary appointed by the Commission. The Agreement shall stipulate rental conditions, tariffs, rights and obligations of each party, as well as the sanctions applied in case of agreement provisions violation.

The privatization will be performed in strict accordance with the legislation in force, after the period of reimbursing the credit offered by the Council of Europe Development Bank expires.

VII Exploitation of social houses designed for rent

After the commissioning, the residential buildings built with Project's assistance shall be transferred in the administration of the City Halls. The City Halls, directly or through public household institutions, will ensure further exploitation of the buildings.

VIII. Final provisions

Annexes:

1. **Application form with a list of necessary documents;**
2. **Guide of selection criteria for letting out social houses.**

Annex 1.

Shall be filled completed by a person in charge from Municipality

Registration no. ___________________

Date ________________________

Name, signature of a person in charge
____

To Municipality
____

From citizen
____

____
____

Address____________________________
____

____
____

Phone number
____

____
____

Hereby, I ask to include my self in the Register of applications submitted by social house applicants.

I apply the following documentations:

☐ **1. The copy of my passport / ID**

☐ **2. The copies of ID of family members and copies of naissance certificates of my**

children

☐ **3. The copy of ID of persons about which I care.**

☐ **4. The copy of marriage certificate;**

☐ **5. The certificate, which confirm that I am taken on the account by municipality and**

which confirm the number of my family.

☐ **6. The certificate from municipality which confirm that I have no house or I have no**

land for construction of a house

☐ **7. The certificate from work which confirm my salary**

☐ **8. The documentation which confirm my (or of my relatives) condition of health (for**

the invalids)

☐ **9. Copy of the certificate which confirm that the person is refugee (for the refugees)**

☐ **10. The certificate which confirms the income for each man, member of family for the**

last 3 years

Memo: **The added Documentation to the present application should be marked in this application by the person in charge.**

______ _______________________ 200___

____

The signature of the applicant

_____ ___________________ 200__

____

The signature of the person in charge

Annex 2.

Guide of selection criteria for letting out social houses

1. Criteria of access to the social dwellings

1.1. **to have an income less or equal with existence minim established by the Statistic Bureau on the Republic of Moldova;**

1.2. **on the date of appliance, to be registered by the local municipality as a person who have no house or have no land for construction of a house.**

1.3. **the people who have no dwelling in last 5 years;**

1.4. **the people who has not taken the credits for construction of dwelling for last 5 years and correspond to one of the following criteria.**

- have for each family member a locative surface under established minim norm;
- live in the house which no longer correspond to sanitary requirements established for dwellings
- live in the rented house

1.5. **work in area where dwelling are build**

2. Selection criteria

#	Criteria	Points
1	**Housing conditions**	
1.1.	**Live in the rented house**	10
1.2.	**Total locative surface**	
a)	Between 12m – 15m inclusive	3
b)	Between 8m – 12m inclusive	6
c)	Less than 8 m	9
2	**Actual civil situation**	
2.1.	**Marriage status**	
a)	Married	5
b)	Single / Divorced	2
2.2.	**People on the contents**	
	1 child	2
	2 children	3
	3 children	4
	4 children	5
	More than 4 children	1 point for each children
	Other persons	2
3	**Condition of health [1]**	
	Invalids of I and II groups	10

4	**Educations**	
4.1.	(No education) No elementary school, no professional education	1
4.2.	Has elementary school, no professional education	2
4.3.	Has elementary school, has professional education	3
4.4.	Graduated a college or technical school	4
4.5.	Graduated University	5
5	**The working experience**	
	Less than a year	5
	More than a year	10
7	**Special situations [2]**	
	Refugees	10
	The young people, which have lived in social shelters and have 18 years	10
	Citizens, which dwellings became uninhabited as a result of different failures	10
	The families with many children (more than 4)	10
	The people, who contain the invalids (2 or many)	10
	The people who adopted children	10

[1] - Condition of health shall be confirmed by a special medical commission
The applicant will have 10 points for each chronic illness of the member of family.

[2] - The applicant could have many of criteria described in this chapter
Example: Refugees family; families with a big number of children; Invalids

Annex 3.

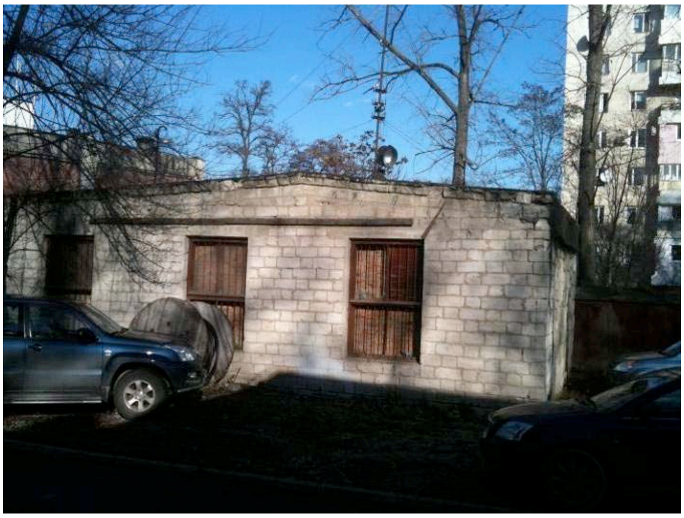
Register of applications submitted by social house applicants

#	Applicant	Number of ID	Date of Application	Signature of applicant

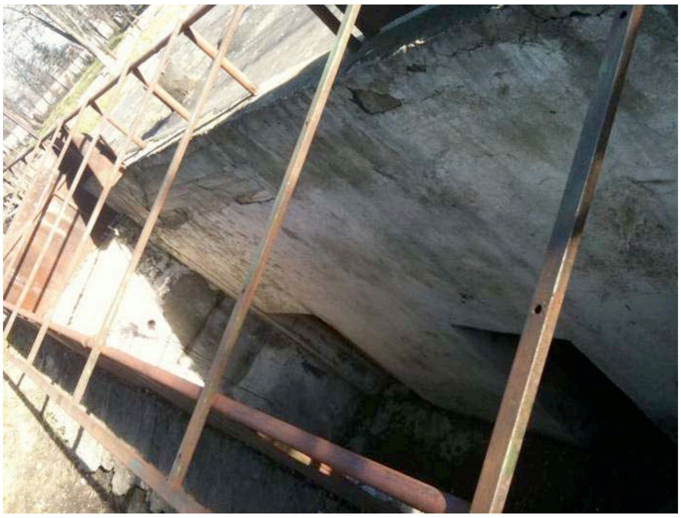
Appendix V.

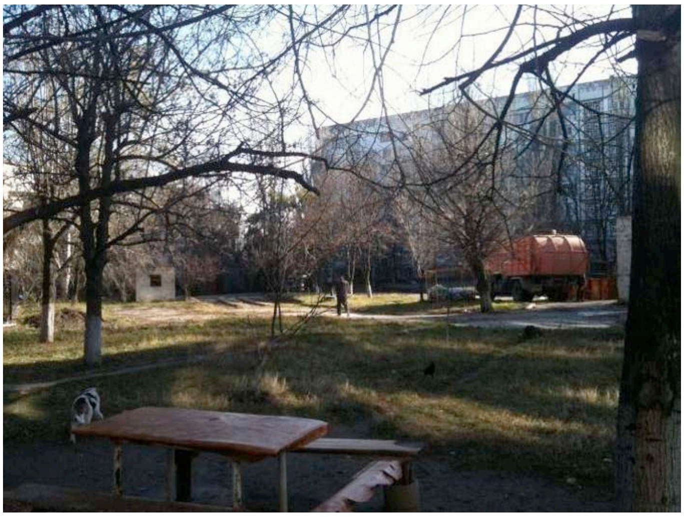
Chisinau, Alba Iulia Street

Chisinau, Hincesti Street



Chisinau, Grenoble Street





Glodeni

Singerei

Briceni





Ceadir Lunga

Anenii Noi

Basarabeasca

Calarasi