

THE URBAN INSTITUTE SEMI-ANNUAL SUBSTANTIVE REPORT

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AID Project No. 180-0034
UI Project No. 6251

Contract Period of Performance: 3/31/92 to 3/30/95
Period Covered: 10/01/92 to 3/31/93

RFS 1 (UI): Local Government Housing Strategy/Housing Finance Issues - Hungary (4/1/92 - 2/28/93)

Work under this RFS included initial steps in a number of technical assistance programs with different local governments, maintaining contact with other potential clients for possible development of the USAID assistance program, and monitoring policy and legislative developments, including contact with the Ministries of Justice, Interior, and Social Welfare.

Work was begun with three local governments. A team worked with the local government in Szolnok to assess draft housing strategy and identify the city's housing objectives in financing, privatization, and management. Work was initiated with District VII officials to prepare a draft design and recommendations on the operation of a guarantee fund for rehabilitation loans for privatized housing units. A team also examined potential models for financing rehabilitation efforts in the City of Budapest and suggested areas for cooperation between the City and Districts.

At the request of the Ministry of Justice, Ken Baar prepared a paper on residential landlord-tenant law for private-owned flats, reviewing law and practice in Hungary, the United States, and Western Europe.

RFS 2 (UI/FNMA): Bulgarian Shelter Sector (4/1/92 - 5/30/93)

Current work includes a feasibility study for a pilot housing allowance project in the City of Blagoevgrad (now complete) and assistance to the city in developing the necessary administrative procedures for implementing and managing the program (underway.)

RFS 3 (UI): Management Services for Housing Finance (4/1/92 - 3/31/93)

On-going management of contract.

RFS 4 (UI): Program Development - Eastern Europe (4/15/92 - 6/15/93)

Caryl Ersenkal continues to assist in program development for Eastern Europe. Her activities have focused on the program in Poland and Bulgaria as well as liaison between the field representative in Warsaw and the Washington office. Ms. Ersenkal will be leaving the Urban Institute at the end of April, 1993. USAID has indicated that a replacement for this position will not be required.

RFS 5 (FNMA): Development of Lender Guides for Poland Housing Finance Program (4/26/92 - 6/15/92)

This RFS is now complete.

RFS 6 (FNMA): HG Program Implementation Plan/Initial Fieldwork Financial Sector (5/8/92 - 6/15/92)

This RFS is now complete.

RFS 7 (UI): Policy/Legal Development, Housing and Infrastructure Finance, and Housing Allowances Program (4/1/92 - 8/31/92)

This RFS is now complete.

RFS 8 (FNMA): Housing and Infrastructure Finance Conference (4/20/92 - 6/15/92)

This RFS is now complete.

RFS 9 (UI): Bulgarian Shelter Sector - Resident Advisor (5/15/92 - 5/15/93)

The advisor works in the areas of program design and program management and coordination, and undertakes technical work on program activities as appropriate. Most recently, the advisor participated in the ICMA mission on land accessibility for private development.

RFS 10 (UI): Privatization/Management of Social Housing: Technical Assistance to the City of Szolnok (5/1/92 - 5/31/93)

A team worked with the city on developing a housing strategy, raising rents and designing and implementing a housing allowance program, and introducing competition into management of the municipal rental stock.

The housing strategy addresses rental policy, privatization, developing a stronger housing market, and obtaining more effective management services for the remaining social

housing stock. A starting point for the strategy was a survey of housing units and occupants undertaken by the city. Recommendations for a new housing strategy were approved by the City Council in September 1992. Although the document's short term focus is the rental sector (which the City feels presents the most urgent problems), it stresses the importance of addressing the housing sector as a whole and thinking of ways to encourage private development, assist those in owner-occupied housing, and integrate the public and private rental sectors.

On December 15, 1992, the Szolnok City Assembly passes a decree making it the first local government in Hungary to raise rents and to introduce a means-tested housing subsidy. Both higher rents and the allowance system go into effect in May 1993. The decree, prepared by a working group of Szolnok municipal staff and the USAID team (Charles Hanson, Katie Mark, and Ivan Tosics) has been reviewed by national officials and disseminated widely to other local governments, who are now required by law to have housing and utility allowances in place by late 1993.

Toni Baar, a housing management specialist, worked with the city's Housing Office to train asset managers, establish more effective oversight of the property management (including the publicly-owned IKV), develop and carry out a competitive contracting system for management. In preparing a pilot project for competitive bidding for management of 150 units, city staff and the USAID team conducted a survey of the selected flats, and developed management criteria, new budget formats, and selection criteria. In mid-October 1992, an asset management training program was conducted for municipal staff members. A detailed analysis of the IKV's current operating costs was prepared, highlighting the ineffectiveness of current financial reporting and the importance of establishing accountability.

RFS 11 (UI): Privatization and Rehabilitation: Technical Assistance to Budapest District VII (5/11/92 - 1/31/93)

Consultants Douglas Diamond and Carol Rabenhorst provided assistance to the government of District VII in designing a program to ensure that loans are available on affordable terms for the completion of deferred maintenance and partial renovation of newly privatized condominiums. The program included extensive review of legal issues, and the use of a deferred payment loan instrument to be used by the National Savings Bank (OTP.) This measure was tied to a change in privatization strategy which has not yet been accepted by the District Council. Support has been offered to the District should they feel that the program is likely to go ahead.

The principal features of the proposed program are as follow:

- 1) The District will ensure that a renovation fund is established for each building with OTP at the required time during the privatization process. This is necessary so that the owners in the privatized building are eligible to

participate in the program of government subsidized loans now available for the renovation of common areas.

- 2) For buildings that participate in the government-subsidized loan program, the District will make the payments on loans to qualifying pensioners and low-income owners. These payment will be reimbursed to the District at the time of sale of the unit or the death of the owner.
- 3) The District will guarantee repayment to OTP of loans made to a condominium association to cover the share of renovation costs of those owners who choose not to participate in the regular OTP program.
- 4) The District will set up an Office of Condominium Affairs that will be responsible for assisting condominium associations with respect to operating their buildings and for managing the District's property in mixed-use buildings.

These steps by the District would permit the new owners in privatized buildings to remedy most major maintenance problems and to deal with owners who are unable or unwilling to participate. The program is designed to complement the existing subsidized program, but it can be modified to replace that program if the subsidies are eliminated. Further activities are pending the approval of the lending program by the District government.

**RFS 12 (UI): Privatization and Management of Government Owned Housing
(4/1/92 - 10/31/92)**

This RFS is now complete.

RFS 13 (UI): Coordination and Logistic Support (7/1/92 - 12/31/92)

This RFS recovers general management and coordination of the program and the provision of logistical support for all program activities. Work during this period entailed providing support for the other tasks which relate to the Czech and Slovak Republics. A draft of the monitoring report on trends in housing conditions and policy reforms in the CSFR was completed during this period and submitted for informal reviews, but has not been finalized.

RFS 14 (FNMA): Developing a Housing Finance Strategy and Stimulating Competition in the Housing Finance Industry (7/4/92 - 8/21/92)

This RFS is now complete.

RFS 15 (FNMA): Management and Administration - FNMA (4/1/92 - 3/31/93)
On-going management of subcontract.

RFS 16 (CHF): Management and Administration - CHF (4/1/92 - 3/31/93)

On-going management of subcontract.

RFS 17 (UI): Technical Assistance and Training (7/1/92 - 10/31/92)

The major components of this RFS called for the preparation of concept papers on key legal issues: (1) the adequacy of legislation governing municipal finance and intergovernmental financial relations, and (2) problems in laws governing land use planning and development control. Basic information was collected for the preparation of these papers on field missions prior to this reporting period, and partial draft of the papers have been prepared. The authors have delayed finalizing the papers, however, because of the rapidly changing legal situation in both Republics. It is expected that these papers will be completed during the next reporting period. One requirement of this RFS was met during this period, however: the writings of two presentations given at the May 1992 Prague Housing and Infrastructure Finance Conference to provide for their broader distribution within the CR and SR (see Kingsley memorandum, February 3, 1993.)

RFS 18 (URI): Technical Assistance and Training - Local (7/1/92 - 10/31/92)

This RFS is now complete.

RFS 19 (FNMA): Development of Lender Guides for Polish Housing (8/15/92 - 11/30/92)

Fannie Mae staff and consultants updated the Mortgage Lending Guide and the Construction Lending Guide (developed under RFS 5), so that they may be more easily adapted to the Polish situation.

RFS 20 (UI/FNMA): Technical Assistance in Housing Finance (8/31/92 - 1/31/93)

The Hungarian Ministry of Finance requested assistance in developing an unsubsidized system of housing loans. The project is also intended to provide an analytical basis for developing a Housing Guarantee (HG) Loan program in Hungary. The major focus of the first phase of work was on the development of an alternative mortgage instrument that can improve the ability of the Hungarians to borrow for the construction or the purchase of a home, while permitting the government to reduce or re-direct its current subsidies in this area. The team, consisting of Douglas Diamond, Jozsef Hegedus, Pamela Lamoreaux (of Fannie Mae), and Marisol Ravicz, also reviewed current OTP operations in order to determine whether the bank would be able to service the new instruments and what sort of assistance they would require. The team's report also addressed other obstacles in the path of developing a market-oriented housing finance system, including legal issues, and the difficulties in verifying income data, and appraising market values.

The report proposes that the deferred mortgage payment be introduced, accompanied by technical assistance to both lenders and regulators.

The Ministry of Finance and OTP are currently undertaking several tasks specified by the USAID team which are a prerequisite for the HG project identification mission, scheduled for mid April. These tasks including examining ways to strengthen OTP's recoveries, addressing liquidity issues, and developing systems to evaluate housing subsidies.

RFS 21 (UI): Work-Study Tour for Nikola Karadimov Minister of Regional Development (8/17/92 - 8/30/92)

The Bulgarian Minister of Regional Development , Housing Policy and Construction, Nikola Karadimov, visited the U.S. from August 17 to August 29, 1992, for an informational tour on housing in the U.S.. Mr. Karadimov met with experts on U.S. housing and urban development programs, toured residential rehabilitation and commercial development projects in the District of Columbia, and visited housing projects in both Alexandria, Virginia and the District of Columbia. Discussions on housing finance were held with staff at GNMA and FNMA. Mr. Karadimov also traveled to Madison, Wisconsin and met with professors in the Urban Planning Faculty and the Business School to discuss the real estate curricula and the training of housing policy and urban planning specialists.

RFS 22 (UI/FNMA): Develop a Housing Finance Strategy, Underwriting and Servicing Guidelines and Refining an Alternative Mortgage Instrument (9/1/92 - 3/31/93)

Preparation of a set of underwriting and loan servicing guidelines and procedures to enable the State Savings Bank, and in the future, other lender, to offer home loans in a market environment. Further refinement of an alternative mortgage product suitable for a high inflation environment. Discussions of housing finance strategy with government and banking officials. Underwriting and servicing manuals were developed and approved by representatives of the State Savings Bank and the Bulgarian Post Bank. The final manuals are being prepared for distribution. A mortgage instrument was developed for use in Bulgaria.

RFS 23 (CHF): Condominium Association Training: Hungarian Association of Homeowners - LOSZ (9/1/92 - 7/31/93)

CHF staff member Richard Owens and consultant Carol Rabenhorst worked on this activity, selecting English-language materials and revising them for use by condominium associations in Hungary for their operations and management. The materials were translated, reviewed, modified, and expanded by five Hungarian experts on condominiums. The materials were incorporated into a Condominium Association Operations and Management Training Manual that was used in a successful pilot

workshop that was sponsored by CHF and MRI and presented by the CCNs on January 16, 1993. The Hungarian version of the manual is being revised and will be ready for a second workshop scheduled on April 17, 1993. The English version of the manual will be submitted to the Urban Institute and USAID by April 30, 1993, together with a "User's Guide" and CHF's debriefing memorandum.

RFS 24

Canceled by USAID.

RFS 25

Canceled by USAID.

RFS 26 (CHF): Development of Tenant & Owners Association, Bulgaria (7/22/92 - 1/15/93)

CHF staff members Judith Hermanson and Peter Dean and consultant Iskra Dandolova investigated the possibilities of establishing or strengthening tenant and owners associations for the improvement of housing management maintenance and ascertain the feasibility of a demonstration effort. CHF's draft report titled "Report on Home Ownership Organizations in Bulgaria" and "Recommendations for Assistance to Homeowner Associations in Bulgaria", both dated December 29, 1992, was presented to the Urban Institute and USAID for their comments and observations. CHF is waiting for the comments.

RFS 27 (UI): Housing Indicators/Monitoring & Evaluation (11/1/92 - 11/30/92)

Participation in a World Bank/UNCHS Conference on housing indicators in order to make similar work in Bulgaria compatible. Development of an initial framework for monitoring the emergence of housing and property markets and a process for evaluating USAID technical assistance to the sector.

RFS 28 (UI): World Bank Housing Sector Mission: Albania (11/2/92 - 1/31/93)

A joint World Bank/USAID mission visited Tirana, Albania from November 9 to November 20, 1992. The mission's purpose was to pre-appraise the feasibility of a program of capital investment tied to an International Development Association loan of \$15 million for the Ministry of Construction. In addition, the mission assessed technical assistance needs in the housing sector. In this regard, Ira Lowry with assistance from the mission's team, wrote a housing privatization bill, while Carol Rabenhorst, on a subsequent mission, wrote a condominium law. The mission also submitted an initial assessment of the housing sector.

RFS 29(UI): Conference on Rent Control & Tenant Rights & Training Plan for Resident-Owner Associations (11/15/92 - 2/28/93)

This RFS was both initiated and completed during this period. It has two basic tasks. The first was to respond to an invitation from the CSFR journal Ekonom to provide speakers for seminars they planned to sponsor on housing policy issues (primarily related to rent control and tenant rights.) The seminars were held in Prague on December 8, 1992 and in Bratislava on December 14, 1992. Three speakers were provided for each. The first speaker dealt with housing conditions and trend in the CSFR and the way current laws operate as a constraint on market-oriented reforms. The second reviewed problems created by rent control and optional strategies for changing rent control laws, based on experience in the U.S. and elsewhere. The third explained in some detail how market-oriented housing reforms had been accomplished in East Germany since the country was unified. Attendance at the Prague seminar was high (more than one hundred participants), but it was low at the Bratislava seminar (twenty-two participants), presumably because of a snow storm that occurred on the day of the event (see Kingsley memorandum, December 30, 1993.)

The second task of this RFS responded to requests from the Housing Department of the CR Ministry of the Economy. The draft condominium law (prepared with support from this contract) was put aside in the CSFR legislative agenda during the last half of 1992 when the legislature was fully preoccupied with plans for the division of the country. It is expected that law will be passed early in 1993 and that local governments will then attempt to privatize their communal housing stock, selling as many apartments as possible to tenants soon thereafter. There is a concern that one constraint on privatization may be the fact tenants have virtually no knowledge of organizational arrangements and management techniques that they will need when they take over control of their buildings. Ministry staff expressed the view that, given the traumatic changes brought by the Cooperative Transformation Law, new owners of coop units are also very much in need of training in these areas. This RFS provided an expert to review circumstances and devise a basic approach to Training. This was accomplished on a trip to both Republics from December 8-18 (see Rabenhorst memorandum, January 15, 1993.)

RFS 30 (FNMA): Housing Guarantee Program Implementation (12/13/92 - 12/31/92)

Beth Marcus and Ruth Sanico produced the HG (Housing Guarantee) Implementation Plan. This included the HG critical path chart, the time frame, and the organizational structure necessary for implementation and completion of the program.

**RFS 31 (UI): Utah Housing Finance Conference - Logistical Support
(12/15/92 - 3/19/93)**

Seventeen participants attended the Housing Finance Conference in Utah between February 24 and March 5, 1993. The summary of activities and all other deliverables have been submitted to USAID.

RFS 32 (FNMA): Housing Finance Project Preparation (1/11/93 - 6/15/93)

Fannie Mae provided technical assistance to the Bud Bank in the implementation of the USAID HG, World Bank, and EBRD programs. Beth Marcus and Ruth Sando acted as Task Managers for the project. Fannie Mae assisted the Bud Bank in preparation of documents and operations, so that it (the Bud Bank) could initiate operations with participating banks.

**RFS 33 (CHF): Support for Bulgarian Housing Finance System Development
(2/4/93 - 7/31/93)**

CHF has recruited and identified one full-time employee and two consultants for the implementation of a pilot project which will introduce new, alternative mortgage products in the State Savings Bank in Sofia. The development of housing finance capacities of local banking institutions will include development of underwriting and servicing policies, appraisal systems, legal department capacities, and all relevant staff training and procedures. The project is designed to be replicable throughout Bulgaria and in other banking institutions within the country.