Homeowners Associations in the Former Soviet Union:

Stalled on the Road to Reform

prepared by Barbara J. Lipman
This paper, reprinted with permission from the International Bank for Reconstruction and Development/The World Bank, reviews the progress that is being made in countries of the former Soviet Union to establish Homeownership Associations (HOAs) to manage and operate privatized, multifamily buildings. The International Housing Coalition (IHC) is publishing this paper because it shines a spotlight on the challenges encountered in moving from a system of heavily subsidized government-owned housing to one in which the housing is owned and managed by the occupants. The situation the paper describes is one of largely stalled progress. The report provides recommendations about how to eliminate obstacles that discourage the formation of HOAs and that hinder reforms in the broader private maintenance and utility sectors. More competent and effective HOAs can help strengthen the private property market and improve the marketability and the value of privately owned multifamily housing units.

The IHC is a non-profit advocacy organization located in Washington D.C. that supports housing for all and seeks to raise the priority of housing on the international development agenda. The conditions of slums and the poor housing of slum dwellers are of particular concern. The IHC supports the basic principles of private property rights, secure tenure, effective title systems and efficient and equitable housing finance systems—all essential elements to economic growth, civic stability, and democratic values. To learn more about the IHC visit its web site at www.intlhc.org.
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EXECUTIVE SUMMARY

Homeowner Associations (HOAs) were once the bastion of hope for multifamily housing in the former Soviet Union (FSU). Giving households ownership of their apartments and control of their buildings was supposed to push out the old system of state-owned housing and usher in a new era of private management and maintenance and overall improvement. However, in the more than twenty years since the Soviet Union broke apart, the number of HOAs remains small and their role insignificant. About 40 percent of apartment buildings in the region are substantially deteriorated. Many of the (now) owners of apartments lack both the ability to upgrade their buildings and the options to move elsewhere. In short, the multifamily housing sector in the FSU is like a car stalled on the road to reform. If apartment owners—through more HOAs—get in the driver’s seat, can they move the car down the road?

Post breakup, most countries in the FSU ended up giving away apartments to their occupants, pushing homeownership rates as high as 95 percent. But this was only partial privatization. For the most part, privatization of the common areas of buildings has yet to occur. The stairwells, the hallways, the roof, the heating and electrical systems, the lifts—all the common elements that affect the building’s comfort, convenience, and value—still are controlled and maintained by local government (or former government) entities. This split is a major obstacle to a more widespread and effective system of HOAs.

Other factors discourage HOAs. For one, the legacy of Soviet times has left a mix of occupants of different incomes and ability to pay living under the same roof. For another, deteriorating housing conditions, which HOAs were supposed to help solve, actually hinder formation of HOAs. HOAs are not an appealing concept for apartment owners who fear they don’t have the financial wherewithal to deal with the magnitude of these problems. Nor is public or private financing available for badly needed capital repairs and energy efficiency improvements. Compounding the issue are heavily subsidized utility prices which means households are not paying the true cost of maintenance and utilities. In a vicious circle, chronically underfunded utility companies are unable to provide the reliable services that apartment owners deserve. Apartment owners, in turn, balk at making payments for services not provided. As long as utility prices remain low, neither apartment owners nor utility companies have the economic incentive to invest in energy efficiency measures. And, so it goes. It is clear that the current situation cannot continue.

What can be done? Apartment owners should be given control of the common areas. Furthermore, apartment owners need to have available to them ongoing, sustained technical assistance in how to form, manage, and operate an HOA, a difficult concept to understand for those not familiar with them. Prices for utilities and maintenance need to be raised so that apartment owners have an economic incentive to act and utility companies can upgrade services. Grants or loans for capital improvements from government sources should be dispersed on condition that apartment owners form an HOA, bid out the work, and prioritize projects that improve the safety, comfort, and energy efficiency of buildings. Incentives such as free or low-cost meters and energy audits could prompt apartment owners to form an HOA.

HOAs can provide tangible, immediate benefits and improve the quality of everyday life for the average citizen. In the end, though, the success of reforms in the housing sector is directly linked to national and local governments’ renewed commitment to traveling down the road of reforms to complete the process of privatization.
Introduction:
The Potential of Homeowner Associations (HOAs) in the Former Soviet Union (FSU)

Even more than 20 years after the breakup of the Soviet Union, the legacy of the Soviet system of multifamily housing has not yet been discarded. In virtually all of the 12 now independent republics of the former Soviet Union (FSU), the multifamily housing sector is deteriorated and poorly maintained, buildings are energy inefficient, and apartment owners, by and large, still lack full decision-making or control over their buildings. Why hasn’t this changed? What can be done to move forward with reforms? And, what is the potential role of the homeowner association (HOA) in jumpstarting stalled progress in the multifamily housing sector?

Before considering these issues, it is helpful to take a step back to consider the distance that already has been traveled. Before the breakup of the Soviet Union, virtually all multifamily buildings, both apartments and common areas, were state-owned, and the residents living in them were “tenants.” Often the wait for a unit was long—eight to ten years was typical—but once they were allocated an apartment by the municipality or the state-owned enterprise (e.g., factory or institute) where they worked, residents could occupy the apartment for life. It even could be passed on to family members. The maintenance of the buildings, including cleaning and repairs for the common areas, as well as capital improvements or more major repairs, was carried out by the state housing maintenance organizations called “zheks.” Relying on transfers passed to them from the central, regional, and municipal budgets, zheks were the entities that determined what repairs would (or would not) be carried out and when. Residents paid for maintenance and utilities (also known in the region as communal services), but these costs were highly subsidized and, as a share of income, residents in the region paid among the lowest rates in the world.

After the breakup, some governments considered selling units to their occupants, as was done in Hungary and other places in Eastern Europe. In the end, though, the FSU countries gave away most of the stock to current occupants who registered as the rightful owners. Registration proceeded slowly, but by the early 2000s, most citizens either registered their privatized units or were given de facto ownership.

As a result, in all of the FSU countries, homeownership rates are extraordinarily high. In a sense, privatization made legions of urban citizens “house poor.” The result was the massive transfer of substantial public assets to a relatively low-income population without the necessary resources to deal with the backlog of renovations or the rapidly escalating maintenance costs. Ongoing privatization eroded the stock of public rental housing (so-called social housing), which now makes up only a small, residual part of the housing sector. As seen in Table 1, owner occupation equals or exceeds 90 percent in seven of the 12 countries, which is well above the 65 percent average in Western Europe and the United States. Notably, homeownership rates are highest in some of the region’s poorest countries:

1 There was private ownership of residences, but these were almost all single-family units in small towns and rural areas. Some cooperative housing existed in which residents contributed to the cost of building housing and had limited ownership rights, but this segment of the housing stock was quite small.
However, privatization of individual housing units is only partial privatization because privatization of the common areas of the buildings has, for the most part, yet to occur. As discussed in greater detail in the next section of this report, the transfer of ownership rights in most countries was limited to the dwelling itself without the necessary provisions for the transfer of corresponding shares of common areas. In many ways, the potential benefits of homeownership continue to elude many apartment owners. Even if most of the units in a building are privatized, the stairwells, the hallways, the roof, the heating and electrical systems, the lifts—all the common elements of the building that affect its comfort, convenience, and value—still are owned, operated and maintained by local government entities—the aforementioned zheks (or former zheks under a different organizational structure or name).

Homeowner associations would seem to hold promise for addressing this situation. Virtually every country in the FSU has tried to implement a system of Homeowner Associations (HOAs) even in the early years of privatization of apartments. In theory the case for HOAs is compelling. HOAs provide a means for apartment owners to take control of the delivery of all the maintenance and utilities and repairs on the common areas of their buildings. Through HOAs, apartment owners decide which repairs are done and when, and whether to contract to private companies for management and maintenance. The immediate benefit of an HOA is that instead of making maintenance and utility payments directly to the state, apartment owners pay the HOA, which ensures that all the money they pay is spent on the upkeep of their own buildings.

Twenty years after the breakup of the Soviet Union, most HOAs have not gained traction nor have they transformed multifamily housing as envisioned. Numbers and datasets are absent or incomplete, but the figures that do exist, along with the informal surveys of officials and apartment owners and the observations of experts, sketch a picture of stalled progress. Vestiges of the old system have been hard to shake.

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Table 1
Homeownership, Urbanization, and Poverty in the FSU

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>HOMEOWNERSHIP RATE (%)</th>
<th>URBAN POPULATION (%)</th>
<th>SHARE URBAN HOUSING (%)</th>
<th>POVERTY RATE %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uzbekistan</td>
<td>98</td>
<td>36</td>
<td>-</td>
<td>47</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>97</td>
<td>56</td>
<td>-</td>
<td>11</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>97</td>
<td>34</td>
<td>39</td>
<td>63</td>
</tr>
<tr>
<td>Armenia</td>
<td>96</td>
<td>64</td>
<td>60</td>
<td>46</td>
</tr>
<tr>
<td>Georgia</td>
<td>95</td>
<td>52</td>
<td>-</td>
<td>39</td>
</tr>
<tr>
<td>Moldova</td>
<td>90</td>
<td>46</td>
<td>41</td>
<td>39</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>90</td>
<td>24</td>
<td>42</td>
<td>72</td>
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<tr>
<td>Belarus</td>
<td>84</td>
<td>72</td>
<td>66</td>
<td>12</td>
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<td>Azerbaijan</td>
<td>83</td>
<td>50</td>
<td>57</td>
<td>17</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>79</td>
<td>46</td>
<td>35</td>
<td>-</td>
</tr>
<tr>
<td>Ukraine</td>
<td>75</td>
<td>67</td>
<td>64</td>
<td>19</td>
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<td>Russian</td>
<td>70</td>
<td>73</td>
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<tr>
<td>Russian Federation</td>
<td>70</td>
<td>73</td>
<td>53</td>
<td>19</td>
</tr>
</tbody>
</table>

Before proceeding, it is worth asking the question, “why does this matter?” The answer is that incomplete privatization of the housing sector in FSU countries has stymied the development of a market economy in multifamily housing. The result is a lack of satisfaction, mobility, and choice. In Ukraine, for example, in 2007, 857,000 apartment owners (68.5 percent) on the waiting list had been waiting for improvements in their housing conditions for more than ten years. Surveys throughout the FSU show high rates of resident dissatisfaction. The strain of providing still heavily subsidized maintenance and utility services (heat, water, electricity) on national and local budgets is growing, and conditions in existing housing continue to deteriorate.

As it is now, households’ ability to move and improve their housing circumstances is only slowly beginning to change. In Armenia, for example, estimates are that only 2 to 3 percent of the stock changes hands annually. This translates to an average of 33 to 50 years of residence in the same apartment (Amman, 2010). Rental apartments for the poor are virtually non-existent, and most rentals that do take place are transacted in the informal market. The lack of a rental market unnecessarily restricts labor mobility. Meanwhile, energy losses from poor insulation or from doors and windows in need of replacement are staggering. A benchmark study of selected buildings in Kazakhstan, for example, estimated typical energy losses to be on the order of 40 to 50 percent (United Nations Development Program, 2010). It stands to reason that HOAs could help maintain and improve the multifamily housing stock and increase the value of apartments. This, in turn, would help develop a market for both owned and rented apartments.

In summary, the multifamily housing sector in most FSU countries is like a car stalled on the road to reform. The question this report seeks to answer is, if apartment owners through their HOAs get in the driver’s seat, can they move the car down the road? The next section focuses on specific challenges apartment owners face in forming HOAs, and links the role of HOAs to private building management and maintenance as well as to reforms in the utilities sector. The third section suggests ways to move forward with HOAs in the future.

Obstacles to HOAs and Reforms in Multifamily Housing

How many HOAs exist in the FSU? It is difficult to know for sure. Table 2 (at the end of this section) summarizes data on HOAs drawn from a variety of sources. HOAs that were formed may or may not have registered. Those that are registered may have been set up to undertake a renovation or repair and then, once the project was completed, became dormant. From discussions with experts and an extensive review of the literature, one thing is clear – of the reported numbers of HOAs, only a relatively small proportion of HOAs are active and fully functioning. These account for a small share of the multifamily stock ranging from 10 percent in the most active cities to a negligible amount elsewhere.

Why haven’t HOAs gained traction and become a force of change in the multifamily housing sector? At least five key sets of obstacles appear to stand in the way: (1) A mix of apartment owners of different economic means living under one roof, (2) deteriorating conditions in the buildings, (3) confusion over control of the common areas, (4) lack of incentives to address energy inefficiency, and (5) lack of financing for capital improvements.

(1) A Mix of Apartment Owners of Different Economic Means Living Under One Roof

The mix of occupants within buildings often makes it difficult to form and sustain HOAs. In North America and Western Europe, housing markets “sort” apartment owners, more or less, by economic status. Those households occupying an apartment in a building are there because they can afford to buy or rent the unit. This is not so in FSU countries, where households may have been assigned units under the old system based on occupation (e.g., for workers at the scientific institute) or based on connections to the party (apparatchiks would receive units near centrally located government buildings) or even placed there somewhat randomly. Indeed, differences in income are cited by The Institute of Urban Economics (IUE) in Moscow as one reason that by 2005, HOAs accounted for only 4.2
percent of the urban housing stock, and just 8.2 percent by 2008. The report points out that the majority of HOAs are established in the newly constructed multifamily buildings where buyers are likely to be better-off and of similar economic status.

In some countries, formation of an HOA in a building with privatized units is not required, which is a serious shortcoming in that it is much harder to enforce cooperation or joint decision-making among apartment owners. For example, in Russia, membership in a building’s HOA is not mandatory with the result that some apartment owners refuse to participate in the collective management of the common areas. Ukraine initially mandated participation following mass privatization, but in 1996 the Constitutional Court determined that this violates the provision of the constitution concerning voluntary participation of citizens in public organizations, political parties, and economic entities.

Furthermore, when households from very different economic strata live under the same roof, there is wide range of ability to handle the cost burdens of ownership. The cost of housing-related services and utilities has increased in real terms, with energy and central heating increasing the most. The result is accumulated arrears. In the absence of support for housing and utility services, more affluent owners have sometimes subsidized their neighbors to finance urgent repairs. Despite these efforts, it is not uncommon for poorer households to refuse to pay regular contributions for the maintenance and modernization of common areas in privatized residential buildings.

There always will be a need for a safety net for the most vulnerable households who cannot afford utility and maintenance costs for housing. So far, only a few countries in the region, for example Russia, Ukraine, and Kazakhstan, have implemented a system of income-based housing allowances or subsidies to apartment owners (and those living in what is left of the small social housing rental sector, although it is not yet clear how well-targeted to the poor these subsidies are). Such government subsidies will need to be expanded even as the rest of the sector becomes more market oriented.

(2) Deteriorating Conditions in Multifamily Buildings

HOAs are viewed as a response to the problem of deteriorating housing conditions, yet these very conditions discourage formation of HOAs. A review of descriptions of the housing stock from studies from throughout the region catalogues the prevalence of leaky roofs, malfunctioning elevators, dangerous wiring, and poor energy efficiency. In the aftermath of privatization, the management and rehabilitation of multifamily housing is potentially one of the largest financial burdens facing municipalities in countries in the FSU, with failure to carry out repairs resulting in massive structural problems in more than 40 percent of the urban housing stock. As Tsenkova (2008) notes, every observer in the region concludes that this deterioration has reached a critical stage. HOAs are not an appealing option for apartment owners who fear they don’t have the financial wherewithal to deal with the magnitude of these problems.

Much of the multifamily housing stock in the FSU is either aged or aging prematurely. While there is a lack of data for all of the countries, available figures indicate that multifamily panel apartment blocks account for nearly half of the urban housing stock in FSU countries. Prefabricated housing dominates the residential landscape of post-communist cities. The urban stock is relatively old; however, the age of the existing stock is not always a reliable indicator of quality, as the housing stock produced in earlier periods was often of better quality than the high volume housing produced during the last two decades of socialism (Palacin, 2005). Moreover, the homogenous (some would say monotonous) design of buildings and the units, with a limited set of standard floor plans produced in Soviet times has limited choices for households looking to find suitable units to match the lifecycle of their growing or shrinking households.

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In Azerbaijan, five-story buildings constructed in the 1960s and 1970s were of such low quality that their lifespan was planned to be only twenty-five years. Despite the needs, few capital repairs have been undertaken in recent years and even routine maintenance is rare. A municipal services survey found that fewer than five percent of households living in multifamily apartments were living in buildings where any kind of maintenance (routine or capital) had been carried out during the past year (World Bank, 2006).

Privatization has not addressed issues of poor maintenance and communal service provision. As noted earlier, because the common areas and land were not part of the mass privatization, zheks (the state housing maintenance organizations) or reconstituted former zheks, continue to manage and operate “privatized buildings.” They are not considered strong performers. Household surveys in Russia, Azerbaijan, and Kyrgyzstan, for example, all indicate high levels of dissatisfaction among apartment owners. In addition to general maintenance, the level of utilities services (water, energy services, district heating, garbage collection, and waste management) has declined because of subsidy cuts, rapidly escalating costs, and massive arrears in payment for utilities. As a result, not only have quantity and quality of public services deteriorated, but the normal maintenance of the housing stock has also accumulated a huge backlog (ECE, 2007; World Bank, 2006).

(3) Confusion Over Control of the Common Areas

Post-privatization, confusion has reigned over the role and function of state housing maintenance companies (zheks). After mass privatization, and even to this day, a lack of understanding prevails about who has responsibility over what. In many cities, apartment owners believed that from the moment of privatization of their apartments, they had no further obligation to pay anything in association with the apartment, including utility fees and maintenance fees. Many citizens were unaware that their previous rent payments included payment for all communal services and maintenance as well as rent for the apartment. As a result, nonpayment escalated, which made it even more difficult for service providers to improve the level of common property maintenance.

In some countries such as Russia and Ukraine, local governments still maintain and operate common areas of the buildings through the zheks. As discussed below, this continued involvement has given rise to disputes between apartment owners and zheks over ownership of land and commercial assets in the buildings. Elsewhere, such as in Kazakhstan and Kyrgyzstan, zheks no longer receive government funding but still exist in a new incarnation as semi-private monopolists. In Kazakhstan, “KSKs” are the established entities in the buildings to manage and maintain the common areas. However, the KSKs typically consist not only of homeowners, but of non-profit management organizations that were created when the former zheks were eliminated and converted into KSKs. Some KSKs manage multiple buildings, ranging from a few to up to 30 and more, and are considered licensed contractors to carry out work on the buildings. This arrangement is quite widespread and raises the issue of potential conflict of interest: namely, the KSK both governs and implements – deciding what is to be done in the buildings and paying itself to do it. Although their governmental status has changed, many existing KSKs operate similarly to the Soviet-era zheks.4

Likewise, in Kyrgyzstan, following housing privatization, some zheks were transformed into joint-stock companies. Despite the ownership change for both the housing and the maintenance organizations, the new joint-stock companies provided services of the same low quality as before to the same categories of properties. This continuity was advantageous for the maintenance organizations, because most of the new owners of privatized apartments were not aware of their new rights to maintain their property themselves or to contract for services among competing suppliers in the marketplace. Thus, the after-privatization “market” for zhek services continued as before due to inertia and lack of information. The notion that service providers were not accountable to their customers was also ingrained in people’s mind from historical practices under communism—apartment owners were not considered customers or clients with a vested financial interest or even any say over the quality of services. As a result, when individuals gained ownership of their apartments, they were unfamiliar with the mechanisms for maintaining and protecting their property (Urban Institute, 2009).

Non-residential premises and land continues to be disputed by HOAs and municipal authorities. During the period of mass privatization, the same confusion that was created over the common elements of multifamily buildings also applied to land adjacent to and under the buildings. Municipalities used their control over some of the land to put up facilities unwanted by building apartment owners, or worse, brokered deals with developers. In some FSU countries, urban land is auctioned by municipalities, reportedly under procedures that are not very transparent.

The right of HOAs to control their land remains unclear, even in places where, ostensibly, the issue has been resolved through legislation. In Russia, additional protections in the national Civil Code and Housing Code state that the owners of the premises in a multifamily building also own an equity in the common property (stairways, roofs, basements, the land plot, etc.), which “cannot be alienated from the residential premises.” Unfortunately, the situation is not so simple in practice. One problem is that there is no formal description of the common property for specific buildings. For example, conflicts have raged over whether to consider a basement (rented out by the municipality as storage space) a part of the common property, or whether it still belongs to the municipality. Attics and commercial premises also are contested. These problems are not confined to Russia and have been reported throughout the region. In Ukraine, one HOA in Kyiv wanted to use land adjacent to the building for a playground; the municipality overruled apartment owners and sold the land to the owner of a gas (petrol) station.5

Even land underneath buildings can be subject to dispute. In Russia, for example, a federal law provides for the free transfer of a land plot once the boundaries have been established and entered into the cadastre. State authorities and local governments are given the responsibility to establish the boundaries. However, the authorities tend to drag their feet when disputed properties are at stake. In many cities, including Moscow, the local authorities seek to charge apartment owners for the cost of establishing the boundaries even though the law stipulates it is to be done free of charge.

(4) Lack of Incentives to Address Energy (In)Efficiency

Because residential buildings account for a substantial amount of consumption of water, heat, and electricity, reform of the housing and utility service sectors are inseparable. Across the FSU, residential households pay little for utility services as residential tariffs are set at very low levels in order to keep services affordable. But, the government cannot afford to make up the difference out of public funds. The result is continued service deterioration for all customers, including those who can afford to pay. Low utility prices, non-payments, and arrears mean funds are never sufficient and service quality continues to erode from year to year.

The lack of meters in buildings also means a lack of incentives for HOAs. Typically, many of the apartment complexes in FSU cities were built without individual metering. Without meters, it is nearly impossible to enact cost recovery measures or to provide incentives for energy efficiency and cost savings. While some efforts have been made to add meters, for example in Ukraine, collective payment of utilities is still the practice for people living in apartment complexes, and problems result when some apartment owners are unable to pay their share. In Kazakhstan, for example, utility companies simply charge dwellings a fixed fee, regardless of utilization, often adjusted by the number of apartment owners. That said, in Kazakhstan and elsewhere, efforts are underway to install heating meters in the basements of buildings so that apartment owners can have some control over their heating comfort and consumption.

An analysis of housing costs from 1995 to 2004 in Chisinau, Moldova illustrates many of the problems in the residential utilities sector. First, the study found that costs for housing maintenance and management remained the same over the period and were not adjusted for inflation. Second, expenditure on utilities was much higher than spending on maintenance, particularly for water and central heating, which due to elimination of energy subsidies has increased disproportionately in the last few years. Third, the tariffs for maintenance were set so low that households’ payments did not come anywhere close to paying the true costs for such services. At the same time, the government lacked...
sufficient funding to make up the difference. The outcome has been inadequate investment to sustain the quality of privatized housing assets (Tsenkova, 2007).

(5) Lack of Financing for Capital Improvements

**Funding for capital improvements remains a major obstacle to reforms.** National and municipal budgets are too cash-strapped to tackle the problem of chronic underinvestment in maintenance. The requirements for major repairs and improvements after ten years grow exponentially, meaning the majority of the multifamily stock is at a critical stage where a major infusion of capital is needed to bring them back to standards. Nor is private financing a ready answer. Even in developed market economies, the financing of residential capital improvements for HOAs is complex. In the FSU, where fully developed primary mortgage markets are lacking, there are too many obstacles concerning registration, collateral, and credit risk that stand in the way of private financing for the renovation of common areas of buildings.

As the IUE study in Russia notes, the financing of rehabilitation requires specially designed credit lines and some incentives (tax exemptions, rebates, etc.) to facilitate the process. The key issue is how best to mobilize funds, savings, loans, and mortgages to pay for rehabilitation and renewal. Various mechanisms can be used to encourage financial institutions to develop competitive products such as state or public/private guarantees, shallow subsidies, or insurance. This needs to be complemented by targeted subsidies for the most vulnerable apartment owners, and possibly reverse mortgages for low income owners to allow renovation measures to proceed at a large scale for the whole building.

**Despite This, Some Successes**

The five sets of obstacles described above suggest that HOAs seemed destined to fail, yet that has not been the case everywhere. One can find at least a handful of examples of successful HOAs in almost every country in the region. These HOAs not only have been established, but have taken control of their buildings and common areas, and managed the process of providing better services to their apartment owners.

For example, HOAs have been used in efforts to provide better water service in Armenia and for major capital repairs such as roof replacement and electrical rewiring in Kyrgyzstan. Also in Kyrgyzstan, an effort is currently underway, led by Habitat for Humanity International, to involve funding from a microfinance credit institution, a guarantee fund from an outside donor, and contributions from apartment owners as collateral. Kazakhstan currently is embarking on an effort to channel grants and loans for energy efficiency and other capital improvements to HOAs through a municipal development fund (MDF). Some Russian cities have seen the formation of more HOAs, often at the behest of activist mayors or other officials. In Georgia, an innovative effort is operating in Tbilisi in which local officials decided to experiment with a program offering large subsidies for building renovations and energy efficiency improvements. In exchange, apartment owners have to form HOAs and take permanent control of the building for the future. More details on these and the status of HOAs in other countries in the FSU can be found in Appendix A.

Still, the fact remains that HOAs are far from commonplace and those that exist face difficult challenges. The next section discusses ways to create the conditions for more HOAs to thrive and grow and begin the process of transforming housing conditions for their apartment owners.

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6 Personal communication, Tamara Sulukhia, Sector Expert, World Bank, Tbilisi, June 22, 2010.
Table 2

REPORTED NUMBERS OF HOMEOWNER ASSOCIATIONS IN FSU

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>DATA</th>
<th>YEAR/Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>700 HOAs (2/3 multifamily stock), many from merger of buildings without consent of owners; not true HOAs – no clear role in dealing with Zheks.</td>
<td>2010 (Amann)</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Virtually no HOAs, as there is no legislative basis for their formation.</td>
<td>2006 (WB)</td>
</tr>
<tr>
<td>Belarus</td>
<td>Some 566 HOAs, usually in new, privately constructed apartment houses. About half are in Minsk.</td>
<td>2008 (ECE)</td>
</tr>
<tr>
<td>Georgia</td>
<td>There are approximately 2,600 HOAs listed in Tbilisi.</td>
<td>2007 (ECE)</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>10,133 registrations but appears to conflate homeowner associations (KSKs) established from former zheks, resident-driven HOAs, units and management entities.</td>
<td>2010 (EBRD)</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>500 housing associations for nearly 54,000 units legally registered - 18 percent of all multifamily housing and approximately 25 percent of units in cities.</td>
<td>2005 (UI)</td>
</tr>
<tr>
<td>Moldova</td>
<td>Estimates are that less than 20 percent of the multifamily housing in Chisinau has HOAs.</td>
<td>2007 (Tsenkova)</td>
</tr>
<tr>
<td>Russia</td>
<td>About 8 percent of multifamily buildings (up to 10 percent in some major cities) are governed by HOAs; many are in newly constructed buildings.</td>
<td>2005 (IUE)</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>First three pilot HOAs established, with another 27 projected.</td>
<td>2006 (UI)</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>Information not available.</td>
<td></td>
</tr>
<tr>
<td>Ukraine</td>
<td>About 6 percent of all apartment buildings are organized into formal HOAs.</td>
<td>2008 (Vaughan)</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>Approximately 3,900 HOAs (TSJs).</td>
<td>2006 (UI)</td>
</tr>
</tbody>
</table>

Source: Author
The Way Forward for HOAs - Jump-Starting Stalled Reforms

On the face of it, there is no reason why HOAs in the FSU cannot function the same way and yield the same results as they do elsewhere in the world. Owners of apartments should be able to organize HOAs and be responsible for determining the services they use by asking for competitive bids among housing management firms. They should be able to specify the services they require by holding formal meetings of building apartment owners who voice their collective preferences. What's more, an industry of property management firms should compete to win contracts from HOAs based on their established track record of providing management services, on price, and on other criteria established by apartment owners (Vaughan, 2008). The challenge is creating this market-based system amidst the remnants of the Soviet system.

There are reasons to be optimistic about HOAs. Most countries in the FSU have enacted legislation to recognize HOAs and have a process in place for registering them. While aspects could be improved, the initial struggle for the right to organize HOAs and to recognize HOA as entities has been successful almost everywhere in the region. Moreover, legislative fixes either are being or have been made in some countries to give HOAs control over common areas and land under and around buildings. This is in explicit acknowledgement that the ability to make decisions about common areas—in actual fact as well as in law—is key to the more widespread formation of HOAs.

More policymakers and people know what an HOA is and the benefits of forming one, including the ability to make decisions about the building and control resident money for management and upkeep. Although battered by the economic downturn, there is growing recognition among apartment owners that housing is a financial asset, especially as more households look to move or rent out their apartments. Also, incomes are up in most places compared to the early post-Soviet breakup years and, at least a few countries such as Ukraine, Russia, and Kazakhstan have a system of housing allowances in place. Housing allowances are, as noted earlier, subsidies to help the poorest and most vulnerable apartment owners afford the cost of housing.

Finally, a number of other factors are in play that may speed reforms in the housing and utility services sector. Housing conditions may force owners’ hands as multifamily buildings continue to deteriorate and owners seek to increase their comfort and protect their assets. At the same time, more interest is emerging on the part of both national and local governments in removing the huge fiscal burden of managing and maintaining buildings. More recently, a new emphasis on energy efficiency is providing some justification for providing some level of subsidy in exchange for apartment owners taking future responsibility for the buildings.

Progress hinges upon making headway in a number of areas to overcome the obstacles outlined in the previous section. Actions should include (1) providing technical assistance and support to HOAs and private property managers and contractors, (2) integrating HOAs into broader housing and utility sector reforms, (3) using HOAs as a vehicle to finance capital improvements, and—perhaps most important of all—(4) overcoming skepticism and resistance on the part of apartment owners.

(1) Technical Assistance and Support to HOAs and Private Property Managers

For their part, HOAs are necessary, although not sufficient, to address problems of management and maintenance of a rapidly deteriorating housing stock. HOAs only will be effective if linked to the prospect of real benefits such as improved services, cost savings, and access to (or denial of) municipal funding or another sources of finance. They have a role to play in various aspects of the reform of the housing sector, but are not the ultimate solution. Indeed, it is hard to conceive of the long-term success of HOAs without also developing a sector of private management and maintenance companies and improving the quantity and quality of utility services. Still, the role of HOAs is pivotal in dealing with the colossal task of shoring up existing multifamily housing, and steps should be taken to make it easier for them to govern themselves and do their job of maintaining their buildings and improving the quality of life of their members.
Participation in HOAs needs to be mandatory in order to “enforce” cooperation and decision-making among apartment owners. Despite the original intention to mandate the creation of associations following privatization, several countries, most notably Russia and Ukraine, do not require HOAs in all privatized buildings. Once HOAs are formed, participation is optional. In Belarus and Moldova, associations are created voluntarily with a majority vote, after which all apartment owners must participate. Requiring HOAs and making participation mandatory is the standard practice in many countries in Eastern Europe including Poland, Hungary, Estonia, and Lithuania – which has allowed relatively rapid housing reform.

HOAs need structure and a system of support if they are to be sustainable. Simply forming an HOA does not make it operational. Realistically, it will be difficult for apartment owners to get a new, single-building HOA up and running on their own. The least educated and/or lower-income and vulnerable households are at greatest disadvantage, yet have the most urgent need for repairs to their buildings. Even though HOAs typically hire professional managers, individual apartment owners need to know the basics of how HOAs work, particularly their rights and responsibilities as members of the association. Technical assistance should be widely offered. One suggestion is that vouchers could be given to HOAs for the purchase of training or technical assistance. Expertise within the country may reside with local experts, or it can be developed through dedicated staff at the local authority, NGOs, private firms as well as international donors, and experts from neighboring countries.

Ultimately, though, the objective is to have apartment owners (either directly or through their elected representatives or contracted managers) hire maintenance and renovation companies directly. HOAs are a way for apartment owners to learn how to define their needs, negotiate compromises within their buildings and among their neighbors, and shop around and monitor the work of the best maintenance company. Similarly, technical assistance should be provided to start-up maintenance and property management companies that compete for contracts to maintain residential buildings. But contracts should only be awarded in a transparent manner to companies that deliver services to apartment owners’ satisfaction.

A major lesson that emerges from international experience is the need for a strong system of information dissemination and technical assistance to help apartment owners form and operate HOAs and participate in funding or subsidy programs set up by the government. This was certainly the case in Lithuania where five technical advisory centers were initially set up with the assistance of the Danish government and in Georgia where the Tblisi Corps was established under an arm of the municipal government. Ukraine has a strong network of HOAs through an association of associations that provides such training. In most countries, the need for some type of training entity is no less urgent.

More work needs to be done to develop an industry of private firms providing maintenance, management, energy auditing, repairs, and renovations. Not much progress has been made in developing a sector of privately owned maintenance companies. As a first step, cities need to convert from a system in which inadequate maintenance is carried out by monopolistic state entities (zheks or zheks in their new incarnation as private monopolies) to one in which private providers of maintenance services compete for management contracts. City officials can learn the mechanics of writing requests for proposals, bidding out to private companies, and monitoring performance. The danger—and this already has occurred in some places—is that some of these private contractors actually are monopolies that are awarded contracts based on their relationship with municipal authorities. Instead, public funding for local housing and utility service budgets should be dispersed on condition of open and transparent competition for contracts.

Technical assistance also should be provided to start-up maintenance, property management companies, energy audit companies, and other companies that compete for contracts from HOAs. Such training should cover the technical issues associated with housing management, preparing proposals, and housing maintenance and repair. But courses should also cover basic management skills, including performance based management, to ensure that the new housing management organizations can provide effective and efficient services. Perhaps most importantly, private companies should be educated in the basics of how HOAs operate so they can better understand and serve their customers.
(2) Integrating HOAs into Broader Housing and Utility Sector Reforms

**HOAs have a role to play in utility service sector reform.** Virtually everywhere in the FSU, utilities and maintenance services are heavily subsidized and individual households are not paying the true cost of providing them. Despite substantial subsidies, most household surveys show widespread dissatisfaction with the condition of their buildings and/or the provision of services. Because fees charged for maintenance and utilities do not reflect true costs, the current system results in massive subsidies to some families that are occupying larger amounts of space or that have the means to pay the true value of the space they occupy; other families remain overcrowded and underhoused because units suitable for their size are not readily available. In a vicious circle, chronically underfunded utility companies are unable to provide the reliable services that apartment owners deserve. Apartment owners, in turn, balk at making payments for services not provided. And, so it goes. It is clear that the current situation cannot continue.

Under these difficult conditions, there are only two courses of action that local governments can take to improve the existing housing stock: (a) to control expenditures through real cost reductions and/or increased efficiencies, and (b) to raise utility and maintenance prices and fees. Both measures are essential, yet both are politically difficult. HOAs operating in a system where they could choose their maintenance providers and manage their consumption of utilities could help with these challenges. Local authorities and utility companies could give financial incentives for buildings to form HOAs. The advantage to the companies is that they only have to deal with one entity rather than individual owners, and HOAs could collect utility fees on the companies’ behalf.

Another potential role for the HOAs is to help handle applications and administer housing allowances to households in the building who lack the ability to pay the rising costs of maintenance and utilities. For their part, the budgets of HOAs should be reimbursed by local and national government for discounts or subsidies provided to certain groups of apartment owners (e.g., veterans). These steps would help address the economic and social diversity within buildings that inhibits formation and functioning of HOAs.

**In FSU countries with cold climates and high heating consumption, HOAs will be needed to tackle the issue of improving the energy efficiency of the existing housing stock.** In Ukraine for example, all utility services are characterized by waste—leaking water pipes, lack of meters, unsealed windows, and poor insulation. It is estimated that two billion m³ of gas is wasted each year. In Kazakhstan, estimates are that roughly 40 percent of the heat is lost through poor insulation and inadequacy of the building envelope in a typical multifamily building. If apartment owners could actually realize the financial benefits of reduced consumption, they would likely—through their HOAs—support the installation of meters, energy efficient lighting and windows and other systems. However, it will be necessary to start small with a heating substation in the building basement (to allow owners to control and monitor heating at the building-level), or by improving drafty front doors and windows in the entry halls, after which more extensive renovations can be undertaken with larger amounts of funding mobilized by the apartment owners.

**Private Energy Service Companies (ESCOs) could be used as an incentive to form an HOA.** In Kazakhstan, the United Nations Development Programme (UNDP) is experimenting with having an ESCO work with an HOA to help make a building more energy efficient. The huge advantage of ESCOs is that no upfront money is required from the HOA. The ESCO is paid out of energy savings, after which the HOA gets all benefits from the savings. This means remuneration of the ESCO is directly tied to the energy savings achieved so the incentives of the ESCO and the HOA are aligned. A further advantage of an HOA working with an ESCO is that the ESCO manages the process of identifying and implementing energy efficiencies. This includes coordinating with HOAs, local authorities, and contractors, and even assisting low-income apartment owners to obtain housing allowances where available. Ideally, as is the case in Poland and Hungary and elsewhere, there would be a small industry of ESCOs from which HOAs would select. Initially, governments may need to make special efforts to develop an industry of small ESCO enterprises, including providing training and possibly special windows of financing. Eventually, following the path of countries in Eastern Europe, such financing will come from private sector banks.
(3) Using HOAs as a Vehicle to Finance Capital Improvements

**Finding ways to finance capital improvements will be critical moving forward.** Given the dire condition of much of the housing stock, it is clear that scarce public funds should be tilted towards rehabilitation rather than construction of new housing stock. It is important to attract other forms of capital to the sector. A variety of experiments are needed including, but not limited to, state guarantees, commercial banks, local microfinance institutions, and matching funds (perhaps for guarantees) from national governments and/or international donors.

A well-functioning system for financing capital improvements assumes that apartment owners are ready, willing, and able to be borrowers. However, for a variety of reasons discussed earlier in this report, quite the contrary is the case in virtually all the FSU countries. Recent experience both with mortgages from commercial banks and with microcredit institutions has soured the public on the use of borrowed money. Also, a general lack of trust—of HOAs, commercial banks, current and former zheks, local and central government agencies, and even of one’s neighbors—frequently was cited as an impediment to implementing a financing scheme that connotes any type of “credit” that has to be repaid. Moreover, another legacy of Soviet times, especially in older buildings, is that living under the same roof is a mix of occupants of different economic strata as well as a wide range of willingness and ability to pay for capital repairs of common areas.

**In most FSU countries, purely private lending for HOAs to renovate the common areas of buildings may not be available for many years to come.** Even in developed market economies, the financing of residential capital improvements for HOAs is complex. An HOA’s ability to attract financing ultimately depends upon how well the HOA manages the affairs of the building, and most importantly upon the HOA’s power to enforce the collection of monthly fees from individual apartment owners. The HOA should be empowered to take various measures including placing a lien on the units of apartment owners who are delinquent in payment of fees and assessments. Ultimately, this ability to collect a future stream of payments is the most important form of collateral that an HOA can offer a public, private, or non-profit lender. However, in most FSU countries, purely private funding is unlikely in the immediate future.

**Realistically, a combination of grants and loans from state funds are needed to begin to address the problem.** This may spark eventual interest from the private sector. The use of government funds can be justified on several counts. First, lending to HOAs is an untested business line for private banks. Only a few countries in the region have had active mortgage markets. However, both banks and customers have soured on residential mortgages during the recent financial crisis, and banks are unlikely to enter the market in the near term. Second, the conditions in between 30 percent and up to 40 percent of the multifamily housing stock in most countries is quite deteriorated, and the capital improvements required will be costly and beyond the financial capacity of most apartment owners to pay in advance the money required from their own resources. Finally, the broader social objective of attaining greater energy efficiency in the multifamily sector also justifies the use of government funds.

The issue remains of how best to disburse the funding and whether a grant or loan or some combination is most likely to attract HOAs to the program and achieve the stated goal of reform of the housing and utility services sector. Each country will have to design an appropriate approach taking into account some of the main issues associated with each type of funding. These issues are summarized in Table 3.
<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>GRANTS</th>
<th>LOANS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ease of Administration</strong> –</td>
<td>Is the subsidy easy and relatively inexpensive to manage?</td>
<td>Requires some ongoing maintenance and administration over the life of the loan</td>
</tr>
<tr>
<td>Increases affordability; likely will be an incentive for apartment owners to form an HOA in order to be eligible</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Incentive</strong></td>
<td>Are HOAs likely to use the program?</td>
<td>Depending on the terms, could be an incentive; in the short-term could be unattractive to HOAs fearful of borrowing</td>
</tr>
<tr>
<td><strong>Transparency</strong></td>
<td>Is the value of the subsidy obvious and publicly known?</td>
<td>Interest rate subsidies tend be hidden and could discourage private lenders from entering market</td>
</tr>
<tr>
<td><strong>Targeting</strong></td>
<td>Who are the beneficiaries and do they include the needy?</td>
<td>Could be allocated to buildings with higher income HOAs</td>
</tr>
<tr>
<td>Could be allocated to buildings built before a certain year or with a high proportion of vulnerable apartment owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Flexibility</strong></td>
<td>Can aspects of the program be easily modified?</td>
<td>Could be used for certain types of non-energy efficiency renovations although separate programs for energy versus non-energy rehab may be complex</td>
</tr>
<tr>
<td>Could be used for a variety of types of renovations and given to HOAs that do not meet creditworthiness standards</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sustainability</strong></td>
<td>Is it sustainable in the long run? Are there implications for the State budget?</td>
<td>Funds can be recycled and re-allocated</td>
</tr>
<tr>
<td>Funds are likely to be rapidly depleted</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Impact on Reform of Sector</strong></td>
<td>Does it help achieve long-term goals for the sector?</td>
<td>Could be viewed as a way to instill a “payback” mentality among HOAs and to demonstrate to banks a potential business line</td>
</tr>
<tr>
<td>Could be viewed as an investment to get the government out of the business of renovating privately owned housing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Table adapted by Author from Le Blane (2005), Struyk (2000), and Hoet-Smit (2009)
In fact, a combination of grants, loans and apartment owners’ contributions is utilized in many countries. In Poland, Lithuania, and Estonia, for example, the amount of subsidies varies from 10 to 30 percent. In some places there are no special requirements for energy efficiency improvement. For example, in Estonia, 10 percent subsidy is available for a variety of general capital improvements that may or may not be energy related. Elsewhere, energy efficiency projects are specifically encouraged. For example, programs in Poland and Lithuania target energy efficiency measures and the amount of subsidies (18-20 percent in Poland and 15-30 percent in Lithuania) depends on the size of heating savings.\(^7\)

Funding for actual provision of capital improvements should be dispersed in such a way as to provide an incentive to form an HOA. State subsidies for capital repairs, whether grants or loans, can be targeted at major repair projects that meet multiple state objectives—such as forming HOAs as a pre-condition, bidding out the work, and prioritizing repairs that improve the energy efficiency of multi-apartment buildings. At the same time, apartment owners themselves, through their HOAs, need to provide at least some portion of the cost from their household budgets. This helps ensure that: (1) the cost of the repair is openly known since households contribute a proportion and (2) apartment owners have a vested interest in ensuring that quality work is done at the least possible cost. Certainly, the Georgia experience bears this out.

HOAs should be allowed to select from a package of approved capital improvements that includes both energy efficiency and ordinary capital improvements. Most likely, the conditions in the most severely deteriorated buildings are such that apartment owners will want to undertake a variety of measures to improve their safety, comfort, and security. Some of these improvements will lead to greater efficiency in heating and will help apartment owners control both comfort and cost (if meters at the building level are installed). For example, improvements to entry way doors and windows will fill a dual role of conserving heat and improving the safety and security of apartment owners. Other improvements to lifts, stairwells, and electrical wiring, and repair of crumbling balconies will improve the quality of life and safety of apartment owners, but not necessarily result in reduced energy consumption.

It is important for governments to test the effectiveness of various levels of grants, loans and resident contributions as incentives for HOAs to undertake capital improvements. Documentation of the experiences from pilot activities—from the organization of apartment owners to the reductions in energy consumption to the payback periods of various investments—is critical in shaping assistance programs and for use in publicizing energy

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**TEXT BOX 1 - MULTIFAMILY HOUSING RENOVATIONS IN TBLISI, GEORGIA**

Officials in Tbilisi decided to experiment with a program in which large subsidies were offered for building renovations and energy efficiency improvements. In exchange, apartment owners have to take permanent control of the building for the future. A dedicated unit in the municipal government, Tblisi Corps, was formed specifically to assist apartment owners through the process of becoming an HOA and applying for funding. Once formed and in operation, the HOAs may submit proposals for renovation of their common areas. The application form is simple—only three pages long, but HOAs must show that they have received bids from at least three contractors. The municipality provides 85 to 90 percent of the funding through a grant, while apartment owners pay the remaining 10 to 15 percent, (i.e., no borrowing is involved). A study showed that the cost of a standard elevator repair decreased to about half of what the cost was when the work was performed by zhek. Surveys confirmed increased public satisfaction with the quality of renovations. Importantly, participation in the program made apartment owners aware of the cost of renovations and overwhelmingly (over 90 percent) said they thought the program eliminated the possibility of corruption as compared to the old system.

Note: See more detailed description and sources in Appendix A.

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efficiency and capital improvement programs in numerous venues and in the media. Pilot projects should set out to demonstrate typical results in the most common types of buildings, rather than showcase elaborate or expensive renovations that are not likely to be replicated elsewhere.

Large subsidies should not necessarily be ruled out, especially in the case of severely deteriorated buildings. As in Georgia (see Text Box 1), they could be viewed as a limited investment on the part of the government to renovate a substantial number of the buildings in poor condition and then get out of the business of renovating what are essentially privately owned assets.

(4) Overcoming Skepticism and Resistance on the Part of Apartment Owners

A critical factor driving the willingness of apartment owners to participate in capital improvements programs is the attitudes of apartment owners. Apartment owners must be willing to organize themselves through their HOAs, co-finance from their own budgets, and possibly borrow to undertake capital improvements that are, after all, not in their individual apartments, but in the common areas of the buildings. As noted earlier in this report, a general lack of trust of banks, government agencies, and even of one’s neighbors frequently was cited as an impediment to implementing a financing scheme that connotes any type of “credit” that has to be repaid. However, rather than assume a general unwillingness on the part of apartment owners, it makes sense to lay out some of the specific objections that apartment owners may raise (see Text Box 2), and consider steps that can be taken to allay their concerns.

**TEXT BOX 2 - ATTITUINAL BARRIERS TO RESIDENT PARTICIPATION IN HOMEOWNER ASSOCIATIONS**

**ECONOMIC**

“Tragedy of the Commons/Kolchoz*” – We only care about our apartment! The problems affect those other owners’ units! Why fix the common areas?
No Meters – What benefit do we get and how do we know we are getting it?
No Savings – We pay so little for heating at today’s tariffs – what would we save?
Lack of Funds - Everybody’s struggling; we have no money! We are a mix of incomes living under one roof.

**PSYCHOLOGICAL**

Skepticism – How do we know renovations will get done and done well?
Deep Mistrust – We don’t trust HOAs, banks, current and former zheks, local and national government agencies, or our neighbors.
Fear – Bureaucracy and borrowing? Forget it!

**INSTITUTIONAL**

Lack of Information – What’s a HOA and why should we bother?
Lack of Know-How – How do we run an HOA and make decisions?
Conflict of Interest – The zhek (or former zhek) people tell us what needs to be done and we pay them to do it.

*Kolchoz refers to a collective farm under the old Soviet system.

To these legitimate concerns, there are no easy answers. Certainly, it is crucial for the government to launch an information campaign, in both local and national media, that is continuous, on-going, and informative. This would address such issues as why resident control of maintenance and management is beneficial, what an HOA is, why energy efficiency is a priority, why tariffs need to rise, and so on. But even more important than the information itself, the government—perhaps with NGO partners—must be ready to respond to inquiries with information, training and other services. Nothing would damage the credibility of a program to create HOAs and finance capital improvements more than to raise expectations of apartment owners only to frustrate them when they take the first step.

Incentives for HOAs such as free or low cost meters and/or energy audits should be provided. As for economic attitudes, resistance will intensify as utility prices rise in order to promote cost recovery among utility service providers and reduce households’ disposable income. That said, to the extent apartment owners know how much tariffs will increase and when, this will provide an incentive to form single-building HOAs, implement energy efficiency measures, and ensure that contractors perform good quality, cost-effective work. Governments can pro-actively recruit HOAs with such measures as the installation of free or low-cost meters and/or heating substations in buildings that do not have them. They also could provide free or low-cost energy audits to HOAs so that apartment owners could see the benefits of installing energy efficiency improvements without entailing their own expense of a feasibility study.

Finally, government grants or loans to HOAs for major repairs to common areas of apartment buildings should be made in return for the HOA assuming full responsibility of renovations of the common areas in the future. There should not be an expectation of future public funding for this purpose. It should not be necessary to continue subsidies for renovations indefinitely. As more and more single-building HOAs are formed and as the benefits become more apparent to the public at large, the movement for energy efficiency renovations will gain momentum. It may be possible to accelerate the process by announcing at the beginning of such a program that the grants will be available for a limited period of time, after which the grants will be reduced or eliminated, followed by the gradual elimination of preferential features (if any) on loans.

Overcoming skepticism is challenging. The only way forward is to demonstrate results. Ultimately, apartment owners and their HOAs will have to be persuaded by improved provision of utility services (in towns where service currently is unreliable), pilot projects that are typical and realistic examples of their own buildings and neighbors, and documented results of energy and monetary savings.

In summary, HOAs can provide tangible, immediate benefits and improve the quality of everyday life for the average citizen. Former public assets are transferred into private hands, and economic decisions are made by apartment owners, not bureaucrats. Demand is generated for maintenance, management, and ancillary services, and small businesses are created to meet those demands. And, HOAs themselves are small democracies at work. In the end, though, the success of reforms in the housing sector is directly linked to national and local governments’ renewed commitment to traveling down the road of reforms to complete the process of privatization.
Appendix A: Case Studies of Homeowner Associations (HOAs) in Selected Countries in the FSU

As noted in the main report, although HOAs have not become widespread anywhere in the FSU, thanks to a combination of determined apartment owners and/or local housing officials, there are some examples of successful HOAs. This appendix highlights the progress of HOAs in selected countries in the region:

Armenia – HOAs in Name Only

A form of homeowner associations known as condominiums, are fairly widespread in Armenia—roughly 700 condominiums have been formed, accounting for about two-thirds of the multifamily stock. Undermining this impressive statistic is the fact that these are not HOAs as commonly understood. Rather, the concept of HOA has morphed into a form in which the zheks have been absorbed into the condominium structure, and owners have little control over or say about the kinds of maintenance and repairs to be undertaken in buildings. A survey in 2004 indicated that 15 percent of the condominiums in existence at that time were totally inactive with no collection of fees at all. Others provided some level of activity and services, but were rather limited (Amman, 2010). According to a more recent study for Habitat for Humanity International only 20 percent of registered condominiums are effective, because of “irresponsible owners not caring of common properties of buildings, poor service provision, lack of competition, non-payment of service fees by local-governments, lack of knowledge by building apartment owners, and weak managerial skills by management body.” (HFH, 2010)

In the late 1990s, new legislation permitted the merger of HOAs across buildings ostensibly to achieve economies of scale in maintenance. However, most mergers reportedly occurred without a vote or any kind of effort to obtain owner consent. Some 30 out of 700 condominiums have 40 or more buildings. One condominium called “Center” in Yerevan consists of 371 buildings, approximately 13,000 owners and 40,000 inhabitants. The condominium has amassed huge debts because collection rates cover only about 60 to 65 percent of the cost of services.

Donors have promoted the idea of self-governing condominium associations. The Japanese Social Development Fund provided a nearly $2 million grant to the Government of Armenia to improve the management of the Yerevan water supply system. For a subset of the buildings to be serviced, the idea was to enlist condominium associations to implement the project. Apartment owners were also expected to shoulder up to 9 percent of the cost of water system improvements to the building, and HOAs were seen as a way to promote resident cooperation. Some 20 multiunit buildings organized into seven condominiums were included in the pilot project.

Water meters were installed, and as a result, water losses were greatly reduced from 317 m$^3$ to 203.5 m$^3$. That is, the average water saving was 113.5 m$^3$ per building. In addition, a substantial media campaign was conducted as part of the project to raise awareness of metering, water conservation, and the value of condominiums. A post-project report concluded that there were noticeable changes during the project in the work of condominiums and the increased level of responsibility among the homeowners. During the first year of the project, there was limited interest in it among residents, whereas later on in the project, resident interest was so high that condominiums began to regularly post informative leaflets on the announcement boards of the building. This change was, in the view of the project reviewers, “an important measure for visibility of condominiums operation and trust of homeowners towards them.” On the whole, though, there is not much movement on the HOA front independent of these limited efforts.

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Georgia – Investing in Getting Local Government Out of the Housing Business

In Georgia, there are too many obstacles concerning registration, collateral, and credit risk that stand in the way of private financing for the renovation of common areas of buildings. In 2004, this situation prompted local officials in Tbilisi to experiment with a program in which large subsidies were offered for building renovations and energy efficiency improvements. In exchange, apartment owners have to form HOAs and take permanent control of the building for the future. A dedicated unit in the municipal government, Tbilisi Corps, was set up specifically to assist apartment owners through the process of becoming an HOA and applying for funding. Once formed and operational, the HOAs may then submit proposals for renovation of their common areas. The municipality provides 85 to 90 percent of the funding through a grant, while apartment owners pay the remaining 10 to 15 percent. One notable feature of the project is that apartment owners are required to form an HOA in order to be eligible for the program. Another is that the application form HOAs must submit to the municipal government is quite straightforward. Attached to it, the HOA must submit the result of a professional audit of conditions in the building as well as evidence of bids sought from at least three contractors.

Through the HOA, the apartment owners manage the renovation process, including choosing the contractor themselves on a competitive basis. Indications so far are that because of the direct involvement of the HOAs in monitoring, the quality of the work is quite good. One study showed that the cost of a standard elevator repair decreased to about half of what the cost was when the work was performed by the state maintenance company (zhek). Surveys showed increased public satisfaction with the quality of renovations. Importantly, participation in the program made apartment owners aware of the cost of renovations and overwhelmingly (over 90 percent) said they thought the program eliminated the possibility of corruption as compared to the old system.

The program is growing steadily, but is still quite small, involving only several dozen buildings to date. However, the lessons are clear. Simple procedures as well as subsidies (often large) may be required as an incentive for apartment owners to form HOAs and undertake renovations. Also, real savings and improved quality are the result when apartment owners are directly involved in the selection of contractors and monitoring the work. Finally, large grants can be viewed by the government as an “investment” in getting out of the building maintenance business and passing on future responsibility for the buildings to apartment owners.

Kazakhstan – Embarking on a New Effort to Utilize HOAs for Capital Improvements

As noted in earlier sections of this report, Kazakhstan has taken the step of spinning off the former local government housing maintenance organizations (zheks) into private entities. However, many of the resulting organizations are called homeowner associations (KSKs) but do not actively involve apartment owners, instead putting the former zheks in charge of both deciding what needs to be done in buildings and paying themselves (through apartment owners’ fees) to do it. Another issue is that the mortgage market, which was one of the most developed in the region, suffered a serious setback during the recent financial crisis, with the result that both banks and apartment owners are wary of credit for the residential sector. Finally, although the country is rich in oil and natural gas, huge losses and inefficiencies have been attributed to poor conditions in multifamily buildings.

The profile of issues in the housing and utility services sector was raised in an address by President Nazarbayev in January 2011. A new government policy charged the government agencies responsible for housing and utilities with creating greater efficiencies in the housing sector and developing a mechanism to stimulate savings and co-financing.

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9 New Funding Arrangements for Repair of Multi-Story Housing Stock in Tbilisi,” Maryam Sekhniashvili and Tamara Sulukia, in Addressing Corruption in Infrastructure Services in Georgia, Loughborough University, Leicestershire, UK 2007.
for repair and modernization of common areas in multifamily buildings. The long term goals include establishing an HOA for each building, a competitive private housing maintenance sector, and eventually an environment in which domestic banks would be willing to lend to HOAs in the future.

Today, the government is considering establishing a Housing and Communal Services (HCS) Fund to provide flexibility in order to use both grant and loans, allow leveraging of additional financing from International Financial Institutions and other donors, and serve as a single gateway to address both the housing and utility services sectors. In the interim the government intends to launch pilot projects to test the effectiveness of various levels of grants, loans, and resident contributions as incentives to form single-building HOAs and undertake energy efficiency measures and capital improvements. The government also intends to build upon the experience of a United Nations Development Program-funded project in Karaganda in which major renovation of a small multifamily building is being carried out and extensive testing and benchmarking of energy efficiency savings is underway.

**Kyrgyzstan - A Fertile Testing Ground for HOAs and HOA Financing**

Condominium “Kiprida” in Microdistrict 3 in Bishkek has been active since 2002. The former house management under JEK (the name of the former zhek or state-owned maintenance services) did almost no repairs while the building was government owned, so the condition was poor. While it was clear that there was a lot of work to be done, the owners concentrated on what could be accomplished within a few months. One of the biggest problems was inadequate and dangerous electrical wiring. According to a report by the Urban Institute, Chairwoman Valentina Vassilievna Pavlenko was optimistic. She reported that the following activities have occurred since the housing association was formed: “Around the time the HA was formed, we had a fire in the basement because of a blown fuse. We had great difficulty extinguishing the fire with improvised means. Then there was a flare up of wiring that short-circuited in one of the apartments because of excess voltage. That apartment was destroyed, and the wiring in the entry way switch board burned out as a result. Half the cost of repairs was covered by the owner of the apartment and half by the other owners, who knew that the situation could have happened to any of them. We also concluded that we should place sand boxes in each doorway to be used as fire extinguishers. The positive result of these incidents was that the apartment owners began to realize they were owners, and had responsibility for the condition of the house.”

While Kiprida may have been unique in some respects, some 500 housing associations comprising nearly 54,000 units had been legally registered by August 2005 throughout the country. This figure represents approximately 18 percent of all units in multiunit housing in Kyrgyzstan, and approximately 25 percent of units in cities. Significant portions of housing in Osh and Jalalabad, Kyrgyzstan’s second and third largest cities are now operating under housing associations. Moreover, a number of housing associations were created within cities, and regional associations were formed, first in Osh and Jalalabad. These have since taken an active role in establishment and registration of associations and development and training of additional association leaders. Regional associations also remained in contact with state government authorities and parliamentarians to advocate for the interests of housing associations. Donors supported some of these efforts through a Soros Open Society initiative and also as part of a program to promote local government decentralization through USAID and the Urban Institute.

In a separate effort, Habitat for Humanity International (HFHI) currently is active in the country. HFHI staff believes that up to 35 or 40 percent of the multifamily housing stock is in HOAs, but that only a relatively small number representing perhaps a 5 percent share of the stock are fully functioning. The organization currently is administering a program that offers below-market loans (at half the market rate or about 10 percent) for a three-year

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term for HOAs to undertake roof repairs, electrical repairs, and renovations to other common areas in multi-family buildings for condominium inhabitants in Bishkek and Chui, Naryn, Osh, Jalalabad and Talas areas. The HOA either puts up a fund or pledges a commercial area or basement as collateral for the loans, and also solicits bids from private companies to carry out the work.

A second ambitious initiative launched in late 2010 will pilot what HFHI calls a “metafinance” project which will create a partnership approach among HFHI, a microcredit finance institution (MFI), the city authorities, and a guarantee fund. These loans are larger and of longer duration than traditional microfinance group loans, with a term from about six to ten years. The guarantee fund would be set up by a donor organization such as United Nations Development Program, European Bank for Reconstruction and Development or a Dutch inter-faith organization. Based on surveys carried out among commercial banks and MFIs, there is some interest in the financial community in piloting this effort. KfW (a national bank) demonstrated some initial interest but was reportedly discouraged by the Finance Ministry which regulated banking activity. Instead, the MFI Mol-Bulak-Finance has signed on to participate. Future hopes for the project include an energy efficiency component which would install meters, conduct energy audits, and then finance appropriate renovations. The project designers are using as a model an effort in Latvia in which the savings that accrue from energy efficiency are used by the utility company to pay back the loan.12

Russia – Engines Revved, but Not Ready for Take-off

According to a 2003 survey by the Institute for Urban Economics, in most of the municipalities surveyed, the number of multifamily buildings managed by an owners’ association did not exceed 1 percent. Even in cities, where the number of HOAs was greatest, the share did not exceed 10 percent (Cheboksary – 7.5 percent, Rostov-on-Don - 8 percent, Vogodonsk – 10 percent). A subsequent study put the share of multifamily buildings managed by HOAs nationally at less than 8 percent, suggesting that growth in HOAs is occurring very slowly. This is despite poor housing conditions and widespread dissatisfaction among apartment owners. According to the civil code, property owners have, not only the right, but the “burden of maintaining property.” Apparently, though, relatively few apartment owners are willing and able to take this on.

While the basic 1992 housing law, and subsequent amendments, more clearly defined the common elements of buildings and placed these under the control of homeowners, land has been treated inconsistently. While there is some legal basis for treating land as common property, there have been no clear provisions obligating local governments to recognize land as the common property of homeowners. Moreover, as a number of Russian cities established cadastres, these did not take into account existing and future HOAs and their land ownership rights. The result, as noted earlier, has been clashes and disputes over some common areas, most particularly adjacent land.

As for why HOAs have not become more widespread and more active, the IUE study notes that the promotion of HOAs is the responsibility of regional and local governments rather than the federal government. These bureaucracies are unlikely to create incentives to form HOAs and, in the words of the study, what little incentives there are, “are created very slowly in comparison to administrative barriers, which grow much faster.”

The fault does not lie completely with the authorities, however. The study also notes the generally suspicious and sometimes even critical attitude of the public towards HOAs. “The public is more inclined to believe that it is just one more attempt by the governmental authorities to shirk the burden of housing management and maintenance on to them rather than a chance to use the capacities of self-administration as a solution to the common problems of housing stock management. Regrettfully, very often such suspicions turn out to be true,” and adverse experience serves as a major disincentive for the creation of new HOAs (IUE, 2003).

The Russian experience with HOAs underscores another issue. Despite provisions in law providing for housing allowances and for the reimbursement to HOAs for discounts or lower rates for services provided for eligible households, HOAs frequently complain about the failure of local authorities to reimburse them for these items or to pay housing allowance and benefits for which their members were eligible, or to pass on funds for capital repairs to HOA control.

All these difficulties serve to stifle the development of a private market for building maintenance and repairs. In most cases where the zheks have promoted HOAs, they did so as a way to become semi-privatized, yet retain the tax benefits of being non-commercial enterprises, hardly a template for private enterprise that ought to be promoted elsewhere in the country.

That said, there appears to be renewed interest in HOAs. A survey of municipal administrators in eight cities showed the overwhelming majority (87 percent) believe that HOAs are a promising form of residential property management. In the St. Petersburg region, there is some indication that officials at the national and regional level are willing to experiment with requiring the formation of HOAs as a precondition for receiving funds for the housing and utility services sector. Also encouraging is the fact that in a number of progressive places (Rostov-on-Don and Nishnii Novgorod, for example) the idea of HOAs has been embraced. A broad public awareness campaign was launched, the free transfer of land plots was made to the HOAs, and the HOAs were provided municipal subsidies directly to their accounts. Generally, these efforts have been the exception rather than the rule. Finally, another impetus for HOAs may be the effort to raise prices in the utilities sector for greater cost recovery.

**Tajikistan – A first foray into HOAs**

In 2006, the Government of Tajikistan, with assistance from USAID drafted legislation on management options for multi-unit housing. At the same time, events were arranged with national and local leaders, non-government leaders, and mass media to increase awareness of the importance of the current multi-unit housing situation. These events, included a study tour to Uzbekistan and a “National Working Meeting on Multi-Unit Management Options,” and helped create an environment in which the need for legislation on management options for multi-unit housing gained some urgency.

An official government working group was formed to review the draft law “On the Maintenance of Multi-Unit Buildings and Housing Associations.” The law was developed in collaboration with international experts as well as key government housing officials, and local legal specialists. The draft law was submitted to the official working group for their review and was accepted with only minor changes for submission to the government.

At the local level, the USAID contractor, the Urban Institute (UI), collaborated with city governments to form pilot housing associations that self-manage multi-unit apartment buildings using democratic methods. To date, UI has assisted in the successful formation of the first three housing associations in Tajikistan, located in the cities of Vakhdat and Kurgan-Tube. The three associations are currently operating and managing their multi-unit homes under regulations drafted by the city government with assistance from UI. The three housing associations have also been provided small grants to undertake repairs of their buildings. Through the process, the housing associations gained valuable experience in material procurement, technical assessments, construction management, and financial oversight.

During the course of assisting local governments and the housing associations, an effort was made to raise awareness among city governments on management options for multi-unit buildings. More than 400 apartment owners of

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multi-unit buildings were educated on their rights and responsibilities as apartment owners. In addition, UI provided in-depth housing association management training to 27 future housing association members, NGO leaders, and city officials.

Ukraine – Lots of Donor-Supported Efforts and an Association of HOAs

Despite on-again, off-again efforts to promote HOAs over the past 15 years, HOAs represent less than 7 percent of the multifamily housing stock. Between 1993 and 1997, a USAID project created the first condominium associations and the first privatized Zheks in Ukraine. More recently, an ongoing program financed by the Government of Netherlands called MATRA is helping Ukrainian HOAs of multi-apartment buildings to develop long-term maintenance and investment plans. In addition to training local government officials through the Ukrainian Academy of Public Administration, Canadian International Development Agency, in cooperation with the World Bank, has supported the People’s Voice Project (PVP) to promote dialogue between local governments and their communities and strengthen public participation in housing issues. In several pilot cities, PVP helped develop policies to encourage the formation of apartment owners’ associations and private housing management and maintenance as well as facilitating service improvements.

There have been some successes. The City of Berdyansk, for example, promoted the creation of apartment owners’ associations by making grants to such associations of UAH 2.2 million in budget funds for capital repairs in 2005. In the City of Makyiivka, the local authority has successfully conducted the first two competitive tenders for housing management and has aggressively promoted the organization of apartment owners into condominium associations, increasing the number of such associations from 50 in 2004 to more than 300 in 2007.

Still, resistance has come from all quarters including zheks, politicians, managers of private companies that have monopoly contracts with local governments, and lastly, from apartment owners themselves, who treat the idea of HOAs either with fear or indifference. Still, broader support is slowly growing. As noted above, a number of quite active HOAs have been piloted in cities throughout Ukraine, and as Vaughan (2008) points out, in none of the local public administrations in Ukraine that have piloted housing reforms have reversed their reforms. Moreover, the results of surveys conducted by the People’s Voice Project have found increased support among apartment owners that have assumed responsibility for selecting management organizations through competitive tender and for the creation of apartment owners’ associations.

In 2008, with some technical assistance from international donors, several civic groups concerned with housing and utility issues created the Coalition of Civil Society Organizations for Housing Reform that promotes reforms in the sector. This coalition attracted a broad range of allies from government, business, national and local media, NGOs, and HOAs. They managed to get free air time on the national channel UT-1 for public service announcements, and caught the attention and support of the leadership of the Ministry of Housing and Communal Issues. The coalition engaged at least 50 local deputies and mayors as well as representatives of 60 NGOs in a nationwide letter campaign urging deputies to support revisions to existing housing law and proposing specific suggestions based on a series of regional roundtable discussions. Their efforts met with some success.15

In June 2009, the Verkhovna Rada (Parliament) housing committee approved amendments intended to clarify issues around control of common areas of the building as well as the land under and adjacent to buildings. The legislation spells out rapid (some would say unrealistic) growth targets for HOAs over the next five years. While not providing a figure for the current number of HOAs in 2009, projections include a target of more than 11,000 HOAs in existence in 2011, rising rapidly to more than 45,000 in 2014. The proportion of the multifamily stock over which HOAs are to

15 Personal communication, Katherine Fox, National Democratic Institute.
have control is to grow from less than 8 percent today to 17 percent next year, rising to 70 percent in 2014. In a related development, the Ministry of Housing and Communal Issues created a permanent working group tasked with examining the applicability of the Polish experience to Ukraine. Unfortunately, top leadership in the Ministry has gone through a revolving door, the latest change being the replacement of an ardent advocate of HOAs in the late spring of 2010.

Future efforts to encourage HOAs and competitive maintenance are likely to include an energy efficiency component. All utility services are characterized by waste—leaking water pipes, lack of meters, unsealed windows, and poor insulation. It is estimated that two billion m3 of gas is wasted each year. (Vaughan, 2008). Without efforts to stem this waste, full cost recovery will be an ever elusive goal. In 2008, GreenMax Capital Advisors together with the Dutch International Guarantees for Housing (DIGH) and the non-profit Municipal Development Institute explored the idea of developing a financing facility for HOAs. The idea is to involve local commercial banks with support from a fund set up by DIGH. It is unclear how much progress was made in the face of the economic crisis in Ukraine that has halted lending for real estate; however prospects for implementing such a program remain.

Uzbekistan - Movement on HOAs and Private Maintenance Companies

On April 12, 2006, Uzbekistan passed a new law “On Private Housing Associations.” The law declares that housing associations must be governed democratically: all decisions regarding unit-owners’ common property in the multi-unit building and the activities of TSJs (the Uzbek version of an HOA) must be made by majority vote of apartment-owners at a general assembly or through officers or other entities delegated decision-making authority by the general assembly. Apartment owners of multi-unit buildings are responsible for the condition of their common property. Uzbek law confirms their rights to elect their own leadership, establish their own mandatory fees, supervise the board’s activities and hold the governance entity accountable. In TSJs consisting of more than one building, apartment owners of each building have the right to make independent decisions and design separate maintenance plans and budgets for each building. Most of the recommendations of the Urban Institute, a US non-profit funded by USAID to provide technical assistance, were included in the law.

The total number of TSJs grew from 2,130 by the end of September 2005 to more than 3,900 by the mid of September 2006. In some of the cities there are almost no large TSJs (defined as comprising ten and more buildings). Interest on the part of apartment owners in single-building TSJs is growing as understanding of their advantages increases. The main attraction to apartment owners of small TSJs is true self-governance with which to make decisions about the buildings and apartment owners’ control of their own funds. At the end of the 3rd Project year, the number of single-building TSJs in pilot sites was 155; by the end of September of 2006, the number had grown to 691.

A “Best TSJ Practices” competition and associated surveys, conducted in 2006, showed that the quality of management and maintenance by TSJs of multi-unit buildings has improved. More than 60 percent of unit-owners of single-building TSJ noted that living conditions have changed for the better after establishment of a TSJ, and more than 40 percent of apartment owners reported that due to TSJ activities the value of their apartment had increased.

About 80 private management and maintenance companies were established in pilot sites of the Project. TSJs have a real opportunity to select options in management and maintenance of the common property. For their part, private management companies have been supportive of establishing single-building TSJs, because they tend to be more stable, have better collection rates, and are better customers.

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