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Mid-Term Evaluation of the Eastern Europe Housing and Urban Program

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1.0 EXECUTIVE SUMMARY

1.1 Introduction

The transformation of the political and economic structure of Eastern Europe has challenged collective experiences in both western economies and the developing world. The juxtaposition of several major forces -- **democratization, decentralization** of governmental responsibility, and creation of a **market-oriented economy** has thrust enormous challenges on policy makers and unprecedented new responsibilities on local governments.

The provision of low cost housing, particularly in urban centers, was one of the major, if not **the** major, transfer of resources from the state to the citizen under the socialist system. Rent and utility charges were held far below true cost; further massive subsidies took the form of long-term, low interest loans. The right to (extremely) affordable housing, under terms in which sitting tenants held the balance of power regarding occupancy rights, was viewed as one of the unassailable obligations of the state, particularly in urban areas.

The results of this system have been widely discussed. Housing shortages in several of the countries are severe. Serious deterioration of the stock, from years of deferred maintenance, is a universal problem. The state-owned banks that offered housing finance are in poor financial condition, and some may technically be bankrupt.

AID was one of the first donors, and in some countries the only donor, to tackle the difficult policy reforms necessary for fundamental transformation of this system. This report is a mid-term evaluation of AID's Housing and Urban Program. The program's overall goal is to promote development of a private real estate market. The early strategy prepared for the program defined three main approaches to achieving the overall goal:

- development of a functioning system of housing finance,
- strengthening of local government capacity to promote housing development, and
- expansion of the private sector role in housing delivery.

These three objectives have remained the organizing principles of the program and thus form the main topics of the evaluation.[1] The evaluation covers the housing and urban program in Poland, Hungary, the Czech Republic, Slovakia, and Bulgaria, all of which were visited by the team in March and April of this year.[2] The program, which is expected to last five years, is funded through a $55 million authorization under the SEED Act. About $15 million has been

[1]The initial program strategy statement is presented in the Project Memorandum (the so-called Green Paper) prepared in early 1991 and revised in March 1991. Refer to Annex 2.

[2]The program has recently been expanded to include Albania, and most recently to include Romania. The team did not visit these countries, but will offer brief comments on Albania based on the existing reports.

spent through March 1993.[3] In addition, $25 million in Housing Guarantee (HG) Funds is being provided this year in Poland which joins a $200 loan from the World Bank and $67 million from EBRD. Hungary and the Czech Republic also scheduled for Housing Guarantee loans, possibly totalling $100 million each over a five year period. Finally a $ 15 million soft loan (IDA funds) is being provided to Albania by the World Bank.

The evaluation is qualitative in nature and designed to be decidedly forward looking.[4] As will be discussed, many of the lessons learned in the first two years have already been incorporated through changes in both management and substantive approaches, including increased field presence and more strategic planning of activities. EUR/DR/H initiated early efforts in policy reform, and has continued this push, despite often difficult political environments. Thus, overall, the program is successfully entering its mid-term phase: it is very much "poised to take off" on nearly all fronts. The following summary comments hope to capture the essence of this forward momentum. More details are offered below and in the remaining chapters:

- The program has demonstrated great **flexibility in seeking clients** and points of intervention in an atmosphere of decentralization, shifting central responsibilities, and shifting political alliances;

- Local government demonstration projects have been initiated when reform at the central level was blocked. Promising **pilot programs** in rent policy and housing allowances are underway in Hungary and beginning in Bulgaria. These programs have the potential to provide regional models for assuring policy makers that privatization of state-owned housing stock can be accomplished without sacrificing affordability;

- As noted, **Housing Guarantee lending programs** have been designed in three countries. The focus is housing finance in Poland and Hungary and municipal finance in the Czech Republic. Implementation is imminent in Poland, and will follow this year in the other countries;

- Major efforts have been undertaken in every country to enhance understanding of a market-based approach to the housing market and housing finance. Although the political context has often made rapid reform impossible, AID efforts have nevertheless inspired an enormous shift in thinking;

- The program has undertaken path-breaking efforts in designing mortgage instruments suitable for use in inflationary and transitional economic

[3]Refer to Annex 1 for an analysis of past and planned-for expenditures under the program, by topic and by country. Program activity began in late 1990/early 1991. EUR/DR/H allocated the remaining funds in a planning session held in the fall of 1992.

[4]Refer to Annex 4 for the Statement of Work for the evaluation and a brief description of the approach.

environments; these instruments are integral to the HG programs in Poland and Hungary, and will feature in the evolution of housing finance in Bulgaria;

- Two major organizations for assisting the private sector have been established: the APHBI (American-Polish Home Builders Association) in Gdansk and the just initiated EERPF (Eastern European Real Property Foundation) which will assist the entire region in developing real estate markets;

- EUR/DR/H recognized early in the program that Eastern European policy and political context demanded a revised approach to program management. Thus, both AID and contractor field presence have been steadily increased, beginning in early 1992 and continuing to the present.

There have also been significant lessons learned during the last two years with regard to management, substance, and implementation.

- **overall, the program did not achieve a rapid start** on the full complement of activities identified by its goals. Although housing finance efforts proceeded quickly, local government efforts have lagged due to both contracting delays and personnel constraints. Private sector efforts have been slowed by difficulties in defining or locating appropriate clients;

- in the early phase, the program suffered from both **lack of field presence** (which in retrospect seems vital because of the complexity of the policy environment) and a **lack of strategic approach** to implementation;

- "**balanced**" programs are appropriate in transition economies. Some **gaps** have occurred in some countries, involving either local government activities, privatization, or housing finance;

- it is difficult to talk about "balance", given the demand-driven approach specified for original program. This approach did not work well for two reasons: (1) a great number of potential clients did not understand the market-oriented framework well enough to "demand" a particular program; (2) as a consequence, the program was often **supply driven**, with consultants and contractors offering assistance in the elements that they best understood;

- although we think it is "about" to happen, program activities to-date cannot count **replicability** among their successes. To enhance cost-effectiveness in the long run, this (potential) problem should be carefully watched.

Neither the successes nor the lessons learned can be properly comprehended, however, without an understanding of the context in which the Eastern Europe program had to operate. For example, as discussed below, some of these lessons derive from the context established by the

Europe Bureau, while others are simply problems. The remainder of this chapter discusses the program's context, offers more detail on successes and lessons learned, and presents a summary of recommendations for future directions. A regional analysis follows in Chapter 2.0, a summary analysis of country programs in Chapter 3, and country-specific details in Chapters 4.0 through 7.0.[5]

1.2 The Program Context: Social and Economic Issues and Management Structure

Understanding the program context is especially important in view of the enormity of social and economic change taking place in Eastern Europe. The impact of these context issues on various segments of the program is discussed below. It is also important to understand the management structure of the program as defined by the Europe Bureau, which, at least initially, was quite unlike the traditional approach in developing countries. This discussion follows in Section 1.2.2.

1.2.1 The Social, Economic, and Political Context

The transition process in Eastern Europe has been widely analyzed. Similarly, numerous studies have been undertaken of the housing sector, particularly by AID and also by the World Bank, describing the problems in both housing supply and demand. Thus, in formulating its objectives and strategy, AID has been well aware of the general economic context facing transformation of the housing sector.[6]

It was anticipated, for example, that unemployment would increase, real income would fall, and that fiscal deficits and inflation would be among the major problems. Predictably, housing production has fallen across the region, primarily due to end of state construction activities and to the curtailment of low interest loans. (Notably, however, private sector construction has increased and thus increased its share of the total.) It is difficult to determine, however, whether these economic problems have occurred in a greater degree than anticipated. We assume not. For example, inflation is slowing down in several countries, and is not as major a problem in the Czech Republic as elsewhere. Privatization efforts in other sectors, particularly industry, have met with setbacks, but this has not had a direct impact on the course of housing privatization. Ultimately, all privatization efforts await improvement in effective demand and/or infusion of additional capital (in addition to policy reform). In general, then, while serious economic problems persist, and pockets of severe unemployment will occur as industrial restructuring proceeds, the housing program has not been unduly constrained for these reasons.

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[5] Also, refer to Annex 5 for a summary of training activities and Annex 1 for an analysis of expenditures under the program.

[6] Refer, for example, to Annex 2 for two summary statements currently utilized by PRE/H to describe the housing sector in Eastern Europe in the 1980's and the need for housing sector reform.

What could be less well predicted is how severe an impact the transformation to democracy would have on the pace of **policy reform**. Thus, slow progress in reform of policies regarding rent, interest rates. and the legal infrastructure governing ownership and tenant rights has posed real problems. In addition, uncertainties regarding decentralization of governmental authority has increased the complexity of the restructuring process.

The policy reforms necessary to transform the system involve undoing numerous subsidies and revamping the legal framework. As a result, perceived and actual threats to affordability and tenant rights has made reform difficult from a political perspective. In addition, while ownership and responsibility for state housing has been transferred to local governments, the power to set basic policies, such as raising rents, has often remained with the central authorities.[7] The program topics that are primarily affected, include the following:

- **Housing Policy Development and Program Implementation.** A large number of shifts in policy makers and/or diffusion in responsibilities has made it difficult to find and maintain "housing reform" clients and to continue forward momentum on a policy agenda. Together, well-warranted fears about affordability; a conservative social heritage; and outright political posturing, have slowed progress.

- **Local Government.** As expected, an exceptional degree of devolution of functions to local government has occurred. However, powers to raise revenue are often not equal to new responsibilities and local government officials find themselves overwhelmed with new tasks requiring new skills. Also, within the larger capital cities, district-level decentralization has further compounded the reform agenda; this has necessitated a relative shift of AID's focus to smaller, outlying cities, where the political structure seems more amenable to assistance efforts.

- **Housing Finance.** Reform of housing finance faces not only inflation and uncertain income but a strong social preference for subsidized lending. Introduction of **competition** into the system will be difficult given the monopoly position historically held by the state-owned mortgage banks.

- **Privatization.** Despite some early successes, housing privatization has generally proceeded only in fits and starts. Numerous factors are involved, including political pressures to maintain low rents, reluctance to alter tenant rights, and, in some countries, difficulties in accepting the condominium framework.

- **Private Sector.** Although a private sector is indeed emerging rather quickly, performance will be constrained not only by lack of financing and effective

[7]There has been policy progress, of course. Many clients have become champions of the reforms. AID has assisted with drafting numerous legal reforms and legislation even though these have not all been passed by the legislatures. Interestingly, very recently Albania moved quickly in response to AID technical assistance, enacting both privatization and condominium laws.

demand, but also by regulatory and other barriers in access to land, materials, permits, and so forth.

In part, because the program policy context has proved to be more complex than originally envisioned, major changes have been made in the way the program is managed. The original management context is described below; the ongoing changes are summarized in Section 1.2.3.

1.2.2 The Initial Program Management Context

The management structure of the East European housing program was established in accordance with precepts set forth by the Europe Bureau in 1990. All aspects of the program, including housing, fall directly under the auspices of the Europe Bureau. Management is centered in Washington; field presence for the Eastern Europe program consists of AID representatives' offices, all of a much more limited size than a full mission. The rationale for this approach was based on several key assumptions made by the Europe Bureau. Thus, it was assumed that (1) the Eastern European countries are countries in transition, not traditional development; (2) the large reservoir of highly skilled and educated people would ensure that the program would be of short duration; (3) the approach to defining program activities should be "demand-driven", not based on the traditional (time-consuming) approach of preparing country strategy statements; and (4) that this demand-driven approach could be orchestrated centrally from Washington. All of these assumptions argue against establishing a conventional mission structure: it was not considered a cost-effective option given the program's circumscribed time horizon and circumscribed approach to defining strategy.

In response to the dictates of this management approach, until early 1992, the housing program was managed entirely by Washington-based EUR/DR/H staff, who made frequent trips to the field. Contractor staff were heavily involved in program implementation, teamed in all countries except Poland with local consulting firms. With two exceptions, there were no long-term resident managers or advisors. (The exceptions: in Bulgaria, a resident Urban Institute staff person has acted essentially as a PSC since May 1992; in Poland, a World Bank consultant to the HFPO helped manage AID's component of the assistance during 1991.) Finally, local consulting firms, associated with the program in all countries except Poland, have provided vital communication links.

The second salient aspect of the management context was the Europe Bureau's decision to implement the program in a "demand-driven" fashion. It was expected that the Eastern European clients would make clear their needs (even in the absence of a clear notion as to what might be available). Thus, the early program strategy statement (the Green Paper) was quite general. In fact, since the program was to be demand-driven, field assessments, which were needed to prepare country-specific strategies, were not permitted. Thus, detailed strategies and schedules were not completed until the fall of 1992, when the Europe Bureau realized their utility.

The result was that the early period of the program -- in which an overwhelming number of decisions had to be made and a large number of activities set in motion -- suffered from insufficient field presence and a somewhat fragmented approach to country activities.[8] Although the contractor teams were generally effective and competent, the program suffered from lack of "AID" presence. Also, project activities sometimes reflected particular contractor skills rather than response to a pre-planned strategies.

As a result, beginning in early 1992, EUR/DR/H began to modify the Washington-based, non-resident structure and to the demand-driven approach. These "mid-term" reformulations are among the most important changes in the program so far; we summarize them below.

1.2.3 An Ongoing Redirection of Program Management

The EUR/DR/H management approach, with increased field presence, has evolved in response to the difficulties inherent in managing a multi-faceted program in a difficult transition setting. The key changes include:

- establishment in early 1992 of a senior field director in Warsaw to cover Poland and Hungary;
- the assignment of PSCs to Poland, Hungary, Slovakia, and the Czech Republic (they are expected to arrive in the second half of 1993);
- placement of two resident consultants in Poland (one to assist in national level policy reform and one to assist Krakow with municipal development). More resident advisors, covering a wide range of municipal, housing, and housing finance skills, are expected to be assigned to Poland during 1993-1994; and
- the adoption, in September 1992, of detailed, country-specific strategy statements, thus definitively modifying the demand-driven approach initially specified for the program.

1.3 Summary of Program Successes, Lessons Learned, and Recommendations

All aspects of the Eastern European Housing Program -- housing finance, local government, and development of the private sector -- can point to both notable achievements and lessons learned. As indicated above, we consider the program very much "poised to take off". A number of successes are imminent: mortgage lending in Poland, the rent/housing allowance pilot project in Szolnok, Hungary and the signing of the HGs in Hungary and the Czech Republic. As a result, the potential for demonstration effects is greatly enhanced, paving the

[8] It may be irrelevant to say that EUR/DR/H should have had more staff, since this decision is larger than just the Eastern Europe context. Nevertheless, it does seem that the management tasks were daunting.

way for increased replicability and regional sharing of ideas. The team strongly feels that the East Europeans themselves will increasingly provide the impetus for cross-regional education. Thus, one of AID's roles now is to facilitate this regional "take-off."

1.3.1 Housing Finance

The housing finance program has made notable progress in two of the three countries addressing housing finance. As noted, the joint World Bank/ Housing Guarantee program in construction and mortgage lending will soon begin in Poland. Since early 1991, USAID has undertaken much of the technical assistance for development of the World Bank program, and more recently, was responsible for the push that led to its signing. The HG portion was designed and approved in a seven month period in 1992. Extensive training for participating banks is now underway. In addition, the design of a Housing Guarantee program is just now being completed in Hungary.

Technical assistance in housing finance in Poland, Hungary, and Bulgaria has addressed a broad range of institutional, legal, and regulatory issues. Early efforts to encourage housing finance focused heavily on design of sophisticated mortgage instruments, suitable to address the inflation/affordability dilemma. As pointed out by the field director in Warsaw, these instruments are probably not something the private sector would create on its own. They do, however, provide a means to "jump start" the system. Additional topics have included the technical aspects of primary lending, property rights, foreclosure, and condominium law.

Despite these notable successes, the arrival of private sector, competitive housing finance systems is some distance in the future. As noted, deposit-taking and mortgage "lending" were dominated by state-owned savings banks, whose activities are better described as conduits for transfers of funds rather than "banking." Since these banks now face immense problems in restructuring their unprofitable portfolios, their privatization is some time away. In addition, their staffs require extensive training. Furthermore, it appears to be the case that the clients who are the "champions" of policy reform do not originate in these conservative institutions.

In the long run, EUR/DR/H should contemplate the options for shaping the overall housing finance sector. While the details and timing differ from country to country, potential elements of the system include both new institutions and incentives for enticing existing institutions into lending. Restructuring of the overall financial sector, including banks,non-bank institutions, and the capital market is underway in most countries. Thus, depending on the country, many domestic banks are just entering the main stream of commercial banking, and have yet to consider housing finance. These planning efforts are already underway in Poland and implicit in the HG design for Hungary. Bulgaria would also all benefit from a "big picture" review.

In this context, our major recommendations include the following:

- Continuation of the current **policy reform efforts**, with regard to subsidies, mortgage instruments, institutional roles, legal framework, and so forth, is the

most important step. A major goal is to **utilize the Poland and Hungary models** to help introduce policy reform, mortgage instruments, training, and so forth, to new clients in those countries not yet undertaking housing finance.

- **Training** is the second most important type of assistance. Since the program has little control over effective demand, leaving skilled lenders in place, to take advantage of the market when it picks up, is important, especially for early graduate countries.

- Technical assistance in housing finance should now be introduced in both the **Czech and Slovak Republics. Housing finance is an important aspect of balanced development policy in transition economies.** Given the depth of region-wide experience, the marginal cost of leaving institutional knowledge in place is quite low. In the Czech Republic, the response would be likely to be rapid.

- Continue the search for **"policy reform" clients** in the Czech and Slovak Republics, Bulgaria, and other new entrants. Experience suggests that the champion of change may reside not in the state savings banks but rather in ministries with fiscal and/or policy responsibilities.

- Efforts should be made to closely integrate housing finance efforts with **reform efforts in the rest of the financial sector**. Long-term efforts to entice new entrants into housing finance and introduce new sources of long-term funds will be at least partially dependent on broader sectoral development. **EUR/DR/H should ally itself closely with Europe Bureau programs in this regard.**

1.3.2 Privatization

Progress in privatization has probably not lived up to initial expectations. After some early successes, further privatization has taken place only slowly.[9] Forecasts, by both AID and the World Bank, as to what might have happened vary widely and turn largely on relationships between rent and pricing policy (for example, market rents paired with "market" valuations, low rents and heavily discounted prices). In any event, reluctance to raise rents remains a major deterrent. Additional aspects of the privatization puzzle include debates over affordability, social welfare policies, tenant rights, and condominium laws.

Section 1.4 below discusses our scenario for the probable long-term context for the Eastern Europe program. We argue that privatization is likely to proceed only slowly. Social and political barriers and the difficulties of instituting income policies in the midst of industrial and other restructuring efforts, will probably continue to inhibit rent reform and privatization, at least in some countries. In addition, the poor condition of the housing stock, and simply a lack of

[9]See Kingsley and Struyk, Progress in Privatization: Transforming Eastern Europe's Social Housing.

desire for ownership among a substantial portion of the population (the elderly, for example), will slow down privatization.

The result is that local governments will continue to own and manage a substantial portion of the public stock. This suggests expanding privatization goals and policies to include a stronger focus on **asset management, rehabilitation, and privatization of management services.** Even if rents are increased, much of the stock may not be privatized. (not unlike the situation in other countries). One scenario, which AID assistance should seek to avoid, is that in which the stock is "creamed", leaving the least desirable buildings and poorest tenants under public ownership. Other lessons learned from problems with public housing and rehabilitation in the United States suggest that AID should help local governments in Eastern Europe develop a **privatization/housing management gameplan** recognizing a more phased approach and a mixed public/private housing stock.

In this revised context, recommendations include:

- Continue, as at present, to push for **policy reform**. Increasing rents is vital to local government revenues as well as incentives to privatize;

- Continue the **pilot program approach**, especially if other avenues are closed. This practical approach to overcoming the major barriers could be a major impetus to the policy debate. If the Szolnok pilot is as replicable as now appears, this approach should be followed elsewhere;

- Develop a **privatization/housing management strategy for Poland**, which has numerous large cities that must deal with public housing;

- Expand the focus of the technical assistance to include asset **management and privatization of housing management services** (the latter is currently being done in Hungary and the Czech Republic). The fact that local governments (and districts within capital cities) may act as landlords for a substantial period provides **a good opportunity to assist local governments with financial and asset management procedures via a housing activity.**

1.3.3 Local Government

The decentralization of governmental responsibilities has placed enormous financial and management pressures on local governments. In many countries, the relative roles and powers of the central/local structures have yet not been rationalized. Revenue-raising powers are often inadequate, and the ownership of public housing constitutes one of the more serious fiscal drains.

From the beginning, AID's local government strategy has been very broad-based, identifying four major types of activities: land management, housing management and privatization, municipal management, and infrastructure finance and development. In addition, rent and

housing allowance policy have increasingly shifted to the local arena through demonstration Projects. Finally, we would highlight a sixth activity: **municipal financial management**. In concurrence with the field director in Warsaw, who has added this activity to the Poland plan, our discussions throughout the region attest to its importance. Thus, although municipal finance has always been an explicit part of the local government agenda, it has not yet received the warranted amount of attention.

Municipal financial management, as defined here, includes practices such as financial reporting, financial control, and economic and financial analysis of capital investments. Improvement in these practices is necessary to prevent (further) deterioration of physical assets and further strain on local government resources.[10] Thus, financial management should be viewed as integral to the strategies already in place. Asset management and long-range capital budgeting are necessary components, particularly with regard to the requirements of managing the public housing stock.

There have been a variety of successes in local government activities, in both technical assistance and training. As noted, the **rent increase/housing allowance** work in Szolnok now has a regionwide reputation and will copied by other local authorities -- the upcoming conference on this model has been oversubscribed. The model is already being followed in Blagoevgrad, Bulgaria. Krakow's administration has high hopes for the technical assistance in **municipal management** now being provided by a long-term resident advisor. City to city technical assistance (visits by Eastern European officials to U.S. or other cities) has generally been found to be very effective. As was discussed above, the work in **privatization of housing management** in Prague can serve as a model that will assist many cities in the region.

Training in Poland in **land appraisal and land use planning** has resulted in development of **property tax assessment system** in Krakow; the training is being institutionalized through a local institution, FSLD, and Krakow University. The four local government seminars were useful for several reasons: they catalyzed the interest in property tax assessment, as mentioned; they helped spawn a government financial managers group; they were very instrumental in putting AID on the map in Poland and inspired the requests for assistance from the cities now being served with intensive, project specific technical assistance.

Assistance in Hungary has included housing strategies and **asset management**. A HG program to support municipal credit for infrastructure in being designed for the Czech Republic, and, as noted above, may involve lending of $100 million over a five year period. Work is also underway in land policy legislation, intergovernmental finance, and land development.

A positive lesson learned is the move to longer-term consultancies with model towns such as Szolnok, Blagoevgrad, and Krakow. The resident advisor approach, which will be greatly increased in Poland in the upcoming year, is also very important in accomplishing the longer-term objective of institutionalizing democratic government.

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[10]See Mona Serageldin and David Jones, "Strategy for Technical Assistance and Training"which was drafted as an addition to the Poland local government strategy.

This move away from capital cities, however, is at least partially due to problems that have occurred in dealing with the capitals, as well as responding to the requests of the AID Representatives, government counterparts, and the initiatives of the cities themselves. The districts of Warsaw, Prague, and Budapest have often been reluctant or difficult clients; this has essentially denied AID the degree of access it would ideally like to have, especially since much of the public housing stock is located in the capitals.

Finally, it should be noted that local government activity has been somewhat uneven across the region. AID's delays in implementing the local government contract, among other problems, has meant that overall, the local government program has had a slower than desirable start-up. The salient issue now is whether this has impacted other aspects of the program. Housing finance, for example, probably proceeded quite independently. To the extent that private sector activity is assisted by local government action, however, this aspect of the program could have been affected. At present, past problems with the local government contract appear to have been rectified and work in refining country strategies is proceeding.

Key recommendations include the following:

- assistance in **municipal financial management** should get more attention as an explicit local government activity. As noted above, this assistance can readily be done in conjunction with activities in land, housing, and infrastructure;

- we support AID's continued search for **appropriate clients at both the national and local levels.** Technical assistance should be balanced between central government and local government reforms since successful implementation will involve both enabling legislation as well as the ability and political will of local governments to make the necessary changes;

- the door should be kept open for clients in capital cities and their districts. Approaches might include wider dissemination of lessons learned and more **formal and informal transfer of experience from city to city**;

- more attention should be given to **privatization of municipal services**, which is being considered by some local governments as a response to the fiscal squeeze. Similarly, more assistance in support of asset management (the housing stock, infrastructure, and so forth) should be provided.

- **city-to-city technical assistance** within the region as well as elsewhere can assist with the attitudinal change required to have senior staff become **managers** rather than administrators.

Finally, as discussed below, one of two key approaches recommended for private sector assistance involves implementation by local governments of policy, regulatory, and other reforms that assist the private sector. These include **land use planning, GIS, permitting** and so forth. Thus, emphasizing these types of activities for local government provides extra leverage.

1.3.4 Private Sector

With an overall goal of promoting the development of a private housing market, the Housing and Urban program in Eastern Europe identified five primary mechanisms as relevant vehicles for supporting the private housing sector: organizational development of professional associations; training and technical assistance for professionals; policy support and regulatory reform; transfer of U.S. technology and expertise; and supporting demonstration projects.

There have been a number of interim results with respect to short-term training, technical assistance and organizational support. Throughout the region over 1,000 individuals have attended AID-sponsored training events on a broad array of topics in the real estate development and construction industries. The program has provided organizational support to eight professional associations in five countries representing a rapidly growing number of professionals in the real estate and construction sector.

Two major private institutions have been established: the APHBI, which assists the private construction and developer sector in Poland, and, most recently, EERPF, which will address real estate market development throughout the region. Training and technical assistance is also being provided to developers in Poland through the HFPO (Housing Finance Project Office). Examples of other organizations assisted include the Guild of Private Contractors (Czech Republic), the Hungarian Real Estate Federation, the Bulgarian Building Chamber of Commerce, and the Slovakian Association of Entrepreneurs.

Especially with regard to private sector activities, the evaluation has served to focus attention on the most effective course for future activities. Numerous discussions with both EUR/DR/H and contractor staff had indicated that client definition and focus had been difficult to define.

The evaluation team feels that at the "micro" level, the private sector construction and development industry is a vital and growing force. Although constrained by lack of construction and mortgage finance, as well as by concerns of the "level playing field", private sector housing has demonstrated a remarkable ability to strengthen itself without extensive assistance. Thus, we have recommended a distinct shift in focus to "intermediary" institutions and interventions of a policy nature at national or local level. Association to association efforts, regulatory issues, and interface with municipal policies may be the best targets for action. Since it has been difficult to identify which associations will remain viable, a "catholic" approach is warranted. **The focus of private sector strategies should therefore continue to be policy and regulatory reform at the national and local levels and association building, with less emphasis on direct assistance.** In specific the focus is:

- **national/macro level support**, providing continued policy guidance and regulatory support for mechanisms that will permit the private sector to function more efficiently (e.g. procurement standards, performance guarantees/bonding, licensing procedures, land titling, permitting, etc);

- an **"intermediaries" approach**, focusing on association support through APHBI and EERPF, as well as training and technical assistance to a number of local associations. In addition, coordinating and integrating private sector assistance with housing finance and local government activities will address specific opportunities and needs (e.g. public/private partnerships focused on new construction, rehabilitation, land, and privatization).

1.4 Balance and Phasing of Program Components

Chapter 3.0 looks at the individual country strategies from two points of view: (1) the perspective of the role of the urban sector in macro-economic development in transition economies; and (2) the viewpoint of the country's specific problems and context. EUR/DR/H staff had posed several questions to the evaluation team: Should the separate elements of the program -- housing finance, local government, and private sector -- be prioritized or phased in a particular way? Do the current country strategies seem to emphasize the appropriate goals, given the specific country context?

Both a review of the literature and the results of the evaluation suggest concurrence on several points:

- **balance** is an extremely important concept in the restructuring of transition economies. **Kornai notes the "necessity of simultaneous changes in macro-economic policy, economic control, and property relations;**[11]

- because the "balanced" development paradigm in transitional economies places strong emphasis on **financial sector development** and **fiscal responsibility**, both **housing finance** and **local government** are of highest priority in the urban program; .

- with the exception of the role of housing finance in housing privatization, no particular balance is required between housing finance and local government activities. **Rather, both are important because both housing finance and local government contribute to a balanced macro-economic approach**;

- in contrast, direct assistance to the **private sector** is not the highest priority. Rather it should generally be **linked to either local government or housing finance to obtain maximum leverage**. A mortgage finance system will be a far more powerful tool than a new building technology in the development of the private sector construction industry.[12]

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[11]See Janos Kornai, The Road to a Free Economy; and Betrand Renaud, The Framework of Housing Reform in Socialist Economies.

[12]See Betrand Renaud: "The Housing System of the Former Soviet Union: Why do the Soviets Need Housing Markets?"

- **policy reform** is the single most crucial aspect of the program in **all** countries.

- phasing of activities in the program's components relates more to the **absorptive capacity of a country's economy and institutions** rather than to a particular "ideal" approach. The country strategies have already set forth specific sequencing within the subcomponents.

The EUR/DR/H program now reflects an inherently sound approach. Balanced programs are in place, or now being planned, in most of the region. We argue for filling the few gaps that are evident. Thus, our recommendation to address housing finance in the Czech Republic and Slovakia comes primarily because it is important to development; private sector construction cannot take-off without it. Second, Poland's severe housing shortage and the very broad distribution of its urban centers, make the delays in local government activities and privatization especially problematic.

In summary, however, EUR/DR/H has continued to push for policy reform, despite the setbacks, as an integral aspect of every program. Priority attention to housing finance and local government is evident in most countries, and special attention to the private sector in Poland is consistent with the circumstances.

1.5 The Longterm Context for the Eastern Europe Program: What Program Strategies and Management Structure Does This Imply?

The question has been posed as to whether the overarching goal of the program -- to create a private real estate market -- is realistic, given the dominant influence that Eastern European social history has on the setting. The answer may well be that a fully private market is a quite distant goal; a substantial portion of both the social housing stock and financial institutions may rest in public hands. Thus, a **dual economy**, in housing as well as other sectors may persist for some time.

Several aspects of the long-term evolution of the Eastern European context seem likely to have a particularly important influence on future shape of the housing program.

- the **two tier** nature of the countries in the region already seems evident: a group of early "graduates" from the EUR/DR/H program and another tier of countries where progress will be more measured and require a longer time horizon than the current 5 year program. The Czech Republic is expected to graduate first, followed by Hungary and Poland. On the other hand, because of a complex blend of social conservatism, poverty, and a relatively less market-oriented institutional structure, Bulgaria, Slovakia, and Albania (and Romania and other later entrants to the program) are likely to make a less rapid transition;

- as noted above, **we do not expect privatization to proceed quickly**. The reasons include not only rent policy and tenant rights, but also incomes policies.

Distortions in demand, as well as the more usual supply side distortions will have an impact. Because income policy is dependent on so many factors, including the success of industrial privatization and monetary and fiscal constraints, it is likely that **effective demand**, including that for privatization will remain low in many countries.

- Furthermore, countries cannot realistically be expected to charge "market" prices for all goods when incomes are not also adjusted upward. **The question is: which prices will policy makers increase and which will maintain their subsidy? So far, rents seem to be stuck in the "social" category**;

- the availability of construction and mortgage finance will play a pivotal role in bolstering new construction, rehabilitation, and privatization. Ultimately, the **future of the housing finance system is greatly dependent on reform in the broad financial sector**: both banking and capital market development. EUR/DR/H should continue to push for (and integrate itself with) the Europe Bureau's (and the World Bank's) financial sector efforts.

Perhaps a more realistic goal for the interim period is a **market-oriented shelter sector**. This does not change any of the goals with regard to the crucial policy reforms or privatization that AID has been striving to achieve. These reform efforts should by all means continue. Restating the goal, however, accomplishes three (limited) purposes:

- allows the program to be declared a "success", particularly for early graduates, who will clearly leave the program before the privatization of housing units, state savings banks, housing management companies, and so forth, is fully accomplished. Hopefully, however, numerous policy and legislative reforms will be left behind which will ultimately lead to a more private market;

- keeps in clear focus those attributes which either define the private sector or are assumed to derive from it: that is, market-derived pricing; efficiency incentives in management; transparent subsidies that minimize price and income distortions and are targeted to those in need.

- provides a context in which to work with social policies that differ somewhat from the U.S. reality. Tenant rights, for example, may maintain a relative dominance over landlord rights; foreclosure may not be a credible option in some countries for a long while; and interest rate or price subsidies may also retain strong support for some time.

If these assumptions about the long-term context have merit, then a number of recommendations for long-term management structure and substantive projects seem worth re-emphasizing. These include:

Management

- adoption of a **two-tier program** planning structure, the second tier for which longterm AID field management is crucial and regional transfers of lessons learned will provide immense leverage for program success;

- institution of **country-based management** responsibility. This will facilitate strategic planning for the country and better respond to the two-tier nature of the program in the longrun;

- adopt a more strategic approach to developing **indicators** of program performance, including **transitional objectives**, often likely to be institutional or policy-related. **Involving clients in developing these strategies may enhance their understanding and commitment.**

Local Government

- an increased focus on **asset management, capital budgeting, and urban planning** should help deal with long-term local government ownership of a (substantial ?) portion of the public stock;

Housing Finance

- closer integration of housing finance reforms in the long-term with efforts to reform the financial sector overall may help provide opportunities to increase competition in housing finance;

Regional Context

- increased regional sharing through city-to-city, bank-to-bank, association-to-association contacts to enhance policy reform, replicability, and institutional capacity. **Clients with successful projects may be the most effective champions of policy reforms in other countries.**

Finally, two additional aspects of program/project structure deserve mention: (1) the use of external capital funds as an "energizing" force, and (2) comprehensiveness and sequencing in "keynote" projects.

First, for reform projects in both housing finance and local government, the availability of Housing Guarantee, World Bank, EBRD, or other funds appears to be an extremely important project component. Added liquidity allows the project to proceed much faster than otherwise might be the case. The availability of capital may also be an "energizing" factor in pursuing

policy reform. While these arguments are relevant for developing economies as well, in East Europe the funds may be of particular help in pushing forward several aspects of a restructured system at once. Thus, for countries whose debt situation precludes use of a HG, a search for alternative funds (such as the IDA funds in Albania) is important.

Second, the evaluation team feels that several "model" projects will (soon) prove to be important successes, serving as benchmarks for the region. These models include housing finance reform in Poland and the housing allowance/rent project in Szolnok, Hungary. **Both of these projects have been intensive and expensive. Both involve a comprehensive sequencing of policy reform, institutional reform, technical assistance, and training.** While there are undoubtedly numerous lessons learned here, several seem to stand out: that highly focused, comprehensive efforts may be the ones to pay off in the long run; that visible outputs do not emerge quickly in Eastern Europe; and that until greater replicability occurs, these types of projects will prove expensive on a per unit base (that is, per mortgage loan, per housing allowance). Nevertheless, in retrospect, hopefully they will seem worth this last risk.

2.0 REGIONAL ANALYSIS

2.1 Housing Finance

2.1.1 Context

A comprehensive program of technical assistance to housing finance program is well established and three of the five countries visited by the team. Poland, having been the beneficiary of extensive assistance, has understandably comes closest to introducing a market-based system: actual lending with the new mortgage instrument (the DIM) was recently begun by the state savings bank, the PKO. Also, many aspects of institutional context and a market framework are being addressed. In Hungary, a Housing Guarantee Program is currently under design, and progress has been made in both instrument design and issues in legal and administrative infrastructure. In Bulgaria, many concepts of an "enabling framework" are being introduced. However, institutional constraints are slowing down progress considerably; the program should definitely continue, although the time frame and sequencing should be reassessed. Finally, housing finance programs have not been introduced in the Czech Republic or Slovakia; however, we recommend that this be quickly reconsidered. Although the circumstances are quite different, both countries would benefit considerably.

The context for introducing market-based housing finance has proved to be quite difficult. As was discussed in Chapter 1, housing "finance" and deposit-taking were monopolized by state owned savings banks. Deep subsidies in interest rates were standard, which has had serious consequences for both state budgets and for the solvency of the state banks. Currently, there simply is no functioning system of housing finance in the region (either market based or otherwise). The obvious potential clients are the state savings banks; they have been very reluctant, however, to abandon the subsidized approach. Other potential entrants, basically commercial banks, face their own problems of restructuring and solvency; as always, they are generally reluctant to enter into long-term lending. Finally, severe inflation (in every country except currently in the Czech Republic) and depressed incomes round out the discouraging scenario, making use of conventional mortgage instruments impossible and delaying the advent of effective demand.

2.1.2 Program Successes

Especially given the context, the program's successes are rather remarkable. The major successes may be summarized as follows:

- The Poland program, as noted, is introducing an overall structure which should greatly assist the evolution of a meaningful system of housing finance. The program is dealing on all fronts: with institutional reform, policy reform, and training;

- Similarly, the breadth of the proposed HG program in Hungary, which is based on policy reform, also suggests that it will initiate fundamental changes;

- The Poland and Hungary programs, and to a more limited extent that in Bulgaria, indicate enhanced awareness on the part of clients and other key individuals of the importance of reform and the manner in which in contributes to financial sector development.

- Complex instrument development, designed to address affordability and risk in an inflationary environment has been undertaken in all three countries. The DIM (Poland), the DPM (Hungary), and the BICC (Bulgaria) all belong to a closely related family of dual-indexed instruments.

- In Poland, detailed training materials, guidelines, and manuals have been developed for both construction and take out lending, and training is well underway.

As discussed below, we recommend that housing finance programs be introduced in the Czech Republic and Slovakia. Only very recently, some interest has been expressed in these countries, which suggests that the successful work elsewhere in the region is having an impact.

2.1.3 Lessons Learned

There are three major types of lessons learned: (1) contextual issues have greatly affected the ability to restructure both housing policy and housing finance; and (2) introducing competition and institutional reform will take considerable time; and (3) donor intervention is required to set a restructured system in motion.

The continued debate over subsidized rents and interest rates has slowed policy coordination and forward momentum considerably. Even though some observers suggest that political posturing may be involved, there are also fundamental social viewpoints being debated in most of the countries; thus, the extent of the effort required to bring about attitudinal change probably has been underestimated. Similarly, progress on legal and administrative issues has been mixed. Debates continue over issues of individual and tenant rights, such as obtaining information for underwriting, eviction, collection procedures, and foreclosure. Again, progress on some of these fronts will be slow.

Thus, although many "framework" activities have been set in motion, no country in the region has achieved a reasonably complete consensus on overall policy direction.

Secondly, issues involving the level playing field and incentives for new entrants into housing finance are critical to system evolution. The lessons include the following:

- It will take a long time to develop an effective **institutional structure** for housing finance. As a group, the state-owned savings banks tend to be extremely conservative. Although they are logical homes for market-based housing finance, they have been resistant to introduction of change.

- The ultimate goal -- introducing competition into the system -- will definitely be a long-term activity. The playing field has not been level. The sophistication of the overall financial systems varies greatly across the region, but even where potential alternative lenders exist, there has been little forward momentum (again, Poland is the exception; at the present time, a number of banks are participating in the training program and will hopefully become HG participants).

Because of this extended time horizon, **interim strategic indicators**, as discussed above, are especially important to monitor whether any progress is being made system development. Thus, intermediate steps should be made explicit. These milestones should also be discussed with clients to invest them more closely in AID's process.

2.1.4 Recommendations

The countries now participating in the program face extremely different circumstances with regard to progress already made in housing finance; the sophistication of the banking sector; the ability (for debt reasons) to participate in a HG; and the level and trends for inflation and effective demand. Thus, it is difficult to find a set of relevant region-wide recommendations. However, whatever phase the country is in, the policy dialogue is far from exhausted. In addition, major goals are (1) to try and use the Poland/Hungary successes to help bring other countries into the reform process and (2) to transfer the wealth of experience, instruments, and materials in a cost-effective manner. The separate country chapters offer more specifics. In any event, some summary recommendations include:

(1) Continue the present focus on the broad legal, institutional, and administrative framework necessary for the development of market-based housing finance.

It is not easy to assist directly in the policy reform process. "Strategically-placed senior advisors", such as now being introduced in Poland, are one effective approach for AID. These "agents of change" have been proposed as solutions by several local officials. A regional conference, as discussed below, offers another opportunity, especially for initiating reluctant clients.

(2) Assist in developing an enabling framework for housing finance in the Czech and Slovak Republics. This recommendation is especially pertinent to the Czech Republic. It is also appropriate to begin, even if at a slower pace, in Slovakia. (the arguments also hold for Albania and Romania).

There are several reasons why timely initiation of this assistance is relevant and important:

- The availability of housing finance is a crucial engine of development for the private sector. A revised housing finance framework should therefore be in place as a development tool. Whenever the country is, in fact, "ready" to lend, the initiation of construction and mortgage lending will provide a much-needed stimulus effect.

- It is advisable to get started early. As is evident in Eastern Europe (as well as in Asia and elsewhere), the institutional and legal reforms are time-consuming. Also, training follows institutional "readiness", extending the date of actual lending even further.

- Finally, the marginal cost of undertaking the technical assistance in additional East European countries is now small. The skills and products have largely been developed, in Eastern Europe and around the world. They can be introduced, therefore, at relatively little marginal cost.

It will, obviously, take longer in some places than others to put all the pieces together. As discussed in Chapter 5.0, in the Czech Republic, the process of framework building might be quite rapid, and would be left in place even if the country graduated before lending actually begun. It is our understanding that the Ministry of Finance has just asked for a review of the housing finance situation in the Czech Republic, which is an encouraging sign.

Slower progress is being made in Bulgaria and would be expected in Slovakia (and presumably Rumania and Albania). As discussed in Chapter 6.0 and 7.0 on Slovakia and Bulgaria, slower progress simply argues for beginning now. Admittedly, there are barriers; for countries where the debt situation does not permit use of a HG as an incentive, it is may be more difficult to get started.

(3) Use the Poland model as the best selling point now available to educate potential clients and start a policy dialogue.

The experience in Poland provides salient lessons learned in institution building and also provides a wealth of materials, including mortgage instruments, servicing and underwriting guidelines, MIS development, and training manuals and procedures.

In many respects, the housing finance program in Poland can serve as a model for the region. It covers the gamut from "big picture" policy development to hands-on training in construction and mortgage lending. An apex housing finance institution has been created, which can be expected to not only to expand its on-lending and training role, but eventually to take on secondary market functions.

The recent preparation of the HG design for Hungary also brings this client into the arena as a potent "sales" assistant.

One way to utilize both these experiences is a regional conference, which might be appropriate when (1) actual lending has begun in Poland and there are (hopefully) a number of participants, and (2) when the HG design is final is Hungary and the clients themselves can explain the rationale. Promotional material could be readied which succinctly summarizes (and then translates) the conventional arguments (construction sector multiplier effects, financial deepening through a potential net increase in household saving).

(4) Policy reform should be also be focused on enticing entrants in addition to the state savings banks, either existing banks or new, specialized institutions.

Tools to assist in encouragement of multiple lenders include:

- enhanced liquidity with HG and other donor funds
- credit enhancement and other incentive to share the risk with new lenders
- provision of substantial training activities for bank staff (see below).

New entrants can be existing commercial banks or, alternatively, new institutions formed for specialized lending in housing finance. Whether such new institutions are actually required has been a topic of debate in housing finance dialogues in many other parts of the world. An IFC study for Hungary concluded that they were not necessary there. In contrast, in Bulgaria, there seems to be some enthusiasm for a new institution. Breaking away from extremely conservative (and insolvent) institutions does at least have some merit in Eastern Europe.

(5) A long-term perspective for policy reform suggests collaboration with effort in overall financial sector reform (and even promotion of those efforts by the Europe Bureau where they do not yet exist).

Issues to be discussed include:

- formation of "apex" institutions to help develop the sector and to be the repository of the newly developed training expertise
- regulation and supervision of the newly emerging sector
- eventual privatization of state owned savings banks (in the context of overall restructuring and privatization in the financial sector as a whole).

The issue of apex institutions has also been widely debated (as noted above, we are using the term apex to denote institutions **not** engaged in primary lending and assigned various roles in industry leadership, liquidity enhancement, secondary market functions, training, and so forth.)

An apex institution is not necessary to the evolution of a housing finance system. There is also the question of whether such an institution "leads" development of a system or follows after some lending is actually happening. (The apex institution in India was introduced only after years of working with individual lenders.) An apex does, however, simplify on-lending, may help encourage participation of other entrants, and offer a convenient home for activities such as regulation, liquidity windows, and so forth.

Thus, the restructuring of the Budbank in Poland provides not only for on-lending. but also helps open the way for competition in the sector. Ultimately, "institutionalization" of the reform concepts and training of trainers will encourage the evolution of an "apex" institution able to guide the further development of the new system. Hungary would be the next candidate for such an institution. **It would certainly not be desirable to overload the absorptive capacity of these reform efforts.**

(6) In terms of importance, training may be the next best thing AID can offer following policy reform.

In terms of sequencing, training logically follows both policy reform and institutional reform efforts. Training develops a cadre of people who can undertake housing finance lending at any institution. This is important when the institutional structure is fluid. Thus, trained staff may move from a state savings bank to a commercial bank or a new institution, and are ready to begin when other pieces of the puzzle fall into place.

It is also important in some countries, Bulgaria and Slovakia, for example, to train more "senior champions of reform". These professionals may migrate among banks or ministries. In the long-run, however, the greatest shortage is personnel who understand the theory of market based lending and managers and staff who understand the mechanics. **The institutions may follow the "champions".**

Sequencing is obviously important here. There is little point in training staff and middle management if the potential lending institutions are far from ready for market-based lending. In contrast, training of potential champions can be viewed as one approach to implementing policy reform, which should lead the way.

2.2 Local Government

2.2.1 Context

The Office of Housing has traditionally stressed the importance of the urban sector in national economic development. One of the most significant connections between the urban sector and the macroeconomy in Eastern Europe lies in the pressure on central government to reduce national budget deficits and therefore inflation. As stated above, this has resulted in the decentralization of finance, itself clearly the driving force behind the reform of local government.

Thus, a number of important political and economic forces are driving local government reform:

- Democratic reforms have included the devolution of power from central government to local government to bring government closer to the people. In the past, local government was largely an administrative arm of central government.

- As market economies have been introduced, Government has become more "enabling" and less directly controlling. This is particularly so in the case of economic activities. Instead of owning and operating locally based business, local authorities now have to create an environment in which private business can prosper.

- The pressure on central government to reduce the fiscal deficit has drastically reduced the supply of capital funds and recurrent budget support for locally administered services. This reduction in the supply of funds from the center is the single most important and most immediate problem facing local government in East Europe.

The local authorities interviewed by the team identified one or more of the following issues as among their principal challenges:

- The reduction, or even cessation, in the supply of capital funds from central government;

- The lack of budgetary support from central government for recurrent expenditures;

- Continued responsibility to provide a wide range of public services without access to budgetary support from central government; and

- Responsibility for land, housing, infrastructure, and other municipal assets.

This has forced local authorities to do the following:

- Prepare their own capital and recurrent budgets;
- Raise the funds required to meet those budgetary demands from taxation, higher user charges and borrowing; and
- Privatize housing and municipal services.

The process of matching responsibilities with power has not been completed. Local authorities claim that they do not have the fiscal/legal powers, and, in some instance, the technical capacity to carry out their new responsibilities. Local authorities have to raise their own funds for much of the capital expenditure that has to be undertaken locally and the recurrent expenditure that is needed to run local government. Some are actively trying to reduce the responsibilities of local government to provide services directly by privatizing public services: Krakow, for example, has plans to privatize power supply, water supply and treatment, public housing, and transportation services. Blagoevgrad wants to sell the many commercial enterprises that it has inherited, not only industrial companies but even a ski resort. Even when such disinvestment has been undertaken, many local government responsibilities will remain (and even more indirect ones, since local government will have to monitor the provision of public services once they have been privatized).

Thus, as was discussed in Chapter 1.0, with regard to local government activities, we suggest that **municipal financial management** be given at least as much emphsis as the activities in housing, land, and infrastructure already identified for local government. This has already been done for the draft Poland strategy and it is also part of the draft strategy for Bulgaria. It is noted in the Poland strategy that institutionalization of practices underlying sound financial management is a precondition to successful delegation of authority in fiscal matters. "Without such practices, it will be virtually impossible to avoid straining municipal resources, prevent the deterioration of physical assets or ensure economic viability of managerial decisions regarding land, housing, infrastructure systems, and urban services."[1]

One problem with giving these financial issues attention is that they are so "structural" that it will take some time to show results. This is to a large extent true. However, the very fact that resource mobilization and financial management are so structural means that other activities are less likely to improve without improving the financial position of local authorities. It is clear that local government has a very important facilitative role in the provision of affordable shelter (including water supply, sanitation, power, and other services).

[1]See a memorandum by Mona Serageldin and David Jones which will be added to the Poland Strategy.

Local authorities cannot fully facilitate the establishment of the real estate markets in East Europe until they can resolve the very difficult financial resource supply and financial management problems. Assistance in other areas of concern can certainly be useful, for example, land use/infrastructure planning, privatization of housing management, land titling, GIS, and so forth. In fact, as also mentioned in Chapter 1.0, because our recommendation that certain local government activities are especially useful for assisting the private sector, land use planning, GIS, and so forth, take on a dual role. However, without improving the basic financial management systems, these other improvements are ultimately less able to be fully realized.

Related to this is the view that little progress can be made with local government finances without legislative and policy changes at the center. Indeed, action at the center is needed to set up municipal finance systems for example. But the view expressed by some local authority leaders was that they had considerable freedom to raise resources, for example, and even to privatize. Two Vice Mayors of Krakow, for example, identified their inability to raise rents as the only significant fiscal constraint. Krakow has well-advanced plans for public private partnerships in the provision of some municipal services and for a municipal bank.

It is also asserted that little can be done to promote local resource mobilization because central government is already highly taxing family incomes. Although requests for additional taxation may well be too unpopular for local politicians to risk, other sources of local funds could be tapped: public-private partnerships and privatization are two. User charges, another source of funds, are being raised by many countries.

2.2.2 Successes

There have been notable local government successes. One of the major activities under the program will be the **HG loan for municipal finance** in the Czech Republic. The concept paper for this project, which involved extensive review of local governments in secondary cities, has been approved and authorization of the program is expected to follow. It is proposed that $100 million be provided over a five year period (although this amount has not yet been approved). Also in the Czech Republic, assistance was provided to several districts in Prague regarding evaluation of real estate development and land use management.

As discussed in section 2.3 below, much of the **privatization** activity has been shifted to the local government arena. The rent increase/housing allowance work in Szolnok, Hungary now has a region-wide reputation and will hopefully be copied by other local authorities -- the upcoming conference on this model has been oversubscribed. The model is already being followed in Blagoevgrad, Bulgaria.

Krakow's administration has high hopes for the technical assistance now being provided by a **long-term advisor in city management.** In addition, a prototype **property tax and appraisal**

system in being developed for the Ministry of Finance in collaboration with the Krakow Real Estate Institute.

In Budapest, an action plan is being prepared for the Mayor, addressing **economic development and strategic planning**. Also, **city to city** technical assistance, such as the visit of Polish officials to Rochester, New York, was generally found to be very effective.

As noted in Chapter 1.0, a **training program**, including **land use, appraisal, and property assessment**, has been carried out by ICMA in Poland in conjunction with the Foundation in Support of Local Democracy (FSLD). AID has already conducted a review of these activities and has noted both successes as well as lessons learned.[2] During our evaluation. the locally based trainers reported that the most important benefits of the training were unintended, consisting of the informal transfer of experience among participants and the common realization that changes in attitude were required in modern local government. The training-the-trainer model has not succeeded to date; however, that was because participants were trained as technicians but not as trainers.

Also in Poland, in mid 1991, the **HFPO conducted training in the real estate development process** Almost two-thirds of the over 300 participants were local government officials. They were introduced to key real estate development and finance concepts, and participated in discussions about investment options available to cities, and land development strategies.

Despite initial difficulties, Prague 6 has acquired a vast amount of detailed data about their housing units and about ways to approach decision-making regarding privatization and management. Completion of the **software project** will enable the district to automated the process of programming expenditures and tracking progress.

Finally, in Bulgaria, a draft local government strategy paper, detailing technical assistance and training needs has recently been completed.

2.2.3 Lessons Learned

As discussed above, a key "lesson learned" during the evaluation process itself was the strong need for assistance in **municipal financial management and resource mobilization.**

Other important lessons involve **implementation**:

- work in the major districts of the large capital cities has been more difficult than anticipated. Interested or appropriate clients were not always able to be located.

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[2]See Caryl Ersenkal, "Assessment of Selected Training Activities in Poland."

The distribution of powers between the central city authorities and the districts is not always clear (with national level powers yet another factor);

- a relative shift to outlying local governments has perhaps been more pronounced than anticipated for two reasons: (1) if capital cities prove problematic, local governments are more accessible; and (2) when policy changes at the national level are not forthcoming, some local governments become good candidates for demonstration projects.

Thus, **the pilot/local government approach** may prove to have merit beyond original expectations. Nevertheless, AID should obviously continue to seek policy reform at the national level and continue the ongoing efforts to seek additional clients and projects in capital cities.

Other lessons learned from AID's review of training in Poland and comments made during the evaluation include:

- much more use should be made of local rather than U.S.-based case material;
- training teams should include local trainers as well as expatriate and practitioners along with (rather than?) academics;
- a better understanding of the needs and background of the participants would help determine the purpose, content, and sophistication of the training; and
- particular attention needs to be placed on utilizing the training materials developed for the workshops by making them widely available to local educational and training institutions. It will be important to work with these institutions to incorporate the training materials and methodology into their on-going programs.

Finally, **two major problems** have plagued activity in the local government sector: (1) local government efforts have in some instances been slower than other activities to get in full swing, and (2) the projects in some countries did not always offer the full array of activities expected to be undertaken under local government.

Thus, relative to the ultimate size of the programs (and the country), more initiatives were begun in Czechoslovakia and Hungary than in Poland. Since Poland has numerous large and moderately large cities outside Warsaw, this was unfortunate. Furthermore, the local government projects that were undertaken in the region focused relatively heavily on housing-related activities. Although there certainly are exceptions, there has been less focus on municipal management, municipal finance, or infrastructure.

There are several causes for this relative imbalance. First, the main local government contractor has been delayed in launching a full program. AID is partly to blame. One major problem was

a very lengthy delay in AID contracting procedures, which completely forestalled use of the local government contract until the spring of 1992. However, even after the contract was signed, there were also problems in overall contract management and delays in obtaining sufficient personnel to respond to multiple demands. Second, the initial strategy focussed on housing-related activities. Only over time did it become clear that a broader focus, including land, infrastructure, and municipal finance was integral to the basic program goal.

In any event, it is unclear whether the delay in local government activities had harmful effects on the other activities in the overall program. With regard to housing finance, the answer is probably no; these activities advanced independently and were generally focused within central ministries and state savings banks. With regard to private sector activities, the impact is not clear. As discussed below, developing the private sector strategy was itself delayed. It is likely, however, that more local government activity would have led to more activity in areas such as land development, new construction, and various forms of public/private cooperation.

2.2.4 Recommendations

(1) Local resource mobilization and financial management should receive greater emphasis in the activities defined for local government.

Although the team met many very imaginative municipal leaders who already have advanced plans to raise resources, few have any experience of doing so. In fact the many had little previous experience of local government, or any other government. They need the support of local government professionals to help them to think through resource mobilization schemes and provide them with experience from local government elsewhere in the world. A Vice Mayor told the team that his staff, even at the directorate level, have no experience in preparing budgets to meet an agreed set of objectives; finding sources of funds for the budget, internally or from outside sources; spending according to a plan; and monitoring expenditure against the plan and fulfilling the objectives.

Many of the municipal leaders thought that little progress could be made on other matters such as land use planning, land information, even new resource mobilization schemes, without these basic improvements in financial management. Thus, many of the types of projects identified for housing, land, and infrastructure can also serve a vehicles to focus attention on financial management, particularly asset management and capital budgeting.

A pertinent issue may be whether AID has access to a sufficient number of experts in financial management. If it proves difficult to find experts from the U.S., it might be wise to think of accessing experts from Europe or with knowledge of European systems. The accounting systems in much of East Europe have more in common with the French based cash accounting than U.S./British systems. However, a revolution is now taking place in "entrepreneurial" local government in the U.S. (reflected in the best selling book "Reinventing Government," one of whose authors was a city manager); thus, the U.S. should have much to offer these newly

independent municipalities that are often led by imaginative mayors eager to think of new approaches to local government.

(2) PRE/H is correct to move into a phase in which there is more long term residential and long term intermittent technical assistance.

The local government component will become more strategic and long term in its implementation. Many local government officials contacted by the evaluation team said they wanted long term relationships, so that they get to know the experts they are working with. They want those experts to understand fully the non-American context in which they are working.

There are two ways in which these long term relationships can be implemented. One is to follow the Krakow model and have a long term advisor who will provide direct technical assistance himself and will learn enough about the needs of the local authority to be able to bring in experts as required.

The second model is to work with a city in the preparation of a long term technical assistance plan and bring in the same consultants on repeat visits according to that plan. That model is being followed successfully for the housing allowance/rent activity in Szolnok.

Each approach has its own advantages and disadvantages. To have a resident long term advisor is a more "comfortable" arrangement -- an expert on tap, as it were -- but in that lies the danger of dependence. An advisor under the second model could agree with the city on a policy reform program under which the contractor took certain responsibilities and the city others; the very act of going away signals that the city has to make certain progress on its own in the interim.

(3) There should be even more city-to-city technical assistance and training

There have been a number of successful activities along these lines supported under the East Europe program. City-to-city technical assistance is particularly important when the development model that is being used is to work through demonstration projects. This development assistance model is appropriate; we were frequently told that cities can best learn from cities rather than from traditional academic training. A Krakow official said that he had heard of initiatives being taken in Szczecin that Krakow would like to adopt. ***One senior official asserted that cities in different countries can learn more from each other than nations can.*** Some local training institutions are now giving considerable attention to such international exchanges, including Krakow's Real Estate Institute (which is now working with the AID supported East Europe Real Property Institute). **The local government contractor can facilitate these exchanges through maintaining a regional data base and disseminating key information.**

We also found examples of educational institutes inside and outside universities providing technical assistance to other transitional economies: for example, an NGO in Prague is

providing technical assistance to Russia, the Ukraine and the Baltic (even Nicaragua). AID might focus some training programs on such outward looking local institutions. (It is not easy to select these institutions and there will continue to be some trial and error; perhaps a survey process could be used through the medium of workshops for which many institutes are invited to prepare strategies.

U.S. cities also have an important role to play in city-to-city training and technical assistance. Local authority staff who have participated in study tours taking them to U.S. cities reported that they had learned new approaches to their jobs from working with counterparts in the U.S. The Krakow Vice President and City Manager reported that they benefitted greatly from their few weeks in Rochester. Local trainers on the FSLD program in Poland said that they benefitted from their trips to the U.S. to work with counterparts to prepare course material.

City-to city technical assistance will help with the attitudinal change many have found to be so important. Many cities already appreciate that decentralization means that municipalities as a whole and departments within municipalities will have to set goals, prepare budgets, raise funds, make expenditures, monitor expenditures and the achievement of goals, revise budgets and goals, and so on. In the past most simply had to make expenditures as instructed by guidelines laid down by central government. **Senior staff will have to become managers rather than administrators.**

(4) The program should continue to give attention to facilitating policy changes at the center that will help decentralized local government to be effective.

The team was frequently told by representatives of local authorities that they would like to take certain actions that were in line with the government's decentralization policies but were unable to do so because of legal and administrative barriers at the center. The inability of the municipalities to raise rents in Poland and Bulgaria is hindering the introduction of financially viable housing policies. Cabinet and Ministry of Finance approval is still required before the Blagoevgrad, Bulgaria rent increase/housing allowance pilot can go ahead. And only once the results of that pilot have been studied by legislators can laws be passed to permit other towns to do likewise.

National, legal and institutional changes will be required in most countries to allow and facilitate the establishment of municipal finance schemes. The condominium law for the Czech Republic that has been drafted with the help of the Urban Institute has yet to be agreed by the Cabinet prior to its presentation to Parliament. The legal authority of local councils to enter into public private partnerships is unclear in many countries.

In some cases, AID can use the leverage of HGs to promote the required legal changes. AID can also continue to collaborate with other donors who have major capital spending programs and will insist on critical policy reforms, for example, the World Bank and EBRD. One AID

representative told the team that little progress can be made in local government reforms without the leverage of capital funding.

Another way to promote the necessary reforms at the center is to supply some technical assistance given to the municipalities all of which are members of associations of municipalities. We were told of four such associations in Poland, for example, each for different categories of towns. Some of these associations are already active lobbying groups; we learned that the day before we arrived in Bulgaria the association of mayors had issued a statement to the press deploring the recent trend towards recentralizing government.

(5) More assistance should be given to managing and privatizing municipal services.

Privatization includes selling municipal services to the private sector, wholly or partly, and introducing private management into publicly owned services. It also includes the more conservative approach of "commercializing" public services: making them operate as if they were commercial enterprises.

Many of the municipalities we visited had plans to privatize municipal services. The driving force behind this is fiscal: the municipalities do not have the financial resources to fund the investment the public services need or the operating subsidies they have been given in the past. Municipalities feel that it will be easier to raise the necessary funds and charge prices that will cover all costs, if the water, power supply, transport and other utilities become private companies, either fully owned by private sector interests or only partially owned by the municipality. Some municipalities do, however, retain public ownership but are introducing private management contracts.

Work is now getting underway in this area in Szeged, Hungary. This should be an activity in which AID has a comparative advantage over some other donors. AID's PRE bureau has substantial worldwide experience, including transitional economy experience, to bring to bear on the privatization of services. Either the local government contractors should access the experts who have worked in this field or EUR/DR/H should buy into one of the many contracts designed to provide privatization skills.

(6) Assistance should also be focused on local government activities which most directly facilitate the private sector.

As discussed in Section 2.4, the evaluation team recommends two main approaches to assisting the private sector: policy and regulatory reform, at both the national and local level, and support to intermediary organizations. Within this context, local government actions with regard to planning, regulatory reform, and administrative processes can be especially important. Specific examples include **land use planning, GIS, land titling, permitting, and local economic development planning.**

2.3 Privatization of Housing

2.3.1 Context

Development of strategies for privatization of state-owned housing, and also privatization of housing management services, were among the earliest activities of the Eastern European program. Beginning in 1991, and continuing to the present, numerous studies have been produced, describing both the benefits of privatization and the barriers to its progress. Initially, the topic was viewed as an integral part of housing policy reform at the national as well as local level. In fact, because of the slowdown in policy reform at the center and the wide responsibilities assigned to localities, privatization is very much a cross-cutting national/local topic. The privatization process, after some early successes, is no longer moving rapidly.

Section 1.4 of Chapter 1.0 provides some comments on our expectations regarding the long-run context for the program in Eastern Europe. Key among these issues is the likelihood that progress in privatization will be slow and that a substantial portion of the stock will remain under local government ownership for some time. If this is, in fact, a probable scenario, then the **overall strategy for privatization should be greatly broadened. As discussed below, we concur with current efforts regarding policy reform, demonstration projects, housing allowances and legal infrastructure; however, we are suggesting that the strategy also needs to deal at greater length with the numerous problems of ownership, management, and privatization strategy that will face local governments in the interim.**

There are a number of reasons why we make this argument. One issue is whether or not the rent increases that have become the focus of the approach to promoting the privatization of housing and a market oriented housing system will result in significant progress. It is important to increase rents to establish the level playing field between potential owners and renters, on the assumption that only if tenants are forced to pay market rents might they chose to own the unit. Secondly, rent increases are necessary to make the building a desirable investment. (Finally, even if privatization does not proceed, increased rents are needed to reduce the fiscal drain on local governments and provide funds for rehabilitation.)

Rent increases may be in the category of necessary but not sufficient. There are several components to a housing reform program that are important to housing privatization: (a) a pricing policy that will encourage households to own their units and businesses to invest in rental housing; (b) a legal framework for property rights; (c) a housing finance system (if the units are sold at anything other than a nominal price; (d) income policies for poor tenants; (e) a privatization "program" (i.e. strategies for transformation of whole buildings, tenant rights to receive comparable housing, and so forth); (f) acceptance on the part of both officials and households; and (g) (?) improvement in the condition of the stock. **Except perhaps for the Szolnok pilot, these components are not all in place together in any of the countries.**

The reform process can only be speeded up if the elected representatives can be persuaded that it is advisable to do so. That will only happen if government officials not only agree with the

policy, but are able to persuade the parliamentarians that it is in the interests of their constituents that the policy should become law. For different reasons, however, local officials and legislatures may not, in fact, agree. Local officials may wish to retain the asset; legislators may find low rents either politically expedient or a high priority social goal. Finally, even with all the components in place, some households may simply not prefer ownership. Most of the stock is in very poor condition. Furthermore, households are not accustomed to it, and the Europeans have never favored ownership at rates the United States promotes.

2.3.2 Successes

The Urban Institute has developed three major approaches to assisting the privatization process:

- assisting with establishment of a policy environment conducive to privatization;
- shifting to local government demonstration projects to sidestep policy barriers at the center and try to provide a "results-oriented" success;
- studying privatization efforts already taking place in a search for lessons learned.

These are three very good strategies.

First, the Urban Institute has been correct to focus on setting the scene for privatization by establishing a level playing field and giving legal advice leading to the possibility of a potentially appealing form of private ownership, condominium ownership. Its own studies have shown that the process of privatization has proved very difficult even with huge discounts from the market price; countries that have virtually given away the housing units have still failed to privatize much of the state-owned stock. In the typically depressed East European economies, for many families the additional cost burden assumed by having to maintain the unit apparently outweighs the expectation of possible future capital gains.

Second, the housing allowance/rent increase pilot in Szolnok are cited throughout this report as successes from many perspectives: engaging local governments, approaching policy reform from a hands-on approach, and potentially, finding a "champion" for the program in the Vice Mayor of Szolnok. We assume that the Szolnok conference will inspire enthusiasm elsewhere and the long-sought "replicability" is closer than before.

Third, their studies have sought to inform the process. For example, a recent study, the January 1993 report on housing privatization in Prague, describes approaches to both housing and management privatization in two Prague districts. In Budapest, the Urban Institute carried out one of the first empirical surveys of housing privatization expectations on the part of local authorities and tenants in Eastern Europe. Finally, they have also provided advice on the private management of the local government housing and have been helping to write the Czech Republic's condominium law.

2.3.3 Lessons Learned

Clearly, it has proved to be exceptionally difficult to raise rents even to levels that will cover maintenance costs let alone the full capital costs. The case for increasing rents had been presented most forcefully to the Szolnok Council and yet the vote in favor of the rent increase/housing allowance pilot was very close. Most governments in East Europe feel that they can increase rents sufficiently to cover maintenance costs in the foreseeable future -- and that is a great step forward. However, the Czech Republic will have taken over one year to achieve a modest increase by early next year. In other countries, housing bills that might achieve that goal are tied up within the government or in parliament -- for example, the housing act was rejected by the Polish Parliament while the team was there. Finally, after two years, the Czech condo law is still not passed in the legislature (the prime minister apparently prefers a coop approach). **Thus, an enabling environment may be some time hence.**

We also have to consider **effective demand**. Presumably, once the level playing field has been established, housing finance is available, the economies have been stabilized, and incomes for the poorer members of the community start to rise in real terms, then the demand to privatize will rise. **This involves a lot of "ifs".**

Finally, if, as we assume, local governments must manage an extensive amount of public housing, numerous **lessons learned from managing public housing in the United States** become relevant and the **net worth perspective for public housing** takes on added significance.

Numerous studies of public housing in the United States have documented the high costs of maintenance and rehabilitation for some segments of the stock (although full agreement has never been reached as to whether alternative forms of subsidies, such as vouchers, are truly more cost-effective). A real danger exists in Eastern Europe that the best units will be "creamed" and that local governments may end up with the least desirable stock and poorest tenants. As noted by Alm and Buckley, when local governments give away part of the stock but simultaneously take financial responsibility for large numbers of run-down units of which they cannot dispose, the net worth approach shows clearly that governments may be incurring a liability that exceed its net worth.[3]

2.3.4 Recommendations

(1) ***Assistance with privatization and housing management issues should become an explicit part of assistance to local governments. This recommendation is also explicitly linked with our recommendation cited above for more financial management support to local governments.***

[3]See Alm and Buckley, "Privatization By Local Government in Reforming Economies: A Net Worth Approach.

This assistance might include:

- a privatization **"game plan"**, to assist with formulating goals, schedules, and approaches;
- financial management support, including **capital budgeting and asset management**;
- **a (simple) simulation model** that demonstrates the financial impacts of alternative scenarios;
- a shift toward **privatization of management services**.

(2) A more active privatization program should be undertaken in Poland, where this asset management problem impacts so many local governments.

Assistance with some types of privatization issues is well established in the Czech Republic and Hungary. Although a pilot is being planned in Bulgaria, the proportion of the stock that is public is far lower there. Poland, however, has numerous very large and large urban centers in addition to Warsaw where the management/strategy issues may become even more serious problems (that is, from continued deferred maintenance, creaming, fiscal drain, and so forth. After a series of early studies on the topic, there has been little follow through.

(3) Continue efforts in policy reform and in replication of the Szolnok model. AID should focus on spreading the hopefully successful Szolnok model, help governments to introduce housing allowance programs, and help with the management and privatization of the management of the publicly owned housing stock.

Our recommendation to broaden the focus of privatization assistance to local government management, planning, and budgeting by no means suggests that ongoing policy efforts should take second place. Major breakthrough may be just around the corner (?).

(4) Make sure that clients and other national and local officials have access to documents on privatization strategy. A translated summary document, outlining the major issues and the major steps that need to be taken to proceed, might assist the process.

Make sure that clients who are still debating a course of privatization action (that is, whether to hold on to the asset, what pricing policies to adopt, what role housing allowances might play) have access to a "promotional" summary of the substantial literature already available. The net worth approach to viewing ownership of the stock should also be instructive. A *brief*, well-translated overview of issues would helpful. Additional **regional** conferences focusing on Szolnok may also be useful.

2.4 Private Sector

2.4.1 Context

PRE/H assistance for the private development of housing in Eastern Europe mirrors the diversity of actors and activities involved in this emerging sector. The most recent Program Implementation Review (1/13/93) summarizes the five principle means through which the regional development of market-oriented housing sectors was to be achieved, specifically

- supporting private sector organizations and institutions relating to housing and real estate;
- providing training and technical assistance for private developers, contractors and real estate professionals;
- reducing regulatory and policy constraints that limit the private sector role;
- promoting technology transfer and expertise from the U.S. housing industry; and
- "seeking out" (supporting) demonstration projects that provide replicable models for the future of the housing sector.

The primary vehicles for delivering this assistance include the three-year PADCO contract, and contract agreements with the American-Polish Home Builders Institute (APHBI), the East Europe Real Property Foundation (EERPF), and the Cooperative Housing Foundation (CHF). Over the past two years these five objectives have been elaborated to subsume *a broad variety of specific activities*, depending upon the identification of clients and their expressed needs, and the availability of technical resources.

At the present time it is not clear that the opportunities presenting themselves in each of these topic areas have been, or continue to be, worthy of equal attention. Private sector activities have not been undertaken on the scale originally envisioned, and both EUR/DR/H and contractors have stressed the problems in finding appropriate clients.

Private sector activities in Eastern Europe are impacted by a variety of factors related to the program context. In early 1991 it was thought that the tide of **decentralization** throughout Eastern Europe might provide the impetus for the rapid privatization and development of new housing in the cities. However, the required financial resources and legal authority have not

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[4]Such activities include: sector assessments, strategic plans and policy studies, housing policy development and regulatory/legal support, private and municipal land development, privatization of construction companies, information systems support (MLS/GIS/LIS), project development and packaging, institutional development and professional association support, skills development and training, investment promotion, establishing and supporting public/private partnerships for development, and banking support (project selection and underwriting).

always followed public sector responsibilities away from the center. The view of **political decentralization** as "empowerment" to accomplish reform and implement change will take some time to evolve. Often it is a question of inexperienced local government officials having to deal with substantial political risks, constrained legal authority and large deficits. This in turn has limited local government's ability to attract or actively promote private housing investment generally, or to sponsor projects affordable to the majority of their citizens.

Second, **private construction and mortgage financing** is the life blood of the private market; thus performance will be anemic until financing becomes available. Cash purchases and external financing from foreign sources have provided the primary means for undertaking new projects.

Third, few households can actually **afford** to purchase dwellings at even the most basic costs of construction (at least $30+/square foot). Calculations undertaken two years ago in Poland indicated that only 10 percent of all households could afford new housing without spending more than 25 percent of their income. More recent estimates suggest a figure in the 10-20 percent range. In other countries a similar gap between household income and unit costs depresses effective demand and restricts affordability to small portion of the general population.

Despite these difficulties, it is true across the region that the private housing sector has demonstrated a remarkable ability to emerge and strengthen itself without the benefit of AID-funded technical assistance or financial support. Although activities are limited, private investors and entrepreneurs are finding a variety of ways to finance their activities without recourse to what U.S. investors might regard as "traditional" long-term financing through banking institutions. According to local builders, the European point of view regarding shorter-term loans and lower risks for debt capital is forcing a much higher commitment of equity and pre-sales activity up front. As is true for many transitional housing markets, most of the growth and new market activity is taking place on the outskirts of urban areas, in places not subject to stringent development controls or regulated prices, and at the high end of the income spectrum. This may pose a problem in the future for affordability, utility infrastructure, transportation systems, ground water pollution, etc., but for now it is a sign of health.

The implications of this situation are twofold:

- Future AID activities should be aimed at facilitating this natural, on-going process with a particular focus on activities that help to support the promotion of policies, laws, and organizations that will make the development process more responsive to the market.

- The focus of private sector interventions, therefore, should be (1) national/macro efforts regarding policy reform and regulatory support, (2) local government efforts supporting land, infrastructure, and housing development; and (3) assistance to intermediaries, such as associations, public/private partnerships, and training efforts in support of development such as HFPO.

Relevance of Private Sector Objectives

Each of the five major goals is discussed briefly with respect to possible adaptations or refinements for future activities. Subject to these modifications, the broad framework private sector objectives continues to be appropriate.

Supporting Private Sector Organizations and Institutions

The growth of non-profit professional organizations and private institutions in the housing sector has been rapid—particularly in Poland. The strategy to support these housing sector organizations is realistic and useful. Organizations such as the Krakow Real Estate Institute (Poland), the Association of Entrepreneurs (Slovakia), and the Bulgarian Building and Construction Chamber in Sofia provide important vehicles for information, technical assistance, technology transfer and training in the private sector. It cannot be assumed, however, that occasional AID assistance or attention will guarantee their economic survival, their political independence, or their professional utility. In fact, it is likely that many of them (like SPONS in Bulgaria) will fail through lack of management capability or member support, which in itself is a reflection that the organization is not meeting the needs of its members.

Another approach involves supporting in-country organizations with U.S. ties and financial support. Organizations such as The American Polish Home Builders Institute (affiliated with NAHB) and the East Europe Real Property Foundation (affiliated with the National Association of Realtors) provide field presence, vehicles for translation and dissemination of U.S. technology and training materials, and conduits for technical assistance and training. Admittedly, APHBI program is expensive; opportunities to expand the use of such organizations in a less costly fashion and in countries other than Poland should be explored, as is already being done with EERPF. Potentially, APHBI could assume a regional role.

Providing Training and Technical Assistance for Housing Professionals

Over the course of two years more than 25 training events have been undertaken, not including study trips to the U.S. These events may have reached as many as 750-800 people. The team's conversations with sponsors, trainers, participants and other evaluators indicate that training sessions have been generally well received. Study tours to the United States for mid- or senior-level officials seem to be very productive, particularly when they follow a period of in-depth preparation, and are followed by technical assistance to help implement the lessons of the visits.

For both the study tours as well as the local training and technical assistance projects, the biggest impact seems to be a much greater appreciation of the risks, the opportunities, and the organizational requirements for successful real estate/housing development and construction in the private sector. Private sector actors seem to be very well aware of the financial incentives, but not of formal methods for addressing the market and other useful business practices. As financing becomes available and as labor becomes more expensive, for example, construction

companies will become much more attuned to the need for efficiency and speed in the entire development process-areas not fully understood by many training participants at the present time.

Technical assistance has been provided to a wide range of clients including contractors and builders, housing sponsors and developers (individuals and cooperatives), real estate professionals, architects, local government officials, and other non-governmental associations in the housing sector. Those clients whom we talked to indicate that the assistance has for the most part been relevant to the issues at hand. Criticisms tend to center around the lack of timely recommendations, reporting and follow-up support.

As noted in our recommendations, we have suggested that the direct assistance approach should receive relatively less emphasis than policy reform and association building primarily because the "leveraging" effect seems less. In any event, **in the case of both training and technical assistance the program may want to provide relatively more support than it has in the past in the areas of business management, financial analysis, and marketing and sales; and perhaps provide less emphasis on construction technology and design.**

Reducing Regulatory Barriers and Policy Constraints

One of the major barriers inhibiting development of the private sector activities lies in the area of regulatory constraints. Private sector professionals in all countries have indicated how much they feel their efforts are undermined by the backlog of legislative reform, outdated regulations, intergovernmental squabbles, and/or general lack of clarity regarding the policies and regulations that govern their professional lives. Whether one is talking about Poland's or Czech Republic's lack of a condominium law, or about the absence of effective procurement regulations in Bulgaria, there is a great deal of policy development and regulatory reform that needs to be done. **AID's support in this area should be expanded—especially at the national policy level.** Private investment is not likely to take place if it takes three years to free up a piece of land for development, or two years to get a building permit. Supporting public/private partnerships is a good way to get local government to identify and help alleviate these constraints to effective action.

Promoting Technology Transfer and Expertise from the U.S.

This objective is being addressed in two ways: (a) through technical assistance and training to professionals in the real estate and housing development sector; and (b) through the promotional activities of organizations like APHBI and EERPF. U.S.-based suppliers are at a distinct competitive disadvantage compared with Western European suppliers who can more readily access the Eastern European market. The exceptions may be in the area of information technology for the real estate, construction, engineering, architectural and facilities management professions. While this type of technology transfer may eventually be more pertinent, the

program has focused, correctly on U.S. study tours for contractors and APHBI and EERPF activities.[5]

Supporting Demonstration Projects

The risk of demonstrations is that many times their success rests on inputs that cannot be replicated (e.g. extensive financial resources or imaginative and energetic leaders), or on other unique local circumstances. In the cooperative demonstration project in Zory, Poland. The careful integration of project elements seems to be producing an effective process and development package designed to encourage duplication. Demonstrations such as this can have a high return, but also run a high risk of failure until they are completed. Zory cannot be declared a success, or cost-effective, until it is replicated. Careful project selection for future projects—particularly those using housing guarantees in Poland or those supporting public/private partnerships (Lagymanyos in Budapest)—is therefore critical to addressing this objective in the future. The difficult questions are: (1) what are the "barriers" to the private sector spontaneously taking the project up? (2) what is this demonstration trying to overcome? (3) how many replications would it take for the demonstration to be cost effective? Project selection criteria therefore should include, assessment of the relevance to public policy, a thorough cost analysis, and assessment of whether the activity is undertaken by the private sector in other countries.

2.4.2 Program Successes

It is difficult to assign the majority of private sector activities to unambiguous categories of success or failure. Because of delays in initiating the regional contracts, a time consuming search for client organizations and long project lead times, many projects are only now getting started (e.g. APHBI, EERPF, rehabilitation demonstration in Bulgaria).

With a strong start-up and a committed staff, the APHBI program in Gdansk appears to offer considerable promise as a field-based vehicle for a variety of information, training and technical assistance activities. Other program successes include

- Identification and analyses of private sector opportunities and needs in each country;
- Well received first-round training programs in the construction, development and real estate sectors;
- Technical assistance and training provided to various professional associations--e.g. Association of Entrepreneurs (Slovakia), Contractors Association (Czech Republic), Bulgarian Builders Chamber of Construction (Bulgaria);

[5]Such technology transfer would therefore not exceed the legislative limitations on the transfer of U.S. jobs to other countries.

- Preliminary identification of prospective developments to receive construction and mortgage financing under the HFP in Poland;
- Initiation of two cooperative demonstration projects in Poland.
- Local government commitments to pursue public/private partnerships aimed at developing the Lagymanyos industrial district in Budapest.

Finally, a large part of the overall success of various training activities may be attributed to the responsiveness of AID to the perceived need for access to up-to-date technology, systems and technical skills.

2.4.3 Lessons Learned

Problem areas in the delivery of private sector assistance tend to fall into three categories: sector overlap, program management, and performance/timing. The sector has been difficult to define because of the diversity of clients and activities, and because successful private sector activities often require housing finance and/or local government activities as well. Undertaking projects helpful to the private sector are likely to require an ability to deal effectively with local government on land management issues or geographic information systems, for example. In other cases private sector assistance may require providing technical assistance to the financial sector in the area of bank training for project selection and underwriting. Depending on the project, contractors working in different subsectors may share potential clients as they work out municipal development strategies or assistance programs for developers and real estate professionals.

Many of the complaints heard by the evaluation team from clients and beneficiaries derive from the **lack of follow-up support**. Because of the demand-based approach for providing assistance, many early activities were defined as short-term without reference to how they fit into a long-range, strategy that would receive continuous field support. Further more the clients' expectations were not always committed to writing, with the result that projects were developed around an ever changing set of criteria. Many clients said they felt they had been left hanging, either after the initial assessment (Gdansk Technical University), or after the first round of technical assistance or training (Association of Entrepreneurs in Bratislava). The lesson is that contractor activities need to be planned with reference to sector and country strategies, and with reference to specific follow-up support (such as that now offered by APHBI, for example).

Though rare, the instances of non-performance or delayed performance create visible credibility problems for AID assistance programs. Examples, primarily with regard to computer products, include significant delays in delivering MLS computer hardware/software in Budapest and property management software in Prague 6. The assistance offered in these cases was appropriate, but the technical, time and cost requirements for that assistance or the availability of technical assistance providers were severely underestimated. A clear *written* specification of the technical requirements, products, purposes and performance expectations at the beginning of the projects would have minimized the problems encountered. In all fairness it must be said

that a number of clients have themselves changed their minds or raised their expectations about the product or assistance being delivered (Prague 6). AID should assess its ability to deliver on procurement before making commitments.

As noted it should be recognized that not all newly formed associations or organizations will last. Among the characteristics that appear most useful on an a priori basis for distinguishing the potential "winners" among prospective clients would be the following:

- A **clearly specified mission** or organizational purpose;
- An **independent structure** not tied to a narrow political position/profile, or not identified with a high-risk/extreme group;
- **Energetic leadership** with a long-term commitment to the organization;
- **Qualified technical staff** (substantively knowledgeable and able to learn);
- A **budget** (however meager) showing projected revenues and expenses (at least 1-2 years);
- A **commitment to change**, growth and constant improvement;
- An ability and willingness to provide **consistent administrative support**.

2.4.4 Recommendations

Private housing developers and housing markets are alive and struggling to grow in Eastern Europe, despite adverse economic conditions and the absence of construction and mortgage finance. Work should continue at two levels: "Macro" assistance is directed toward central/municipal governments and addresses national public policy, legislation and regulations; "intermediary" support is aimed at specific associations and organizations to build capacity, resolve problems in private sector development, and undertake training and conferences.

- **National/Macro level** (examples include work with ministries or with cities on regulatory issues/legislation; sector assessments, strategic plans and policy studies; housing policy development; and regulatory/legal support (central governments/municipalities)

- **Intermediary Support** (examples include work with professional associations; APHBI's training programs in Poland, EERPF's work with real estate groups); activities include institutional development and professional association support; skills development and training; public/private partnerships for development via municipal governments; banking support (project selection and underwriting); and information systems support (MLS/GIS/LIS)

(1) In order to provide maximum leverage, private sector assistance should be closely coordinated with housing policy, housing finance, and local government activities. There should be a strong focus on establishing the enabling environment.

AID should work with central and local governments, to establish the regulatory and administrative framework for private sector investment. This includes advising local authorities on preparing economic development plans (such as Lagymanyos in Budapest) or setting up public/private partnerships and facilitating reform of the permitting process. Although EUR/DR/H is not generally involved with non-housing real estate, the Lagymanyos case represents responsiveness to client efforts to develop comprehensive redevelopment plans. Finally, as well as working directly with the relevant authorities, AID could help strengthen the lobbying capacity of associations of private developers and contractors. Getting government officials and policy makers to listen is a very important part of the reform process.

As an example, private sector activities should be coordinated with local government and housing finance activities in areas where the professional expertise involved can be directly applied (e.g. information systems, land planning and development, project selection and underwriting). This coordination of resources for project-level assistance is especially important where a project is complex, involves both public and private sectors, and/or represents high visibility and high risk (e.g. Lagymanyos).

(2) Contractor activities, whether short-term or long-term should incorporate specific mechanisms for follow-up support.

Assistance plans for local government agencies, financial institutions and other private sector organizations should specify actions to be taken after first-round assistance to strengthen the recipient organization and help it grow. Without this, the benefits of short-term assistance may be lost.

(3) Where appropriate, the program should support intermediary institutions for leveraging and funneling support to local professional associations and individuals (e.g. EERPF and APHBI).

An assessment should be made as to whether APHBI could/should assume a regional role. Already, EERPF's preliminary visits to Poland, Hungary and Bulgaria suggest that a common regional framework is both feasible and desirable, because clients and beneficiaries in these countries face a similar set of constraints and opportunities. This approach avoids the difficulties of having to rely too heavily on somewhat fragile and unpredictable local organizations to carry forward training and technical assistance programs in the private sector. *It is sometimes preferable to let these intermediaries deal with the professional associations rather than AID directly.*

(4) Information systems support will become critical for both the local government and private sector components of PRE/H assistance.

Effective local government actions and private sector development rely on accurate data to guide planning and decision-making activities. In many cases, municipal governments are already committed to specific systems, but need assistance to expand their capabilities. For example, GIS applications for land use planning using U.S software can be developed and expanded in the more advanced cities like Gdansk, and then applied to other localities in Poland and other countries under a country-wide strategy. *The caveat is that software or hardware support should not be offered until and unless it can be readily delivered and supported by AID.*

2.5 Program Management: A Regional Overview

2.5.1 Management Context

Chapter 1.0 described the management structure initially designed for the program by the Europe Bureau and summarized the changes in structure that have occurred since early 1992. As noted, two types of changes are considered especially significant: (1) an increasing level of long-term field presence for both AID and contractor staff has continued to supplement the Washington-based structure; and (2) an increasing focus on country-specific, strategic planning and implementation has refined the initial demand-driven approach. This section provides further elaboration of the management setting and the recommendations for the future.

Three major contracting vehicles -- with the Urban Institute for Housing Finance and Policy; with the ICMA Consortium for Local Government and Privatization; and with PADCO for Private Sector Development -- were signed in the spring of 1992. Prior to that, AID had used a variety of its existing contracting mechanisms, beginning in late 1990. The three key contracts are managed in Washington; EUR/DR/H management is now organized by contract. These contracts are so-called RFS (Request For Services) contracts, which permit individual activities to get underway in a flexible and timely manner. EUR/DR/H worked hard to secure a contracting vehicle more responsive than the alternative IQC approach. Additional activities are funded though contracts with the American Polish Homebuilders Association and the East European Real Property Foundation.

Chapter 1.0 also described the economic, political, and social context in which the program must be managed. The context has presented difficult challenges, primarily regarding the political process of reform and the historical social viewpoints that argue against a private or fully market-oriented shelter sector. EUR/DR/H has often had to search long and hard for appropriate clients, only to have them removed from office in political shifts. In addition, since local governments are so integral to the decentralization process, they represent a crucial client group. Thus, the sheer number of potential clients is daunting. Finally, because AID's experiences have been with developing rather than transition countries, there has been no way to predict the vagaries of enacting policy reform. Without reform in policies regarding rents,

property rights, tenant rights, interest rates, condominium laws, local powers to raise revenue, and so forth, the programs cannot proceed as effectively as might be wished.

2.5.2 Management Successes

Taking this problematic context into consideration, a number of management successes can be noted for the program. Some of the positive features were inherent in the original structure; we conclude, however, that the more significant improvements have resulted from the modifications.

The liaison between PRE/H and the Europe Bureau has yielded substantive results. **Housing has been recognized as a truly cross-cutting sector.** Reforms in housing are seen not only fulfill the quality-of-life goal, but are now recognized to contribute to other goals as well. The AID representatives in Eastern Europe and EUR/DR/H staff have **integrated many aspects of the housing program** into the overall structure of their country programs. AID's housing and urban agenda is seen as complementary and welcomed in the Eastern Europe program. Examples of complementarity include the following: (1) progress in restructuring the overall financial sector will assist reform efforts in housing finance and vice-versa; (2) efforts to introduce proper pricing of rent, utilities, and interest rates joins the chorus for market pricing elsewhere; (3) efforts to assist in improving local government's management and financing of land, housing, and infrastructure projects joins other efforts in improving public administration; (4) environmental goals and land use and urban planning efforts can benefit from close integration; and (5) housing sector reform will enhance labor mobility.

EUR/DR/H has made **important mid-course corrections in program management. It should be noted, however, that the concept of long-term PSCs and consultants was included in the program from the beginning. Apparently, approval for placing them was not immediately granted by the Europe Bureau Coordinator's Office. EUR/DR/H has been persistent in its efforts to implement this structure.**

Thus, the program is definitely moving in the right direction with regard to **field presence**. A senior field director was stationed in Warsaw in mid-1992 to implement the program in Poland and Hungary. The enhanced field presence has received accolades from clients, local senior professionals, and contractor staff. A major client in Poland, for example, feels that the Housing Finance Project was in extreme disarray and greatly needed the assistance it received from AID's field director to "put things together". Similar comments have also been made with regard to the beneficial impact of AID field direction in Hungary.

PSCs are expected to arrive in Poland, Hungary, Slovakia, and the Czech Republic during 1993. Furthermore, discussions are now being held regarding placing another direct hire in the region; although the duties for this person are not yet finalized, any number of options would address high priority needs (e.g. assist the field director, act as "roving" advisor).

Two long-term consultants have recently arrived in Poland: an experienced city manager has just arrived in Krakow, Poland's first city to adopt a city management structure; and a housing advisor has just arrived in Warsaw to assist in formulating and implementing the policy agenda. It is our understanding that additional long-term advisors are being sought for Poland to assist in implementation of the Housing Guarantee program. A medium-term housing finance advisor is also under consideration for Bulgaria.

Country-specific strategy statements were prepared during the fall of 1992 (they are presented for reference in Annex 2). Revamping the strategic approach was another determined effort on the part of EUR/DR/H to refine the demand-driven approach initially specified for the program. Thus, although we consider that these statements are long overdue from a substantive perspective, the initial options for EUR/DR/H were limited. (As noted, EUR/DR/H was not permitted to conduct field assessments early in the program in order to refine the general strategy set forth in the Green Paper). In any event, although we recommend that even more fine-tuning be done, the revised approach is nevertheless an important advance in clarifying short- and intermediate-term objectives in the key program areas. **The strategic approach forms the basis for bringing a longer-term outlook to program planning and to implementation of the RFS process.**

The RFS contracting mechanism has allowed flexible and timely assignment of teams to the field. This is an improvement over the IQC alternative. Although there are lessons to be learned with the RFS mechanism -- in particular, the contractors feel that the medium- or long-term scope of ongoing activities has not always been made clear (when a given RFS is only small part of the overall task) -- this is more a criticism of the management of the RFS than of the mechanism itself.

Finally, with regard to local management, the **local representatives** established by the Urban Institute in Hungary, Bulgaria and the Czech Republic are well regarded by local and central government. Many of the senior government officials we met said that if they had a problem their first point of contact would be these local contractors. This suggest that a renewed search be undertaken in Poland.

2.5.3 Lessons Learned

(1) The initial program management structure as defined by the Europe Bureau was not adequate for strategic management in a complex policy environment. It proved extremely difficult to manage the program entirely from Washington.

There are four main arguments for enhanced field presence: (1) without a great deal of sensitivity to local context, it is difficult either to assist in policy reform or to help local clients define or prioritize their needs; (2) without policy reform, many (most?) aspects of the program will eventually be stymied; (3) without EUR/DR/H presence, contractors have became "de facto" field managers, sometimes confused with "AID"; and (4) without a strong structure for country-to-country information flow, communication suffers and the wheel is re-invented.

In effect, in Hungary, the Czech and Slovak Republics, and Bulgaria, Urban Institute/local firm "teams" have provided much of the field management. A contractor/field manager was explicit in Bulgaria. Fortunately, the contractor/local teams have done an effective and competent job. This is somewhat serendipitous, however, for the following reasons:

- AID rather than the contractor should establish clear authority (unless there is some explicit agreement to the contrary). Because of turnover in PRE/H staff, and despite extensive travel by a few people, it has been difficult to be in the field constantly. Thus, there has been some confusion as to "who is AID". A "higher ratio" of AID/contractor field management should be the intended model.

- Contractors will tend to do what they do best. As a result, the program did not always cover all the bases. AID presence, an earlier opportunity to develop the strategy papers, and, as we recommend below, country backstopping, might have resulted in a broader approach in some countries.

- Local firms are vital to the implementation process (see lesson two below). However, in cases where there is some reason to involve one group rather than another, or not to involve a local professional at all, AID presence may be needed to make these decisions.

It should be noted that Poland has been a special case from the beginning. The Poland program was initially dominated by the World Bank's HFP (Housing Finance Project). The office for this program (HFPO) served as the focal point for program development. It was headed by Jan Brezski, now Vice Mayor of Krakow and a EUR/DR/H consultant. AID provided the technical assistance for the HFPO (which was largely funded by Japanese Trust Funds). Although this structure seemed to work well in the early days of the program, the HFPO deteriorated due to internal conflicts and local political turmoil. The result was that prior to the arrival of the field director, both the HFP and much of rest of the EUR/DR/H program in Poland were in disarray. Follow through suffered and, for additional reasons noted below, the local government program was not in full force. Currently, these problems either have been addressed, or are in the process of being rectified.

(2) Major improvements have been made to the original structure. However, the current situation of split lines of authority between Washington and the field seems less effective than a clear structure of field presence for all countries in the region.

Regional cross-fertilization could provide tremendous leverage to program successes. Local governments, banks, planners, and developers are extremely keen on learning from each other. However, good field coordination is required.

Many of our discussions suggested that clients were not always aware of other AID activities within their own country; cross- country knowledge was very limited. *Invariably, the countries*

seem to think they face uniquely intractable barriers; in fact, however, the transition experiences have strong similarities. Hopefully, the PSCs will assist in enriching the program through (1) increased cross-regional communication and conferences; (2) cross-regional sharing of documents, methodologies, and training curricula; and (3) sharing of experiences between the "early graduates" of the program those remaining for a longer period (see recommendation 3). All of these suggestions seem obvious; yet, because of the very large number of activities which have taken place in the field, not enough of the program is able to be reviewed for its regional implications and/or actually gets shared.

2.5.4 Recommendations

(1) As the program continues to evolve, a field management structure and country-specific management in Washington are recommended.

We have argued above for a consistent field structure across the region. We also suggest that the Washington management function be organized by country rather than by contract. We realize that PRE/H has debated at length the pros and cons of country versus substantive management in deciding on a structure for NIS. We are not advocating contractor assignment by country but rather management/backstopping by country. This structure would be better able to support the country-specific strategies now in place. Also, the country "champion" would seek the resources needed to implement the strategy from whatever contracting vehicle was most expedient. It is our understanding that the contracts are written broadly to allow flexible response.

The Washington management function is particularly important given the structure of the overall Eastern European program. As noted above, because of particular features of transition economies, there are strong payoffs to both EUR/DR/H and the Europe Bureau in maximizing the integration between the housing program and other Europe Bureau efforts. This, too, seems a country-specific task.

The one-time-only type of short-term technical assistance is now of relevance only under limited circumstances. Long- or medium-term assistance, including "repeat" short-term visits, will best support "strategic country visions". Day-to-day, much of the activity would best be planned and coordinated through a field management structure.

Finally, in the long-run, **EUR/DR/H will be managing a two tier program.** The different economic and social situations of different countries in the region will have an enormous impact on the manner and speed with which they will make the transition to market economies. Similar differences exist with regard to the variables of greatest concern to EUR/DR/H: the extent to which the housing stock is state-owned, the severity of the housing shortage, the extent of decentralization of government functions and powers, the level of median income, the rate of inflation, the sophistication of the banking sector, and so forth.

These differences are of great importance in shaping both the content and the expected time line of the program in different countries. For example, housing shortages are most crucial in Poland; rehabilitation is especially important in Bulgaria, but privatization is not; the relatively low rate of inflation in the Czech Republic suggests that lending could be encouraged with less need for complicated mortgage instruments.

Thus, although the eligibility criteria have not been explicit stated, it is assumed by some that the Czech Republic will graduate from the AID program by 1995. Hungary may be on the same schedule; Poland might be considered slightly longer-term, but all three countries are aiming for an association with the EEC by the year 2000. However, Slovakia, Bulgaria, Albania, and Romania (and other countries in the region) face a much different horizon. More traditional development issues face these countries at the same time that they are struggling with transition.

We recommend that a strong field presence be planned for the "long-term" countries. This structure should be established as soon as practicable in order to utilize to the maximum extent the learning experiences from the "early graduates".

Finally, as part of this more strategic approach to the management of the programs, a **more effective reporting system** has to be established. Reporting has been weak in some instances. One contractor told the team that he had sent 45 reports and memos to Washington for comment and had only had comments on 5 of them; this is a problem of the reporting structure relative to management capacity.

(2) Adopt a revised approach to country strategies and indicators.

The strategies should be regularly updated, should establish intermediate milestones, and should closely relate to "big picture" goals. The indicators should include **intermediate outputs**; often, these relate to institutional and legislative progress, and client associations, rather than quantifiable targets. **Clients should be involved in reviewing the strategies:** it would enhance both their understanding and their commitment.

The AID representatives and clients alike need better "road maps": reps to stay informed and clients to become invested. As an example, the Bulgaria representative opened the meeting by showing the team the program's "list of accomplishments". His point was that these accomplishments were at best very intermediate outputs -- not a house had been constructed nor a mortgage issued as a result of these accomplishments (and 51 visits by consultants and EUR/DR/H staff to Bulgaria). He urged the long-term advisor, for whom he had considerable praise, to give him a clearer picture of what types of outputs might be achieved and of the process by which those outputs might be achieved. **The major accomplishments may not, in fact, be countable, but rather policy victories.** We would add that the goals and indicators

themselves have to be redefined to reflect several stages, especially in countries like Bulgaria where progress is not likely to be rapid.[6]

Thus, several differences exist between the strategic objectives and indicators as they now exist for the program and our modified approach. The revised approach should include more "intermediate" milestones and final outputs. There may be a number of distinct intermediate stages. These **transitional objectives** are very likely to include institutional, legal, and administrative changes. These changes, some of which are very difficult to assess, are often the most important steps on the way to achieving quantifiable outputs (such as mortgage activity or privatized units). Finally, several branches of an objective tree may feed into the same final objective. In the case of housing finance, for example, it may be useful to separately identify branches for institutional reform of state savings banks, identification of new institutional lenders, development of technical documents and instruments, and modifications to the legal infrastructure.

In addition, both the objective trees and the logical frameworks for each component in each country could be prepared collaboratively with the counterparts. Both are good devices for obtaining commitment. The basic tools are well known to AID staff. All are trained in the logical framework and many use objective trees, particularly in the preparation of country strategies. There is a long literature on the indicators themselves. The World Bank is now undertaking a housing indicators project. However, most of them are more suitable as long range quantifiable targets. It is necessary to devise **special indicators for transitional economies**, many of which will indeed be institutional of legislative.

[6]More detailed statements of objectives could be specified in the form of an objective tree. The objective tree, or trees for each component of the program in each country, would work backward from whatever is decided to be the final objective through the progressively lower level objectives that need to be achieved along the way. Each lower branch answers the question "how to achieve" the objective of the higher branch. Such an objective tree would feed into the preparation of logical frameworks for each program component in each country. Taken together, the objective trees and the logical frameworks would provide "maps" for the AID representatives, counterparts, and EUR/DR/H managers.

3.0 OVERVIEW OF THE COUNTRY ANALYSES: BALANCE AND PHASING OF PROGRAM COMPONENTS

3.1 Introduction

The analyses of each country's program are presented in Chapters 4.0 through 8.0. This overview summarizes the main components of the country programs and, in light of the country's specific context, comments on their appropriateness, balance, and timing. It also tries to view the urban program from a broader development context.

EUR/DR/H posed the following questions to the team:

- Is it necessary for AID to be active in all or most of its components at the same time in each country? That is, are successful outcomes in housing finance, local government, and the private sector highly dependent on successes in each?

- In light of economic and political conditions, and particularly the main problems facing the urban and housing sector, does the country's housing and urban development strategy seem to address the appropriate issues? For example, how might activities differ for Poland, which faces a more severe housing shortage than elsewhere? for Bulgaria, where privatization of social housing is a lesser problem? for the Czech Republic, with the most stable (and advanced) economy?

Coming to grips with these questions has been extremely difficult. While we have a number of "opinions" based on the evaluation, addressing such questions begs for a more theoretical framework for addressing the overall program for the housing sector.

Our arguments can be summarized as follows:

- **Balance** is an extremely important concept in the macro-economic restructuring of transition economies. Kornai notes the **"necessity of simultaneous changes in macro-policy, economic control, and property relations;"**[1]

- Both **fiscal policy** and **financial sector development** are crucial elements of the overall macro-economic development program. As a consequence, **housing finance and local government programs become crucial inputs** because of their strong links, respectively, to financial/capital markets and fiscal responsibility/ revenue generation;

[1]See Janos Kornai, The road to a Free Economy, p. 163.

- **Privatization of the public housing stock** may be the most important link between housing finance and local government activities, depending on the approach that is chosen for privatizing. In other respects, however, the housing finance and local government programs can proceed independently;

- **In contrast, the private sector is not a component that needs direct technical assistance**; the private sector will benefit most from the development of an enabling environment in terms of housing finance and local government reform. Thus, a mortgage finance system will be a far more powerful tool than a new building technology in the development of the private sector construction industry.[2]

- **Policy reform** is the most important single activity that should be addressed. Admittedly, this has been a slow process in many countries and some efforts have been stalled. Thus, EUR/DR/H is correct in also focusing on **"visible" programs**, such as substituting demonstration programs at the local level when progress at the national level is blocked. Visible success may be critical in helping to sustain policy reform.

- **"Balanced" programs** in housing and urban development are generally called for in all countries, in part because the broad context issues are so similar: that is, after transition, local governments everywhere inherited new fiscal responsibilities; no country had a housing finance system; and no country had a viable private construction industry. **Sequencing, or phasing, however, will vary greatly across countries**, largely in response to the rapidity of policy change and the ability of the country's institutions to absorb "big bang" levels of assistance.

3.2 Urban Development in Transition Economies

The Context of the Eastern European Program. Previous chapters have described the demand-driven approach specified by the Europe Bureau for the Eastern European program. It might be said that if there really had been a long-lived, demand-driven approach to the program, then questions regarding balance and phasing are not relevant. Under a strictly demand-driven approach, the type and sequencing of client requests would clearly determine program structure.

In fact, however, EUR/DR/H appeared to conclude early in the program that the application of the demand driven approach would not necessarily result in a balanced or appropriate program. As noted in Chapter 1.0, it was difficult for the majority of clients to

[2]See Bertrand Renaud, "The Housing System of the Former Soviet Union: Why do the Soviets need Housing Markets".

select particular programs because they did not sufficiently understand the market oriented context in which the "menu" was grounded. Rather, the early program was probably "supply driven", as consultants tended to offer their own particular areas of expertise (which, in retrospect, provided an effective approach in the majority of countries).

In any event, EUR/DR/H's approach became increasingly strategic; thus, worrying about the development model is important. (It is especially relevant to the "second tier" group of countries who will remain in the program for the longest period and who combine traditional development problems with those of transition.)

Searching for a "model" to help sort out answers to AID's questions for the urban sector leads straight to some of the debates that for decades have concerned the development paradigm:

- is economic development best fostered by balanced programs or leading sectors?
- what are the macro-economic relationships between the housing and urban sector on the one hand and the financial, fiscal, and real sectors on the other? Why is the urban sector important to development?

To these "traditional" questions must be added the unique development challenges posed by transition economies. **When assistance began to the former socialist economies, the debate about balance was renewed in a different context. It also took on the additional dimension of the "big bang" versus gradual evolution approaches.** This last issue has both an economic and an institutional dimension: (1) Is it necessary to undertake basic reforms (in prices, spending, regulations, ownership, etc.) all at once to overcome structural, fiscal, and monetary imbalances? (2) If so, is the absorptive capacity of the relevant institutions such that simultaneous reforms can be realistically undertaken?

For transition economies, **balance** does, in fact, seem imperative to the overall development process. Kornai notes the **"necessity of simultaneous changes in macropolicy, economic control, and property relations."**[3] Also, the nature of the relationship between the urban/housing sector and macro-economic development may be even more crucial in transition economies than in traditional development settings. For example, the important **multiplier effects** of construction on the economy cannot be fully realized without a system of housing finance. Second, the impact of the constraints on **labor mobility** imposed by the "frozen" housing markets is considerable.[4] Third, the importance of the **fiscal drain** on local governments, as a function of its newly acquired ownership of the housing stock, cannot be too greatly stressed. For example, prior to the transfer of ownership of the public stock in Poland,

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[3]See Janos Kornai, The Road to A Free Economy, p. 163.

[4]See Mayo and Stein, "Housing and Labor Market Distortions in Poland: Linkages and Policy Implications."

it was estimated that housing subsidies counted for 5 percent of GDP.[5] This burden has simply been shifted to the local level, with potentially dire consequences for both local finances and the future condition of the stock.

What does this urban/macro relationship suggest about priorities among the three main components of the EUR/DR/H program? Essentially, both the review of the literature and the findings of the evaluation concur strongly on one point: the over-riding importance of two of the three main components, **housing finance** and **local government**. These two elements are **crucial to the process of urban development and, in turn, most closely linked to macro-economic performance through the important roles played in transitional development by the financial sector and by improvement in fiscal condition.**

As a result, one finding regarding balance and priorities is that local government and housing finance programs might, in general, take precedence over direct private sector interventions. **A mortgage finance system will be a far more powerful tool than a new building technology in the development of the private sector construction industry.**[6] The corollary is that **indirect assistance** -- the removal of regulatory and other barriers to private development and assistance to local governments in facilitating delivery of land and housing -- is the suggested approach to the private sector.

Is there any reasonable way to become more specific? to delineate priorities **within** the general areas of housing finance and local government, particularly with regard to individual countries (or types of countries)? Our main suggestion would be to **concentrate first on policy reform,** no matter where. One of the key assumptions which led to the demand-driven program was that Eastern Europe has very skilled people. This is perfectly true, but they have been more or less isolated from the market concepts -- the "enabling framework" -- for decades. Some countries were more isolated than others and this may greatly impact the timing of their reforms. **This policy-based approach is exactly what EUR/DR/H has now done in nearly all instances** (a few gaps are noted below). Thus:

- For housing finance, policy reform is indeed crucial. **AID has covered all the bases (interest rates, subsidies, institutional roles, property and ownership laws, etc.).** It remains to introduce these concepts in several more countries.

- **Rent control** is another key aspect of policy reform. However, it has been pointed out that "rapid rent increases may not be the shortest political path to market reforms."[7] The experience to- date in Eastern Europe corroborates this

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[5]See Renaud, "The Framework of Housing Reform in Socialist Economies."

[6]See Renaud. This prioritization was made in reference to the Soviet Union, but we believe it also holds for Eastern Europe.

[7]See Renaud, "The Housing System of the Former Soviet Union: Why do the Soviets Need Housing Markets?"

problem. Thus, depending on the circumstances, property rights may be a better "first place to push", especially if rent reform is stalled.[8] **AID has also effectively introduced pilot projects which sidestep policy barriers at the center.**

- For local government, making the important development link to reform of the **fiscal sector**, reiterates the recommendations elsewhere to **emphasize financial management and resource mobilization** as well as the other local government activities.

- Ultimately, **privatization of the social stock** will be crucial to the goal of developing a private real estate market. Although we note elsewhere that this is likely to take some time, assistance to local governments in management of this asset is very important to their fiscal health. Under the program, this type of assistance already includes (1) formulating long-run strategies and (2) increasing efficiency in management by promoting private provision of services. Again, not all countries have adequately addressed the issues.

- With regard to **phasing** of activities within a program component, the strategy statements already denote short- and medium-term objectives. As argued elsewhere, this could be placed in even longer-term perspective (for example, as suggested by the HG design for Hungary).

The next section very briefly summarizes the context and program profile in each country. The context variables of interest include the obvious ones: level of income, rate of inflation, housing shortage, the structure of the financial sector, percent of the stock publicly owned, condition of the stock, and so forth. Less able to be measured, but equally important, are the relative isolation of the country during the socialist period and the relative sophistication of its institutions. As we have noted, the economic and social differences among the countries in the region are now becoming more apparent than ever with regard to some of these variables. Thus, even if the desirability of some degree of balance holds for nearly every country, the timing of reforms and the number of activities that can be introduced at once, must differ.

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[8] These reforms include strengthening ownership rights; conversion of permanent and guaranteed tenant rights to fixed-term, renewable rights; and providing condominium laws and procedures. See Renaud...

3.3 Overview of Country Strategies and their Responsiveness to Context

3.3.1 Poland

The Program Context. Poland is by far the largest country in the region in terms of both population and area (see Figure 3.1). The distribution of the urban population is broad: Poland has several large urban centers outside Warsaw and a very large number of secondary cities. About 20 percent of the stock is publicly owned; as in the other countries, this is an almost exclusively urban phenomenon, where a much greater proportion of the stock is, on average, public. The housing shortage is estimated to be 1.5 million units, making this problem relatively the most severe in the region.

The monetary and fiscal situation in Poland has serious consequences for both housing finance and resource mobilization. Despite a target for the fiscal deficit of 5 percent of GDP during 1992, it rose instead to 8 percent. Thus, the central government is less able than ever to assist the local level; competition for resources between competing levels of government is likely to become a more serious issue. Inflation, after several years at runaway levels, has gradually declined, and was estimated to be about 45 percent last year. Finally, there is some hope that Poland is about to reverse the negative rate of growth in GDP.

Summary of the Current Program. Poland, because of its size, number of urban centers, serious housing shortage, and the sophistication of its institutions, can and should undertake numerous activities in all components of the housing program. It is planned that Poland will ultimately receive about one half of total program resources. (It has received over one third of expenditures to-date. See Annex 1.)

The current program in Poland has been strong in two of the three program components: housing finance and private sector activity. As already noted, the housing finance program will become a model for the region. Lending is expected to be underway this summer, culminating two years of productive technical assistance by AID. The inflation/affordability barrier has been breached with introduction of the DIM (which, as noted, would never have emerged without intervention). Similarly, other efforts in policy reform have been persistently pursued; however, rent reform and the condominium law are still not realities.

A great deal of progress has also been made in assisting the private sector, through both training and assistance to "intermediary" institutions, such as APHBI, the Krakow Institute of Real Estate, and the FSLD. Also, assistance to private developers seeking construction finance loans under the HFP has constituted an important aspect of the private sector/banking program.

Figure 3.1
Summary Economic, Housing and Privatization Characteristics
for Eastern Europe (1990-1992)

	Country					
	Poland	Hungary	Czecho-slovakia	Bulgaria	Albania	TOTAL
General Economic Characteristics/1						
Population (millions 1992)	38.4	10.3	15.6	8.7	3.1	76.1
Pct of Region	50.5%	13.5%	20.5%	11.4%	4.1%	100.0%
Area (000's km2)	323	93	128	111	29	684
Pct of Region	47.2%	13.6%	18.7%	16.2%	4.2%	100.0%
Real GDP % Change 1991	-7	-10	-16	-23	-30	(17)
1992 (est)	-2	-5	-8	-8	-11	(7)
Unemployment 1991	11.8	8	6.6	10.4	5.1	8
(Pct of Labor Force) 1992	14	12	5	15.5	na	9
Pct Change in Retail Prices/2 1991	70	35	59	334	36	107
1992	45	23	11	100	200	76
General Housing Characteristics/3						
Total Housing Units (000's) 1991	10,937	4,000	5,992	2,833	na	23,762
Govt Owned/4 (000's)	2,078	800	1,438	255	na	4,571
Pct Govt Owned	19%	20%	24%	9%	na	19%
Avg Rent as Pct of Income 1991	3.5	4.5	2.4	4.5	na	3
Rent Inflation/5 1991	55	35	100	870	na	212

1/ Source: European Bank for Reconstruction and Development
2/ Annual average
3/ Source: The Urban Institute, "Progress in Privatization: Transforming Eastern Europe's Social Housing" USAID Paper, April 1992
4/ Government owned at the start of privatization
5/ Increases in space rent only -- excluding utilities

Simultaneously addressing both the housing finance system and training of the private sector should have a very salutary impact on private construction. This seems an appropriate approach to the housing shortage. In fact, the general observation above that direct assistance to the private sector is of secondary priority may not hold in the Poland/HFP context. Thus, in both housing finance and private sector activities, enabling frameworks have been set in place which will support reform efforts long after Poland's graduation from the program.

The **local government program**, however, has experienced significant delays. Although useful activities (primarily in training and property tax development) have been undertaken, a concerted and strategic effort in a reasonably large number of cities is just now being planned. (The reasons for this were discussed in Section 2.2. In general, AID must take a fair share of the blame for the delay because of contracting problems. In Poland, however, the delay problem was magnified. In any event, although a strategic plan for local government is now completed, most long- and short-term assistance is not yet in place.

Given Poland's context, what impact has the delay in local government activities had? **There are two particularly important gaps: privatization programs (or demonstrations) and local resource mobilization/fiscal planning.** Given the large number of urban centers that will have to deal with privatizing a substantial amount of stock, it is unfortunate that this aspect of the program is not already underway. Also, assistance in planning/asset management would presumably have helped address (or at least understand) pressures on local budgets.

Does the delay in local government impact the other components? In the case of housing finance, probably not. With regard to the private sector, however, it seems likely that if more activities had taken place in land and infrastructure development, the greater would be the opportunities for developers and contractors.

3.3.2 Hungary

The Program Context. Hungary, like the Czech Republic and Poland, is expected to be one of the program's early graduates. Despite serious economic problems, its "vital statistics" seem to be pointing in the right direction. An absolute decline in GDP and high levels of inflation have not been overcome, but at least have been arrested.

Hungary faces a number of problems in the housing sector. Nearly half the housing stock in Budapest is publicly owned; the proportion is much lower in out-lying areas, however. Although construction has fallen sharply, the actual shortage is not as severe as that in Poland.

The policy reform context has not been uniformly promising thus far. There is, as yet, no overall housing policy, and responsibility for various aspects of the sector resides in several ministries. However, as in the Czech Republic and Poland, Hungary's institutions are sophisticated, and the design of the new Housing Guarantee program attests to the reform prowess of the Minister of Finance and Central Bank.

Summary of Program Activities. The housing and urban program in Hungary has, in fact, been quite balanced, with programs proceeding in housing finance, local government, and the private sector.

As has been noted, a **HG program in housing finance** is in the last stages of design; work is already underway in mortgage design, subsidy policy, credit risk, and institutional structure. The HG design also calls for addressing the long-term nature of the overall system.

Local government activities have focused heavily on **privatization** and related activities including housing allowance and rent policy (an approach to which will be tested in the Szolnok demonstration project); privatization of management; and asset management. Participatory urban planning at the local level has also been a theme.

Finally, private sector work has included policy development with the Ministry of Industry and Trade, training in condominium organization, and multiple listing work with the National Real Estate Federation.

Overall, the program in Hungary addresses the general problems facing the housing sector. Additional activities in local government (land, municipal financial management, and so forth) might be introduced, however, as an additional way of strengthening capacity to deal with privatization as well as fiscal issues and development.

3.3.3 The Czech Republic

The Program Context. It has been noted that on the economic front, the Czech Republic has shattered expectations. Inflation is by far the lowest in the region, the central budget is in relative balance, the external debt is low, unemployment is relatively low, and the workforce is highly skilled. Industrial privatization has been a priority and the inflow of private capital is substantial.

It is difficult to obtain separate data for the Czech and Slovak Republics, but the good news appears to be centered in the Czech portion. The Czech Republic will probably be the first to graduate from the AID program, possibly by 1997, and hopes to join the EEC by the next century.

With regard to reform of housing policies, however, the results have been as halting as in the other countries in the region.[9] Rents are only being increased very gradually and, as noted elsewhere, after two years of effort the condominium law is still not in place. A substantial portion of the stock is held publicly or by state enterprises (38 percent overall and 61 percent

[9]See Kingsley, Tajcman, and Wines, "Housing Reform In Czechoslovakia: Promise Not Yet Fulfilled".

in Prague). However, despite a fall in production, there does not appear to be a serious housing shortage.

Summary of Program Activities. The program in the Czech Republic has focused most intensely on housing policy, housing privatization, municipal/infrastructure finance, and other local government issues. A design for a housing allowance system is under consideration along with the condominium law. Both privatization of units and privatization of management services have been completed in 2 Prague districts. In addition, assistance in zoning, master planning, and land management have been addressed. Finally, as has been noted, a major Housing Guarantee program in infrastructure finance is nearing implementation. Numerous local governments have been studied with regard to this program. The private sector is also being assisted through various associations of private contractors, realtors, and developers.

However, due to decisions taken by the AID representative, there has been no program in housing finance. Apparently, the rationale was twofold -- lack of progress in policy reform and, that in a program which will be scaling down the number of activities fairly soon, municipal finance was of higher priority than housing finance.

Is there some aspect of the Czech context which suggests a strong local government/municipal approach, leaving housing finance to evolve on its own? While it is clear that the evaluation team also regards efforts in municipal management and resource mobilization to be extremely important, **we argue that some way should also be found to at least introduce the "big picture" concepts to housing finance clients** who will champion reforms in the future. In fact, the context is a highly appropriate one in which to make progress in housing finance.

Housing finance, because it is an important component of a balanced macro-economic development strategy, would be an important addition to an economy that is advancing fairly rapidly. As detailed in Chapter 5.0, the basic framework for housing finance could be introduced quite readily: the financial system is relatively well developed; the state savings bank is not likely to be any more conservative than those that AID is already working with successfully elsewhere; and inflation is relatively low. It would be expected that housing finance could "take off" fairly quickly on its own once the enabling environment was put in motion.

In summary, the argument is not that there has to be balance between local government and housing finance, but that housing finance plays a crucial role in stimulating the private sector and is important to overall development policy.

3.3.4 Slovakia

The Program Context. As noted above in the discussion for the Czech Republic, the "economic good news" seem primarily to be centered there rather than in Slovakia. In general, the split may pose problems for Slovakia's economy and institutions for a long while. Slovakia inherited agriculture and military manufacturing capacity rather than a more forward-looking

industrial sector. Although we do not have accurate information, unemployment is reported to be higher than in the Czech Republic. Per capita income is lower.

A major loss occurring as a result of the split may be the relative sophistication of the financial institutions in Prague. The more limited banking and financial center in Bratislava is likely to impact the speed of introducing housing finance reforms. Reportedly, a more conservative attitude towards policy reform also prevails in Slovakia.

Summary of Program Activities. To some extent, the programs reported above for the Czech Republic are also relevant to Slovakia. AID has estimated that about 40 percent of the total assistance to Czechoslovakia benefitted Slovakia, either directly or indirectly. Thus, overall the program also focused on local government, policy reform, and the private sector. We assume that the HG infrastructure finance program, however, is located only in the Czech Republic in the immediate future. Similarly, since much of the privatization program focused on Prague, this is also not as well developed in Slovakia. Finally, as for the Czech Republic, there is no program in housing finance, although apparently there have been recent inquiries on this subject.

We suggest that both **privatization** and **housing finance** be introduced into Slovakia. First, with regard to privatization, there is substantial public housing in Bratislava which could benefit from technical assistance in management, services and strategic planning for the privatization process. AID is now responding to this issue. Second, some of the arguments with regard to housing finance are the same as those for Czech; others are not, however, because the context is quite different.

AID's country strategy for Slovakia stresses development of the financial sector. Introducing a housing finance program is supportive of that overall goal (as well as supportive of the private sector as we have argued throughout this discussion). That said, the phasing in Slovakia is likely to be far different than in the Czech Republic. Given the more nascent state of the financial sector, the lack of capital, and the unlikely prospect of a HG in the near future, it may take considerable time before appropriate clients are developed and an actual lending program in place. This suggests, however, beginning an appropriately modified program now so that the program has ample time to evolve.

3.3.5 Bulgaria

The Program Context. Among the countries visited during the evaluation, Bulgaria is by far the poorest and least developed.[10] Unemployment is high and apparently increasing, and inflation appears to be at runaway levels. We were told that no HG program is presently possible because of the debt situation.

[10]Albania is actually said to be the poorest country in the region.

Like the other countries in the region, there is no functioning system of housing finance. Furthermore, the banking sector is the most tenuous of those examined by the team. The World Bank is currently carrying out a program to restructure the entire system, including consolidating numerous small "banks" into institutions of more viable size. Interestingly, however, the State Savings Bank has shown interest in introducing a market-based system of housing finance.

Next to this fairly dismal economic context is at least one positive statistic on the housing side: only about 10 percent of the stock is in public hands, which reduces the dimensions of that particular management and fiscal problem. However, the stock is nevertheless in severe disrepair, so that lending for upgrading would be a high priority.

Summary of Program Activities. The program in Bulgaria has focused particularly on housing finance and also on housing policy reform, and private development. In housing finance, Bulgaria has its own version of the dual indexed mortgage, and has made progress in legal and implementation issues, such as underwriting and servicing. In local government, several activities have been undertaken, including agreement regarding a Szolnok-type housing allowance pilot in Blagoevgrad. However, as for Poland, a broad-based strategy for local government has only recently been designed, so that this aspect of the program has been delayed.

Given its economic and institutional circumstances, Bulgaria would be expected to be a program participant for some time. Since its problems are broad-based (and no particular circumstance stands out except the relatively smaller privatization issue), it seems appropriate, to introduce a number of activities across all areas. Phasing within each component would depend on absorptive activity.

Thus, other things being equal, privatization may not have been the most pressing local government issue with which to begin (but it is notable that replication of the Hungary pilot occurred here).

With regard to the strong push in housing finance, it now seems (1) very useful to have introduced as much policy change as has been accomplished and (2) time to reconsider the phasing of the program. The banks in Bulgaria may be particularly conservative; they were certainly relatively isolated from the rest of the region. In any event, both of the potential lenders in Bulgaria seem to have gotten cold feet; personnel shifts have complicated the picture. As discussed in Chapter 7.0, it may be time to reconsider the policy: not the goals, but the timing.

3.4 Summary and Lessons Learned

It should be noted again that because the Eastern Europe program began under a demand driven approach, and because country-specific field assessments were not originally part of this approach, the program cannot be judged ex-post for not having achieved a certain type of

balance. Fairly rapidly, however, EUR/DR/H began the shift to a more strategic approach. Thus we note several overall lesson learned:

(1) Because the **"balanced "development paradigm in transition economies** places such strong emphasis on (1) financial sector development and (2) fiscal control, it is reasonable to conclude that **housing finance** and **local government** efforts are of highest priority to the urban program.

(2) No particular kind of balance is suggested between housing finance and local government efforts; they can be pursued quite independently or combined in a specific project such as privatization. **Rather, balance enters the picture because both housing finance and local government activities contribute to a balanced macro-economic reform package which stressed fiscal responsibility and the financial sector.**

(3) There may be need for a link between **housing finance and privatization**, however, depending upon the pricing strategies chosen for sale. If units are offered at deep discounts, the link assumes somewhat less importance (although purchase in the resale market should be considered).

(4) Direct assistance to the private sector, on the other hand, is of lesser priority. It should generally be linked to either local government or housing finance or to both, to obtain maximum leverage. That is, **the private sector will expand more effectively through enabling activities in these other sectors rather than through direct assistance.**

(5) Efforts to assist in **policy reform** should be viewed as the **sine qua non** of programs in all countries, no matter their stage of development/transition. Admittedly, however, these efforts are often difficult and not very "visible". Thus, demonstration projects are a very useful additional approach to implementation.

(6) Sequencing can be an important issue. **Sequencing relates more to the absorptive capacity of the countries institutions than to some "definitive" ordering.** We concur with AID in **starting at the top with policy reform.** The country strategy statements are already based on "sequencing" that is responsive to the specific circumstances. These circumstances will determine how quickly activities can be phased in: for example, receptivity to policy reform and the sophistication of the institutions, including the depth of the financial sector. For example, introducing housing finance into Bulgaria, and seeing the fruits of actual lending, will take longer than for Hungary.[11]

(5) The demand driven approach may have had merit in the sometimes "politically awkward" introductory stages of the program in Poland, Hungary, and Czechoslovakia. **However,**

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[11]Obviously, many projects have a logical sequence; for example, all the steps in getting mortgage lending underway in Poland. However, in the broader selection of activities, we have found no rationale that suggest that municipal finance, which is more "general" has to precede land delivery or housing management or whatever particular activity seems best to fit the client and the context.

especially for the second tier countries, only a traditional, strategic approach seems appropriate. Potential clients, for example, have had less exposure to full range of policy issues that underlie specific project choices, so that it may not be clear to them what their selections imply.

In summary, the EUR/DR/H program has basically shown a very sound approach. Policy reform has been a crucial part of the activities in every country. Some payoffs are in sight, some are not, but we feel that it is probably the most important single aspect of the program. Priority attention to both housing finance and local government is evident across most of the region. There have been gaps and delays, however, which have affected the balance. Most of these are now being remedied. Housing finance has been stressed in three of the five countries. Immense progress has been made in all of them, given the context. We argue for filling the gap in the other countries. Finally, local government activities also have had gaps, primarily due to delays in implementation, especially in Poland and Bulgaria. A relative slow-down in private sector activities might have been a likely consequence.

With regard to country context, Poland needs, and can absorb, a strong program in all components; its housing shortage, fiscal, and privatization problems are serious. Hungary and the Czech Republic also can both effectively absorb a broad-based program. The housing problems in these two countries are not as severe as in Poland. The only major gap, as discussed, is the absence of a housing finance program in Czech. Finally, Bulgaria and Slovakia may face more difficult hurdles with respect to overcoming policy and institutional problems. Although a balanced program is suitable, slower sequencing within components may be required in order to set an acceptable pace. It is certainly possible in the housing and urban sector to have a comprehensive approach without having a "big bang".

4.0 HOUSING AND URBAN DEVELOPMENT IN POLAND

4.1 Housing Finance

4.1.1 Context

Efforts to develop a housing finance system in Poland represent one of the most extensive combined-donor projects in the region. The Housing Guarantee loan ($25 million) was signed in November 1992, and the World Bank ($200 million) and EBRD ($67) loans were singed in December. The Housing Finance Project (HFP), which has been supported by technical assistance from AID since 1991, has led the way in a number of extremely important efforts including creation of an apex institution; development of indexed mortgage instruments; attention to the legal framework; encouragement of developer projects; development of detailed guidelines, manuals, and protocols for mortgage and construction lending; and delivery of extensive training for prospective lending institutions. Also, the HFP is in a good position to encourage new entrants to housing finance, thus leveraging its capital funds.

After over two years of preparation for the World Bank program, the HFP is finally poised to begin operation; the project will provide the first instance of "quantifiable" impact for housing finance in the region. The political/institutional environment in which this project was forged, however, was difficult; furthermore, personality disputes disrupted the operations of the HPFO and AID has had to play a major role in finally pushing the project through.

4.1.2 Successes

Given the context described above, two types of "successes" should be described: (1) AID's contribution to the major substantive elements of the project, and (2) AID's role regarding institutional/managerial support to HFPO.

AID provided the major source of technical assistance to the HFPO, which was the focal point for program development. Although the HFPO was relatively well-staffed in its early days, it eventually deteriorated because of internal personality conflicts. In addition, policy debates concerning the World Bank and various institutions in Poland led to a change in institutional relationships for the HFP, with the Budbank becoming the apex, on-lending bank. In the end, the World bank program faced considerable delays, and AID can take credit for two achievements: (1) acting as catalyst for keeping the World Bank program moving and finally signed, and (2) designing and implementing the HG portion of the program in a seven month period in 1992. As already noted in Chapter 2.0, the major HFP client stated that the HFP would be in great disarray without the assistance of the field director in Warsaw.

The substantive successes are considerable. The major achievements in designing and operationalizing the system include:

- the HFP has taken an appropriately "big picture focus". The potential ultimately exists to overhaul the old system and introduce a market-based, competitive, structure.

- The Budbank has the potential for graduating from on-lender of external capital into a true apex institution, with long-run responsibilities for helping develop competitive institutions and internal sources of liquidity, provide training, and ultimately provide other central functions, such as regulation and supervision.

- technical products include a new mortgage instrument, the DIM, which set the stage for similar work in Hungary and Bulgaria. Also, enhanced project feasibility and market analysis skills will assist both developers and banks.

- the training for the HFP, which is being implemented by a team managed by Fannie Mae, appears to be comprehensive, relevant, and well-received. The topics for training and technical assistance include: marketing, control, credit management, servicing, accounting, and MIS. Both construction lending and mortgages are being addressed.

- the participation of Budbank counterparts is expected to result in "trained trainers". This is of vital importance in institutionalizing the technical assistance. The Budbank staff appear supportive of, and invested in, the training procedures and materials.

- the PKO also appears to be very pleased with the training (PKO staff have reported very favorably to the director of the housing loans department). Becoming "invested" may assist in ironing out difficulties between HFP and the PKO with regard to program implementation (see below).

The training is an especially important part of finalizing the HFP for success in implementation. The training and manual development, which has been a particularly intensive effort, began in November, 1992 and is expected to end in June of this year. Budbank is also pleased with their own training as well as their future role in training participating banks. Since the team visited Poland, several more banks that are potential on-lenders in the program, have entered into the training.

4.1.3 Lessons Learned

Along with these considerable successes, the housing finance effort in Poland also offers lessons learned. These lessons include (1) realization of the immense amount of technical assistance which has been required to undertake a transition to market-based system; (2) the need for

dedicated, full-time staff in the lead (and participating?) institutions; (3) the problems of working with monopolistic, state-owned savings bank; and (4) the "different" working environment created in Poland as compared with the rest of the region by the dominance of the World Bank in housing finance.

The HFP can serve as a model to the region in more ways than one. Lessons learned with regard to types and level of technical assistance and training will assist in implementation of Hungary's HG. A detailed plan and schedule for the training team and the Budbank counterparts were prepared, and could be "evaluated" by the team itself as a reality check for Hungary or elsewhere.

It also became clear that the time commitments required of Budbank staff were considerable. The importance of good (and timely) translations also became very clear. As housing finance policy reform efforts continue (or get started) in other countries, a better notion now is available of the relative merits of technical assistance, conferences, U.S. study tours, training, workshops, strategic advisors, and so forth.

4.1.4 Recommendations

The team's short-term recommendations are basically in the nature of comments on activities that are already in planning or in progress.

(1) We emphasize support for the plan to ***provide more long-term advisors to assist in institutionalization of the program in Budbank and expansion to other participating banks.***

Although such advisors were originally planned, none are yet in place. (A separate policy advisor has just arrived, but will sit in MOSEC rather than Budbank.) Presumably, the housing finance advisors can now be funded through the latest Poland project, which should be underway by the end of 1993. Given the workload Budbank must carry out independently of the program, Budbank staff are overloaded. Budbank staff have also told the team they lack a lawyer and training expert. In order to complete effective transfer of program functions to Budbank, and have Budbank deliver training to participating bank staff, more support may be needed.

(2) Continuation of the training efforts is one of the most important activities of the current period.

Training may be one of the best inducements to other banks to participate in the program (other than the capital inducement). Even if a given bank never participates, the pool of "trained staff" may find its way to another institution that does participate. As noted above, since the team's visit to Poland, two banks in addition to the PKO are now involved in the training.

(3) ***Carry out plans to conduct a market demand survey. This will inform banks who are considering participation about demand and affordability -- another inducement to participate if the market seems to be holding up.***

The Poland strategy statement (of September 1992) clearly states the short and medium term strategies and outcomes for housing finance. The short-term activities are now all being carried out. The intermediate strategies include:

- monitoring the HG program;
- expanding the program beyond the PKO (this may be a reality already); and
- working with the Ministry of Finance to integrate reform in housing finance into efforts to reform the overall financial system, in order to assist in mobilization of domestic funds and increase competition.

Perhaps the most important lesson learned, for the rest of the region as well as Poland, is the difficulty in introducing competition into this environment. AID is clear about the need to get other banks to participate as well as to make sure the PKO operates on a commercial basis. Other efforts, such as privatization of the PKO or development of new, specialized housing finance institutions will depend on progress in the overall system.

A final long-run topic involves the future evolution of the Budbank as the apex/secondary institution; this too is linked to reforms in the sector overall (as well as to the revival of effective demand in Poland).

4.2 Local Government

4.2.1 Context

In common with other countries in East Europe, pressure on central government budgets has resulted in a decentralization of responsibilities from central to local government and a reduction in the flows of funds from the center for capital and recurrent expenditure. In many instances the legal situation is unclear. Some local authorities are prepared to take advantage of this lack of clarity and press ahead with plans to raise revenue from new sources, enter into public-private partnerships, and privatize; others are more conservative. One of the most significant fiscal constraints in local authorities is their inability to raise rents.

Here, as in other countries, political instability is a problem, making it difficult to introduce some critical economic reforms.[1]

The Mission's priority is to focus on "vital objectives in economic restructuring and in helping Poland develop an enduring, resilient democracy." The representative urged that the housing and urban development program be designed to have an impact on "the big picture" in a $90 billion economy, 38 million people and a State budget of 30 billion. The local government component could help AID to achieve each of its objectives for the next three years: supporting component private sector development (more market-oriented land use and land development planning, privatization of municipal services including communal housing); assisting in the development of the financial sector (municipal funds); helping transform the public sector to better support democratic development and the market economy (making local authorities and the services they offer financially viable); and strengthen institutions essential for sustainable democracy (locally elected local authorities).

4.2.2 Successes and Lessons Learned

The main activity has been **training** and the development of a strategy for more intensive municipal work. Training has been carried out in support of FSLD and Krakow University. The objective of this program was to train trainers and so build local capacity with minimal foreign input. Accomplishments to date have included: training of municipal officials in land appraisal, housing management, land use planning and revenue generation.

From our discussions with some of the presenters and organizers of the training in land use planning and revenue generation, although the participants did benefit directly from the training, they did not become trained as trainers. Some will carry back new ideas to their municipalities, but there is no evidence that any have become trainers on a larger scale. There was not intensive training on teaching techniques. Some felt that much longer courses would be required to give participants the depth of knowledge needed for them to become trainers in the topic.

Training that has involved exchanges among peers rather than formal training often delivered by academics has been the most successful. The old training model was based upon the East Europe Program assumption that small doses of highly specialized technical assistance are all that are needed. We were told by people in the municipalities that we visited that they believed that they could learn most from practitioners, most of all from Polish practitioners. FSLD said that although at first foreign experts are taken more seriously than Polish ones, in the long run indigenous Polish training expertise has to be developed. The visits to Rochester by the Krakow officers were highly praised. Seminar participants, we were told, learned as much from being brought together for the training and exchanging experiences, as from the training itself. FSLD also reported that the city management program which sends Poles to U.S. cities as interns for 8 weeks provides very practical help for municipal officials. The training also led to the

[1] The Suchocka government fell as this report was being written.

development of the ad valorem property tax project, thus identifying both an issue and a client. Finally, it helped identify appropriate cities for intensive technical assistance.

AID in Poland now believes that the best technical assistance and training model is one under which technical assistance is focused on a small number of reform minded cities. Krakow's new long-term advisor is an experienced city manager who had been to Poland as a trainer and a member of the ICMA reconnaissance team. The Vice Presidents of Krakow and its new City Manager have very high expectations of this association. They expect him to provide precise technical expertise -- such as a market-oriented approach to land use planning and advice on how to develop local business -- and general guidance on the attitudinal changes referred to above. For example, the Senior Vice President said that this municipality has never gone through a goal setting exercise: neither councilors nor management (he is both an elected councillor and a Vice President) have any clear picture of what the municipality is trying to achieve over the coming years. It is anticipated that the advisor will bring in short term technical assistance as needed according to a strategy agreed with the municipality. This contrasts with the past "demand driven" focus on short term technical assistance alone.

AID will carefully monitor progress, write up case studies, and encourage interaction between managers in those cities and others. It might also be useful to put in place procedures to monitor innovations in non-technical assistance cities, since we were told of many enterprising municipalities throughout Poland.

The evaluation team believes that more fundamental changes in approach as well as technique on the part of local authorities are required. In fact, one of the main findings of the training programs reported to us by the Polish lecturers bears this out: an **unintended benefits of bringing together staff of municipalities with American local government experts was the realization that basic attitudinal changes will be required for municipalities to assume their new responsibilities in a market economy.** This means that the participants in future training programs or workshops should be receptive to new approaches to the management of local authorities.

Even as the basic training/dissemination model is changed, there should be more systematic followup, partly to find out about the impacts of the training and partly to reinforce the lessons of the training with further consulting support. **Both FSLD and the Ministry of Administrative Reform said consultancy services and training should go hand in hand.** FSLD want to change its profile from a training organization into a consulting one. ICMA, unlike Urban Institute in other countries, does not yet have a local consulting firm which it could help to perform this activity in support of its training. The founder of Krakow's Real Estate Institute, who is also a Vice President of the City of Krakow, believes strongly in both city-to-city technical assistance and in creating a cadre of Poles who can train other Poles. An institute like his dealing with local government issues could be a consulting organization, dissemination vehicle and lobbying group with central government.

4.2.3 Recommendations

(1) A strategy should be prepared with clear end-of-project outcomes.

There are now a number of strategic statements which need to be brought together and made consistent as well as responsive to what is really needed. AID's plan for the next year includes beginning the programs in the six cities visited by ICMA, continued work with Warsaw (a two-person ICMA/ULI mission prepared a report on urban planning and development in January 1993), and assistance to the Council of Ministers on municipal development funds, municipal budgeting, and local absorption capacity.

AID and ICMA have drafted a technical assistance *strategy and work* program for local government. The team based this strategy on visits to six cities and National government. Eleven specific technical assistance interventions are recommended for the next six months in six cities. These include strategic planning, management of communal housing, land information systems, economic development planning, revitalization of downtown areas, and regularization of informal construction. The report also recommends assistance at the national level in the delegation of authority to municipalities; mobilizing funds for infrastructure; role of intermediate administrative levels; municipalities; and policies and laws to accelerate privatization.

The Czech Strategy could provide a model, in terms of form if not content, with its articulation of where the program needs to go, and how, with a clear statement of an end-of-project status.

(2) The program should have a stronger emphasis on municipal finance.

A stronger emphasis on finance is an integral part of the attitudinal change that is required. Finance includes: local resource mobilization, including taxation, issuing bonds, borrowing from banks and higher user charges; preparation of capital and current budgets; making expenditures and raising revenues in a timely manner; monitoring expenditure against goals; and asset management. This is mentioned as a national rather than local level issue in the ICMA report. The local authorities contacted by the evaluation team placed financial issues in a very central role for their own future development. The national government assistance recommended by ICMA should be supplemented by assistance at the local level since the greatest shock to, and opportunity for, local government has been the progressive devolution of fiscal authority to the local authorities since the 1990 Local Self Government Act. Further local government reforms are planned.

The officials contacted by the evaluation team were most preoccupied with issues of resource mobilization and financial management. Vice Presidents expected that some of their senior staff would choose to leave their jobs when they are asked to prepare budgets and monitor expenditures against programmatic targets for the first time (one said 25 percent would leave). Top officials are now giving more thought to ways to fund the services for which they are now wholly responsible than to any other matter. Referenda have to be organized if new taxes have to be raised. Public private partnerships or outright privatization have to be negotiated.

Municipal bonds have to be issued and secured. Communal banks will be set up to finance housing and rehabilitation. For example, 20 percent of Krakow's budget was used to subsidize public transport, funding for which now has to come from their own resources. The city has decided to continue to subsidize public transport but in order to get better value for money it has had to hire a French firm to manage the operation. All these approaches are new to these local officials. Municipalities are almost powerless to perform any of their expected functions, including many of those suggested for technical assistance by ICMA, without resolving financial issues. Most elected officials, we were, told do not even accept that municipalities must now borrow to undertake rehabilitation and investment to replace the capital flows from the center; the assumption of debt is an alien notion to most counsellors and many officials (and, of course, a municipal finance system is not yet in place).

(3) ICMA's strategy and AID's plan should give more attention to dissemination based upon replicable models.

Dissemination could be one of the responsibilities of the PSC. But AID should form an association with a *local consulting firm* or institution and build up that firm's capacity to advise on local government by involving the local firm in AID's own technical assistance activities. In addition, short- and long-term activities should be placed within a strategic framework driven by the mission's objectives, the overall program's objectives, and goals of Poland's transition, in particular, the decentralization of government and the establishment of a market economy. The AID strategy should ensure a *strong linkage between the activities proposed to be carried out at the municipal level, and eventually at the national level, and the achievement of AID's and the Government's strategic objectives.*

4.3 Private Sector Assistance in Poland

4.3.1 Context

In the early days of the program, activities were geared primarily to two kinds of assistance:

- Technical assistance, training and demonstration funding for *builders and private developers*; and

- Technical assistance and policy advice for developing a *legal and regulatory framework* for a private housing market.

Later, a secondary set of activities was aimed at providing

- Technical assistance and training in the development of *real estate related professions, trade associations and chambers of construction.*

Apart from cooperatives with projects in progress, and a limited number of contractors and developers, there were few private sector clients producing affordable housing around whom one could build a coherent program. From the beginning, the success of AID-supported private sector housing development initiatives in Poland was linked with the availability of construction and mortgage financing through the HFP.

Since that time, there have been three significant changes affecting the direction and outcome of private sector programs: (a) changes and delays in the implementation of the HFP; (b) reduction in the levels of inflation and interest rates; and, (c) growth of independent, private real estate activity.

Delays in the HFP had a number of effects. On the negative side, it undermined the credibility of this program among some prospective borrowers and municipal governments (and probably hastened the demise of projects that would have folded anyway). On the positive side, the stronger projects were forced to go ahead on their own, perhaps attracting capital that might not have been available otherwise. Since 1991, there appears to have been a small amount of diversification in the sources of financing available to housing project sponsors, including PKO mortgage financing with DIM's, Polish American Bank financing (only recently available with dollar-denominated loans), and external joint-venture financing from other countries in Europe (particularly, Austria, Sweden and Germany). However, in the absence of World Bank, AID funds, and increased domestic financing, there will be continued reliance on self-financing through cash purchases.

Reductions in interest rates (to 35 percent from 70 percent), and levels of inflation (to 25 percent from 65 percent) also seem to have attracted a variety of new investors to the private housing market, albeit at the higher ends of the income spectrum. Local observers in Gdansk, Gdigna, Warsaw, Krakow and Zory seem to feel that as these rates drop, more households will consider purchasing or renting new housing, and many of these through a revised cooperative format. In the Gdansk metropolitan area 2.35 percent of households were actively looking for a new home. Still, only one in ten households can afford to purchase new housing, so the housing that is being built is available primarily to a narrow and privileged spectrum of households.

In the face of limited availability of construction and mortgage financing, it is perhaps surprising how much activity is taking place in the private housing sector. One report indicates that in 1992 over 120,000 units were completed (about 1 percent of the stock); but it is not known how many of these were "in the pipeline" from many years back, nor how many of these completions are actually occupiable. Interviews with members of the PADCO team suggest that there may be as many as 15,000 cooperative units that have been finished, but cannot be occupied due to high prices, outstanding debt and/or lack of available financing for individual purchasers.[2] Not unexpectedly, most of the new housing development activity, other than cooperatives, is taking

[2] Subsequent to the evaluation, new housing legislation has provided subsidized loans for purchase of completed units. The CHF project scope has also been expanded to look at restructuring cooperatives.

place on the periphery of cities on privately held agricultural land (without much planning, and without municipal control or support). Much of this activity may be unaccounted for in official statistics.

Despite questions about the reliability of the data on completions, there is little question that Poland's rapidly privatizing construction industry can produce a great many units if given sufficient financial support and some degree of predictability regarding risk. In a growing number of places such as the Gdansk/Gdigna area, Torun and Zory there are at least three active private construction/development companies now building housing, where as two years ago there were none. In Zory the competition among them has helped keep CHF's project costs in check, and the builder that was selected (Radom) is in fact a recently privatized regional building *Kombinat*. There appears to be no reason why properly structured cooperatives cannot act as enlightened project sponsors/developers at a more efficient and democratic scale, provided that there is the political will at the center to decentralize or break up the very powerful lobby seeking to keep large cooperatives in place.

Finally, it should be noted that staff at APHBI have identified eight nationally based associations in the housing construction/development/design field. While the credibility and survival of these associations may be questioned, their presence does indicate the vitality and diversity of the private real estate sector that seems to be emerging with little direct AID assistance. AID's preliminary assumption that a private real estate market needs to be "created" is no longer valid. It already exists, and is growing stronger every day. The question is how can AID best assist its evolution?

4.3.2 Program Successes and Lessons Learned

The focus for AID assistance to the private housing sector has utilized numerous different approaches. There is no single group of individuals and/or associations that can be called the "private development sector" in Poland. Rather, private sector activity is dispersed across a broad range of potential actors in all parts of the country. Thus, in addition to providing project level assistance in support of the HFP, AID's strategy for Poland now includes:

- Training and technical assistance to the real estate and construction industry (e.g. Krakow Real Estate Institute);
- Development of new private sector institutions (APHBI and EERPF) and related organizational support for similar non-governmental organizations;
- Cooperative development demonstrations;
- Policy support, and legal/regulatory reform for homeownership via restructuring of the cooperative and condominium ownership formats.

Training and Technical Assistance. As many as eight hundred people may have received some form of training or technical assistance directed to private sector development over the last two years. Beginning with the 11-city World Bank Housing Finance Project training in June of 1991

that reached about 450 professionals, training and technical assistance have been directed to a variety of audiences. In general, there seem to be three primary groups of beneficiaries:

(a) municipal officials, who see combining their land and infrastructure with private sector development as a way out of the financial corner they have been put in through the process of decentralization;

(b) banking professionals whose lack of experience in mortgage finance and development lending underscores their need for technical support with respect to basic project selection and underwriting;

(c) development professionals (architects, contractors, "developers" and other project sponsors such as cooperatives, and private associations) who want to learn about western development concepts and methods, and to gain access to information about new technologies.

In addition to the World Bank training, seminars have been offered by MIT and the National Association of Realtors on the development process; and by the American Polish Home Builder's Institute (APHBI) in the areas of marketing and merchandising, negotiating and land use planning. Further training courses are under way. Reports of these training activities and discussions with some of the participants highlight three important principals. Training seminars have been most effective when they:

- present pragmatic cases based upon real Polish development scenarios that acknowledge the "Polish reality" — and are not simply translated U.S. cases;

- emphasize down-to-earth business principles immediately relevant to private sector development (e.g. project feasibility analysis, cash flow analysis, marketing, information systems, finance, project management);

- avoid either highly theoretical or highly technical (technology driven) presentations in a straight lecture format (a problem solving case approach seems to work best, especially with a little showmanship thrown in (according to APHBI).

As part of the HFP, AID has also worked directly with individual housing sponsors/developers as part of the process of identifying and selecting initial applicants for development loans (construction and permanent). Among the clients we talked to who were aware of these technical assistance and training activities, there seems to be considerable appreciation for the substance of these efforts, particularly in the areas of feasibility analysis, property valuation and appraisal methods, development finance and marketing. However, there are no accurate measures of whether any of these sessions changed participants' attitudes or behavior in the short-term. Like the private development sector elsewhere, actors seemed already tuned in to pursuing the opportunities they perceive as efficiently as possible. As one developer in Gdansk

put it, "the [APHBI and Krakow] seminars helped me see I was on the right track, and that there were ways I could improve my business practices."

Development of New Private Sector Institutions. The American-Polish Home Builders' Institute and the East Europe Real Property Foundation (which is region-wide), have begun their programs in Poland in the last nine months. They appear to offer important models for leveraging resources in the provision of information services, technical assistance and training to organizations and individuals in the private housing development sector. They are intended to be self-sufficient in three to five years. The key to their success will be their local presence, the networks they build with other associations, and the continuity of their programs--features missing from earlier activities funded by AID. APHBI appears to have been quite successful in assembling a strong local staff and substantial political support in the Gdansk area. Their early training efforts have been well received, and will be expanded in the future. They have established contacts with a broad range of other building and real estate organizations in Poland, and have helped to found the Gdansk Association of Home Builders.

EERPF's activities in Poland will be based in Krakow and affiliated with the Krakow Real Estate Institute. In both of these cases, their predictable funding and strong linkages to the U.S. provide important mechanisms for providing technical assistance, training and follow-up support to professional groups/associations, housing sponsors, individual entrepreneurs, and particular projects. Their growing capabilities in this area will permit AID to redirect some of its energy away from individual project support toward more policy/regulatory support at the national and municipal level. Like APHBI, the Foundation will be able to provide training and technical assistance directly to private sector organizations and individuals more efficiently than might be possible through US-based contractors.

Cooperative development demonstrations. The Cooperative Housing Foundation (CHF) program in Zory (with a similar project in Bialystok) was designed to integrate four key elements -- local government commitment, financing from the PKO, an enlightened cooperative development team (architect, sponsor and builder), and an optimistic set of prospective homebuyers. Until a firm commitment tailored to project requirements is received from the PKO, however, the project will remain subject to considerable risk of failure. Thus far, the Zory project is more or less on schedule with infrastructure already in the ground. Municipal officials, who sold the land to the cooperative, are pleased they have a reasonable chance of recovering their infrastructure investment in a ten year period based on user fees and increased real estate taxes. Since the original purpose of the assistance was to establish and generalize a model cooperative project in a new format, it is encouraging that cooperative groups in surrounding communities have been asking how they, too, might undertake such projects. Progress has been documented and is now being written up so that it can be shared with government officials and other cooperative sponsors. **AID's investment in this type of project-based technical assistance will clearly be worthwhile if these model projects generate replication by other groups. At the present time it is too early to tell about the prospects for replication.**

Policy support, and legal/regulatory reform. Over the past two years political uncertainties and the impacts of decentralization have frequently distracted policy makers from reform agendas that would facilitate private sector housing development. New condominium legislation and revisions to the cooperative housing law have not advanced as far as AID had hoped. At the local level, the progress of contractors, developers and investors is frequently constrained by land titling, permitting or other regulatory issues. The lack of predictability and absence of a clear development path for inner city projects has caused many entrepreneurs to look to rural land for future development opportunities, primarily because the risks and constraints are perceived to be significantly lower.

Lessons Learned. The biggest criticism has come from a lack of follow-through on the original HFP training program (1991) and delay in getting the construction and mortgage finance program going. This is "perceived" by some to be AID's fault even though it is a World Bank project. The 1991 training was too far out in front of the financing that was to be made available. Now that the conditions precedent for the Housing Guarantee and World Bank/EBRD loans have been met by the BUD Bank, the issuance of the first construction loans and mortgages in the near term will do much to offset the earlier loss of credibility, and to begin building the momentum of private sector development activities. It is important that AID continue to provide monitoring and technical assistance for the first projects, in order to facilitate a smooth start-up and assure the usefulness of the first projects as models for those to follow. However, details of the application process have not yet been worked out with the HFPO, and these should be developed as soon as possible.

Since the initial private sector activities in 1991 (funded under the PADCO World-Wide contract), as of March 1993 there have been only five RFSs issued under the private development contract totalling less than $1 million. Partly because the private sector contract only became available in mid-1992, private sector activities have been somewhat slow getting started.

4.3.3 Recommendations

In most cases the utility of the activities summarized above is clear. However, their broad scope highlights the two central dilemmas of EUR/DR/H's assistance to the private development subsector in Poland:

- assistance to the private sector has been diverse and would benefit from a better vision in order to resolve issues of client identification, program component, and prioritization;

- the functional barriers among program components are somewhat artificial, and prevent a team-work approach that will minimize overlapping contractor capabilities and responsibilities.

These results lead to the following management and substantive recommendations that for the most part **confirm recent directions chosen by EUR/DR/H**. The concept of structuring private sector assistance at two primary levels--macro/national, and intermediary--has already been presented in Chapter 2. In the context of Poland the approach would be laid out as follows:

National macro-level assistance includes on-going support to MOSEC in finalizing condominium legislation; regulatory support at the national level for providing increased flexibility to cooperatives to restructure their operations to be more cost-effective and responsive to market demand; and other regulatory and legal assistance to facilitate private sector housing development (e.g. enabling legislation to speed up or clarify title searches and land registration, or to remove barriers to public/private partnerships for housing). Such assistance also includes developing standardized training materials for the HFP for training participating banks in the housing development selection and underwriting process. Many of these activities are already planned, and only need to be implemented.

Intermediary assistance includes support for organizational development (APHBI and EERPF) that in turn provides informational support, training and technical assistance to other professional associations and individuals. It also includes the provision of bank-level training in project selection and underwriting for participating banks; and further training in land development planning to municipalities and private owners in conjunction with organizations such as the Krakow Real Estate Institute. At this level, relatively more emphasis should be given to helping municipalities structure public-private partnerships for the development of specific housing projects designed to demonstrate the feasibility of a particular concept and increase the supply of housing.

(1) Micro-level assistance to specific development projects should gradually be phased out, or passed along to other technical assistance intermediaries like APHBI, EERPF or the Housing Finance Project.

Micro-level assistance has been aimed at providing technical support to specific projects--including at the present time the initial projects applying for HFP financing, and the two CHF projects in Zory and Bialystok. In the future AID's assistance to such projects should be provided through intermediaries, such as the HFPO, municipal governments setting up public-private partnerships, or local technical assistance and training institutions like APHBI. Micro-level assistance to specific projects represents a low priority. Project-level technical assistance can absorb a great many resources which can only be judged to be cost effective if the project's success can be replicated in other locations. CHF's Zory cooperative development model will be cost-effective not when it is built and occupied, but when it is copied by other cooperatives. Emphasis should therefore be given to generalizing demonstration results through information sharing and training built around Polish case studies like these. For example, seminars on the "new cooperative" development process could be designed around the Zory model and offered either through APHBI, EERPF and/or the Krakow Real Estate Institute. At the same time

interesting articles could be written up and offered to the two primary builders' publications "Dom y Ogrod" and "Murator."

(2) The program should continue to take advantage of the interdisciplinary nature of private housing development to build a strong team-work approach.

This means that project-level support (technical assistance to developers) through intermediary organizations should be coordinated with assistance to municipalities for financial management or infrastructure planning, and with project feasibility analysis and underwriting through participating banks. The CHF cooperative models (Zory, Bialystok) were originally intended as case studies for decision making and problem solving among municipalities and cooperative developers, and its success thus far demonstrates the value of collaboration among actors in the development process. Such opportunities for collaboration among contractors should be amplified, especially where there is significant local and/or joint public and private sector commitment to the program. Areas where this may be particularly fruitful include:

- Public/private land development projects in high visibility situations
- Rehabilitation and/or privatization of communal housing
- Multiple-use projects aimed at economic development as well as housing (particularly useful in helping to secure local government commitment to the housing agenda).

(3) The program should continue to support the design and development of various information systems at the local level that will support private sector development.

Such assistance can range from hardware and software for land and geographic information systems (L/GIS), to multiple listing services (MLS), and marketing surveys and panel studies. These systems are now, and will become even more, essential for private sector development. Support provided in one or more of these areas can set a standard for replication in other communities. Without benefit of the learning by more advanced cities such as Gdansk, these communities will no doubt seek their own solutions and repeat the same mistakes. Trade shows with their related seminar programs provide excellent vehicles for outreach and information dissemination. Two such shows have already been undertaken in Poland with great success.

Information systems is also an area where U.S. companies can compete effectively with their European counterparts. However, before promising any such assistance in the area of information systems, AID *must* make sure the product or service (a) is available within the time period specified; (b) is cost effective for the use specified; and (c) will be technically supported by the contractor responsible, or at least involve someone who has hands-on experience in the subject matter. AID must not only assure its ability to deliver the product or service before promising assistance, but also find the most efficient mechanism for a particular procurement.

5.0 HOUSING AND URBAN DEVELOPMENT IN HUNGARY

5.1 Housing Finance

5.1.1 Context

Unlike Poland, housing finance has not been an issue of high priority from the beginning of the program. The issue has been addressed, however, since 1990, beginning with early work by the World Bank and USAID on dual-index mortgages and policy reform. For a number of reasons, however, it has been difficult to achieve any forward momentum on overall policy reform. Responsibility for the housing sector has been spread across up to five Ministries, the National Bank, and OTP (and the Ministries and their particular responsibilities have also changed). In addition, OTP was not initially interested in sponsorship of a reform agenda, and continued to issue subsidized loans. Thus, the DPM (deferred payment mortgage) was not a sufficient "lure" to encourage restructuring OTP's lending.

Finally, however, under the aegis of the Ministry of Finance, the program is focusing more clearly on development of a housing finance system. It is the opinion of one member of EUR/DR/H that the Minister of Finance only now clearly understands the massive impact of housing subsidies on the national budget. Faced with serious debt recovery problems and with a big drop in lending despite the subsidies, the Ministry of Finance has helped OTP focus on the DPM and revise its subsidy policies. In November 1992, the Ministry requested assistance with the following aspects of the system:

- strengthening recoveries
- affordability
- liquidity
- impact of DPM on OTP (government) revenues
- alternative approaches to subsidies
- rate setting by OTP

5.1.2 Successes

It was in this context that progress could be made on the Housing Guarantee. Design of the program is in its final stages; it is hoped that the agreement can be approved by AID and GOH this fiscal year. HG funds could be as large as $100 million over five years.

The Ministry of Finance has provided an effective client "home" in the midst of continued conservatism and dispersion of policy responsibility. AID should be commended for continuing to seek (create?) a "lead" client. The recent delegation of responsibility for the program to the EUR/DR/H field director has helped bring coherence to pressing this issue and to designing the housing finance program.

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A review of an early June draft of the "Housing Finance Restructuring Program" for Hungary indicates that a broad-based policy reform program is now being agreed upon. HG resources will be used to "support policy reform, including the reduction in mortgage subsidies (facilitated by the introduction of a new mortgage instrument), the reduction and better management of credit risk, and the development of access to long-term resources.

The draft HG design appears to have achieved two major successes:

- **agreement to a policy-based program, given that reluctance to bite a lot of bullets had been one of the major stumbling blocks;**

- **"getting on" with the policy program and the HG without trying to impose time-consuming changes in the institutional structure before program implementation.**

The GOH finally appears to be involved in addressing the long-term problems of the housing finance sector. A committee with representation of all the Ministries involved in housing and housing finance and the Nation Bank of Hungary has been organized to formulate housing policy initiatives, including: subsidies; taxation; mortgage credit risk (foreclosure, credit enhancement, and central credit information bureau); and housing finance
institutional development (reduce barriers to participation by others than OTP and reassess the new institutions issue).

In other countries around the world, as well as in Eastern Europe, questions have been raised as to whether (1) an apex institution is a necessary institutional addition to the housing finance sector, especially when there is on-lending of HG or other funds, and (2) whether new, specialized institutions are prerequisites, especially given the conservatism of OTP.

First, as discussed in Chapter 2.0, an apex institution is not absolutely necessary in Hungary (or anywhere else) to begin restructuring the system. As has been discussed, Poland's program is conducting on-lending through an apex. (I recall, however, that this was not an original design feature of the HFP, but was only created later.) Similarly, HDFC and other lenders in India established track records in market-based lending long before the
National Housing Bank was established. An apex can come to Hungary later (if ever); AID was right to get on with the program.

Similar arguments hold for new institutions. The study done for AID on new institutions seemed to assume that all of the "bells and whistles" which define the U.S. system were prerequisites, and thus, it would be difficult to establish a new institution. New institutions are, in fact, desirable additions, but: (1) they are not necessary to get things going in Hungary, and (2) they can (and have) been introduced in many countries while the system was still in the early stages of evolution. Again, AID seems correct in seizing a sizeable victory (rather than everything at once) and just moving forward.

5.1.3 Lessons Learned

Some of the lessons learned resemble the situations in Poland and Bulgaria. Others are unique to the Hungarian context.

- it has taken extensive client development, technical assistance, and patience to bring coherence and closure to the important first stage of housing finance reform in Hungary. This lesson is most extremely pertinent to Bulgaria; new entrants, plus Slovakia, should plan their strategies accordingly.

- without a client "champion", housing policy reform is not likely to get anywhere (and sometimes even with one). **However, for both Poland and Hungary, the champion did not come from the former state savings bank.** The pressing issue for Hungary was ultimately the impact on the budget. The massive subsidy issue was also crucial in Poland.

- even if the crucial leadership input does not come from the state savings banks, however, offering technical assistance to their senior staff is an important facilitating mechanism.

- there are many systemic issues that face OTP, like its counterparts in the other countries. Efficiency, debt recovery, and liquidity are very important problems. Despite current efforts in restructuring, OTP is apparently still considered to be a special arm of the government, which further hinders recovery. These issues are also felt to be significant deterrents to the willingness of other institutions to consider undertaking housing finance.

- loan collection procedures (in the form of wage garnishment or public listing of defaulters) have recently been further undermined by both the courts and the government. If not already included among the HG issues, it should be; this was mentioned to the team by several of the financial institutions interviewed.

5.1.4 Recommendations

The current progress being made on HG design is a big step forward even from the March/April period of the team's visit. Thus, most of the recommendations included in the first draft of this report are already explicit or implicit in the HG design. The design includes both numerous technical issues and suggestions for intermediate- and long-term reform.

(1) ***Update the current strategy statement to reflect the HG and the current requests for assistance by the Ministry of Finance.***

This probably is already in progress, but AID can make the strategy much more explicit, as suggested in our section on reform of indicators, to include specific intermediate and institutional goals as well as long-run outputs.

(2) *Develop a specific program for rehabilitation loans, since these respond to clear problems with the housing stock, and are more affordable by virtue of size.*

This issue was mentioned to the team on several occasions. Especially outside Budapest, a high proportion of households are homeowners. Upgrade lending is an affordable option as the transition economies struggle to regain growth in income.

(3) ***Develop ongoing country-to-country/bank-to-bank links between Poland and Hungary in order to take full advantage of lessons learned in system design, training, and policy reform. Such contact would also be useful to Bulgaria, where progress on policy reform is somewhat stalled.***

(4) ***Discussions regarding the very long-run institutional structure might include reassessment of an apex institution and privatization of OTP. Consideration of new institutions is already included in the HG design.***

As discussed above, an apex is not necessary to the current system. In the long-run, it can serve a variety of useful functions (promotional, regulatory, liquidity window) and also relieve the National Bank of Hungary from duties such as on-lending to a specialized segment of the banking sector. Finally, as for Poland, privatization of the state savings bank is ultimately desirable, but will be dependent on overall financial sector reforms and the capital market, as well as on the condition of OTP itself.

5.2 Local Government

5.2.1 Context

The responsibility for housing and infrastructure has been delegated to local authorities under the 1990 Law on Local Government. Substantial assets were transferred to local authorities under the Act. Utilities were recently turned over to municipalities. However, the rights of local authorities were poorly defined. For example, local government was made the owner of state rental stock but was not given the right to set rents and determine the installment loan terms for privatized housing. Initial activities with individual local governments in housing privatization, housing management privatization, and a renovation loan program were frustrated by the lack of clear authority or the lack of political will to implement the changes. Delay in

legislation of the Housing Act (not yet passed but originally scheduled for January 1991), which will regulate state rental housing and require municipalities to develop housing strategies, further compound the lack of action in housing policy changes by local officials.

The Social Act, which requires local governments to provide housing allowances in the near future, was passed in December of 1992 and makes the current work in assisting municipalities with a housing strategy, which includes housing allowances, particularly relevant to the local governments. However, local authorities lack the experience to raise revenue and to manage revenue flows, the housing stock and land.

5.2.2 Successes and Lessons Learned

Szolnok

The *Szolnok pilot* has probably been the program's greatest success in Hungary and the region as a whole, even though implementation of the rent increase/housing allowance pilot is only just beginning as this report is being written. Beginning in April 1992, the Urban Institute team, including local consultants, has been working with the city to develop a framework for developing a market-oriented housing policy that will free up housing markets and encourage the development of a private rental sector while improving management, efficiency and affordability within the city rental stock. Proposals for a new housing strategy were prepared in September 1992. The strategy includes rental reform, housing allowances, tenancy reform, privatization, the use of privatization revenues, management of the public rental stock, handling arrears, waiting list and allocation policy, the private housing sector impacts on the local budget process, and administrative changes. If there has been a central activity it has been the implementation of the rent increases and housing allowances. The new system of rents and housing allowances have been approved by the Council and will begin on May 1, 1993. These reforms have attracted attention from many other local authorities: the April conference to discuss this pilot has been heavily oversubscribed; in fact there will now be two conferences.

Some important lessons can be learned from this pilot:

- First of all there was a very willing client (specially selected by AID): an enterprising and ambitious mayor and deputy mayor prepared to take risks and given wholehearted support to deal with very contentious political issues. The vote on the scheme was a very narrow one, following a long and heated debate. It was very difficult to sell the pilot to other cities, and even to Szolnok; they found it very difficult to understand the concept of housing allowance. The housing staff in Szolnok told the team that they resisted the ideas strongly at first.

- Another lesson is that the same high quality team of consultants works with the city throughout; the deputy mayor, with whom the evaluation team spent some

hours, has nothing but praise for the whole collaborative effort. The local consultants, MRI, had a very important role in initiating the pilot -- they had been providing advice to the city since 1984.

- The Deputy Mayor referred to the collaboration as a "kind of virus" that had infected the way of thinking, "the logical processes," of everyone in the local authority. (This need for completely new approaches to the management were also referred to by Vice Mayors in Poland.) He felt that all solutions to the local authority's problems "are embedded in this new way of thinking." The housing staff said that they used to spend two weeks drafting papers for the council and they now do so in a day, after been forced to work fast in support of the pilot. It is clear that the Urban Institute/MRI will have an impact on all of the activities of the local authority by focusing on applying market approaches to one set of problems, those related to housing, and even within housing, a special focus on the rent increase/housing allowance issue. This may be the best way for the whole program to proceed.

- *A final lesson is that it is probably easier to create successful pilots in relatively small towns that are not capital cities.* There have not been such successful pilots in Budapest, even though the Urban Institute team was already trying to work there when they were introduced to Szolnok.

Final replication of the Szolnok model awaits the passage of the much delayed Housing Act, which will require each local authority to prepare a housing strategy, the point at which Szolnok itself began. *This illustrates yet again the need for pressure and perhaps technical assistance at the national level to achieve essential reforms and make technical assistance at the local level effective.* This has not proved easy in the past. As noted, however, the conference to be held by Szolnok officials regarding the pilot was so greatly oversubscribed that a second one has been planned.

Budapest

Experience in Budapest highlights some of the problems of dealing with large capital cities. Yet, even though there continue to be difficulties, capital cities are so important, with such large budgets, that they cannot be ignored and preference given to smaller, more manageable model towns.

The activities in Budapest have been less successful than those in Szolnok. The evaluation team visited two Budapest districts. As in other countries local authority leaders are worried about finance. Privatization, which is a district responsibility, threatens some districts with substantial loss of potential revenue. The districts now own about 425,000 apartments which were previously owned by the city. Although districts can now sell at market prices, the installment payment terms are still at three percent and there is strong pressure still to give 85 percent discounts. Municipalities that have large commercial and rental residential stock face huge

losses in revenue if they are forced to privatize. Eight of the 22 districts own more than half the housing in the district. The main source of revenue for District VII, visited by the evaluation team, is non-residential property which it does not want to privatize, certainly at huge discounts people have become used to. These municipalities protect their asset with long prohibition lists that are challenged by those who want to privatize at favorable terms. Districts have no experience of managing another of their important assets -- land.

A major program with the City of Budapest is now under discussion between the City and the Regional PRE/H office. The Mayor of Budapest visited AID in Washington in June 1992. The project will have three or four components: the redevelopment of Lagymanyos, an industrial area and the site of the "Expo"; inner city rehabilitation; infrastructure development in the outer districts of the city; and, in accordance with a recent proposal from AID, advice on effective expenditures. A long term economic development plan will be prepared on the basis of the components. The technical assistance project as a whole will cost about $800,000. All parties concerned seem close to agreement on the project components. The overview of Budapest's needs prepared by the contractor was described by the city as "very perfect."

The program will have to face a number of problems:

- First of all the technical assistance will be supplied in response to requests from the city and yet the people of Budapest will look to their district authorities much more than to the city for solutions to their problems: most responsibilities have been devolved from central government to the districts rather than to the cities. In fact, most of the Urban Institute technical assistance to date has recognized this and has focused its activities on the districts; the housing privatization study findings were presented to representatives of the districts; the renovation loan program was designed for District VII; housing management advice was given to District II; masterplanning advice to District XI. One of the few examples of technical assistance to the city as a whole was to its Office of Rehabilitation on ways to foster a cooperative relationship between the city and the districts.

- Relations between the districts and the city are not close and sometimes acrimonious. District VII's Housing Chairman reported that there are no joint city district committees on housing issues or any others that he could think of, and his one contact with the city was not a good experience. The district was given about half the funds needed to rehabilitate one block and under pressure from residents had to privatize the block at 16 percent of the market price resulting in a loss to the district.

- Despite the need to channel technical assistance through to the districts, it would be very costly to send a team into each district. One possibility would be for the demonstration model approach to be applied to the district just as to other towns and cities. It was difficult to judge if this had already worked, if any non pilot districts had learned from the pilots. The current plan is to focus the technical

assistance on the city-level with the Lagymanyos as a partner. District VII thought that the most effective technical assistance model would be for AID to create expertise at the city level that could then be applied in the districts. The district thought that technical assistance is one of the few functions that should be performed by the city with so many responsibilities now given to districts.

Kesckemet

Some important lessons can be learned from the technical assistance and participatory goal setting seminars in Kesckemet. The consultants worked with the city for several months assisting the city management and the city council to develop strategic goals. The participatory process, which included representatives for the council, administration, and community provided for a forum of consensus building. The goals developed through this process were adopted by the council. The process was not grounded in the financial resources available to implement the goals. Building on the process of participatory goal setting in Kesckemet, replication in other communities should tie the goals to finance mobilization. The process, important in developing a democratically functioning local government as well as an institutional framework, can be replicated with the assistance of local institutions such as the Center of Regional Studies and the municipal officials in Kesckemet.

5.2.3 Recommendations

(1) A local government strategy for Hungary should be prepared that goes beyond the current focus on housing.

The strategy has been focussed on housing because that has emerged as a key issue, following the demand driven approach of the program. But local authority managers are concerned about a broader range of financial and economic as well as social issues, including infrastructure and asset management in particular.

(2) A new strategy should be prepared based upon the results of the discussion with the Mayor of Budapest, since the existing strategy has been overtaken by events.

The objectives of the September 1992 Strategy local government program are to implement and disseminate local urban development planning processes and housing strategies based on project activities in Budapest and other selected cities; and to begin to address municipal finance issues in the areas of inter-governmental relations, infrastructure, and property taxes. The clients were identified as the City of Budapest, two Budapest Districts, Szolnok, Kesckemet, and Szekesfehervar. The work in Kesckemet needs to be amended before replication and the work to be done in Budapest is still evolving. **The need to address municipal finance issues is clear and should be included in the strategy.**

(3) Activities planned for Budapest should look beyond the City administration itself.

Most of the devolution has been to the districts and they should be the final target. The city could, however, be the conduit for technical assistance through the establishment of a core of Hungarian experts there who would go out to the districts to give advice.

(4) The implementation of Szolnok rent increase/housing allowance and asset management pilot should be carefully monitored and supported.

This looks like being a great success story, a model suitable for widespread replication, even beyond Hungary. However, there is a long way to go. The pilot has first to succeed in its implementation in Szolnok. Then there has to be national support for its replications, with the passage of the long delayed Housing Act and further dissemination activities, which may include technical assistance as well as conferences. Lacking support from central government, the local authorities themselves should be encouraged through workshops to replicate the model.

(5) The training and course materials developed should be made widely available to the numerous educational and training institutions.

The training materials developed for local government officials in Hungary were developed with the assistance of local experts, and based on work with the local governments. Emphasis should be made in institutionalizing the training and assisting local educational and training institutions in methodology of delivery to include interactive sessions.

5.3 Private Sector Program in Hungary

5.3.1 Context

Hungary has been regarded as the Eastern European country with the most advanced private sector, having begun the process of privatization over 20 years ago. Nevertheless, housing production in both the public and private sectors has fallen dramatically in the past five years. In Budapest there has been considerable pressure on the government to continue the privatization of government-owned dwellings. Market and political pressures are undermining the city's attempt to implement comprehensive rehabilitation programs in high-value districts such as District VII. At the same time, lack of financing for construction continues to be a major barrier, despite projected economic growth of 3-5 percent for 1993, and inflation in the 20 percent range.

The significance of these events for the private sector is that the transition to a viable private real estate market, while under way, is constrained by governmental complexity, lack of financing and economic uncertainty. Issues that seem to have delayed private sector work include delays in passage of the housing law (requiring housing strategies and permitting housing allowances), changes in leadership in the Ministry of Construction (a principle client in this subsector), and

continued difficulties with respect to intergovernmental relations between the City of Budapest and its Districts (which prevents comprehensive planning, programming and budgeting of resources).

Over the past two years, private sector activities in Hungary have been limited to the following activities:

- Technical assistance to Ministry of Industry and Trade on housing construction industry (1991-92).
- Training courses in real estate development and appraisal (1991, part of local government activities);
- Study of cooperative housing in Hungary (completed March 1992);
- Study of condominium operations and management in Budapest, plus development of training program; (October 1992);
- Technical assistance to the Hungarian Real Estate Federation (1991-93);

Among the primary EUR/DR/H in Eastern Europe the Urban Institute has played the dominant role in defining and implementing activities in all components of the urban program in Hungary. Their primary focus on housing finance and housing allowances was supplemented by responsibilities for local government activities. The program expenditures on the private sector were less than $400,000 in the two years and a half years of the program, considerably less than the activities in housing finance and local government. PADCO completed their assessment of the construction industry in April 1992 for the Ministry of Industry and Trade, but until April 1993, has not been requested by AID to follow up on this assistance or undertake further work in the private sector.

5.3.2 Program Successes and Lessons Learned

PADCO's final report with recommendations for the construction industry was well received by the Ministry of Construction, but was not followed up until recent meetings with the new leadership. While the opportunities for direct involvement in facilitating the privatization of state owned construction enterprises may be limited, there are many areas where technical assistance could be immediately useful. Some of these might include:

- Helping to create viable business entities from State Owned Enterprises (SOE's) in the construction sector by introducing modern management practices; setting up regionally based, independent management structures; and identifying financial opportunities for joint venture participation in developing new markets particularly in the housing construction sector.

- Providing technical assistance and training to construction and development associations based around not only new technologies in the sector (to spark participation), but also association and/or business management practices which

will help these organizations and their memberships to grow (e.g. marketing, financial analysis, project feasibility analysis, joint venture financing, etc.).

The earlier training programs in real estate development and appraisal, run through the former state training institute (FUTI) were also well received. However, the Institute has since been split into six separate pieces, and AID has not maintained contacts with the surviving organizations (e.g. Omega). The evaluation team was not able to talk with the participants and the local staff responsible for the condominium training program, in December 1992. However, due to demand, the course was repeated in April by the local lecturers. Unanticipated interest came from staff of the state management firms which are intending to start private companies.

The Hungarian Real Estate Federation was set up in 1990 as the first organization of its kind in Eastern Europe. The managers of that organization (one of whom is from the Ministry of Finance) expressed their gratitude for the technical assistance that has been provided through the Urban Institute, and said they look forward to expanded contacts with the Eastern Europe Real Property Foundation. ***However, they are extremely upset that the Multiple Listing Service software and hardware promised to them over 18 months ago has not yet been delivered.*** Delays were caused in the delivery of this product by a combination of factors involving

- Identification of an appropriate software and hardware configuration that could handle the unique requirements of the Hungarian situation as well as link up with international information sources at a reasonable price (less than the high six figure prices originally quoted);

- Meeting the FAR procurement regulations, and securing approval for the procurement through AID's contracts office.

- Finding a U.S. software firm that could adapt the necessary software to the clients requirements and install the software after translation into Hungarian.

As a result of these considerable delays, the Federation has lost credibility among its own members, as has AID. Four competing groups are putting together their own non-US, Austrian-funded system to fill the gap. Unless the AID-funded package is delivered very soon, AID can expect no further collaboration from this group.

5.3.3 Recommendations - Targeting Assistance in the Private Sector

Once the immediate problem of the MLS project is resolved, there would appear to be a number of pertinent areas for private sector assistance in Hungary:

Macro/national level:

(1) ***AID should provide policy support to the Ministry of Construction in developing specific legislative and administrative measures to facilitate the growth of the***

private construction and development industries (e.g. bonding, procurement procedures, privatization policies, etc.). Recently, conversations were renewed with the ministry on a general level, suggesting that such assistance could be initiated.

(2) *Assistance should also be provided to the City of Budapest and/or District VII to develop feasible strategies and specific plans for the rehabilitation in the "prohibited blocks". Such assistance may be conditioned on resolving conflicts among districts and the city; clarification/passage of the Housing Act; and developing mechanisms for long-term financing and relocation strategies.*

Intermediary support:

(3) *Further informational support, training and technical assistance should be provided to the Hungarian Real Property Foundation, and other professional associations and individuals in the real estate sector; however, such support may best be offered through the regional program of the Eastern Europe Real Property Foundation.*

(4) *When the HG program has been designed, AID might consider bank-level training in project selection and underwriting for participating banks in much the same fashion as for the HFP in Poland.*

AID can also provide training and technical assistance in land development planning (and where appropriate, geographic information systems) to municipalities. Such assistance can be directed toward supporting public/private development programs such as that contemplated for Lagymanyos in Budapest's District 10.

With AID's help the Lagymanyos project has the potential to become a highly visible contribution to Budapest's redevelopment along the river, in time for the 1996 Expo. Because of economic uncertainties, client decisions with respect to joint venture/equity participation, and substantial foreign participation on the equity side (Italy and Austria), this project could also create a great many complications. (AID will have to at least delimit its exposure in case the project becomes a political and economic liability.) AID may, however, be able to provide substantial project-level assistance in the development of multiple-use concepts. Intermediate steps (and contingencies) should be clearly mapped out ahead of time.

In summary, AID's primary private sector strategy in Hungary should be policy-oriented, in order to help the central government and municipalities take those steps necessary to strengthen

the private real estate, construction and development subsector. Assistance to particular projects should be provided only when there is a clear model or demonstration function that needs support, and where there is an appropriate intermediary organization to manage the assistance. Assuming continued government support for privatization of the construction industry. AID's involvement should be technically-focused in order to help support development of a level playing field.

6.0 HOUSING AND URBAN DEVELOPMENT IN THE CZECH REPUBLIC

6.1 Housing Finance and Policy

6.1.1 Context

An active program of policy reform has been undertaken in the Czech Republic, including extensive work on condominium legislation and conferences and seminars on housing and rent policy. However, no technical assistance has been provided for development of a market-based housing finance system. Especially since the Czech Republic will be an early graduate from the program, the AID representative is being asked to reduce the size of the program.

We would like to present a number of arguments for introducing **"high pay-off/low cost" technical assistance** in this area as soon as possible.

- First, and most importantly, as discussed in Chapter 3.0, we emphasize that housing finance is an important part of the overall development plan for transition economies. We reiterate that argument for the Czech Republic: the country most likely to quickly realize benefit from getting the system going.

- The economic "scene" is right in the Czech Republic. If inflation stays at its current low level, dual-indexed mortgages may not be required (or some much simpler version could be utilized because the potential for risk will be reduced).

- A housing finance consultant to the program concluded that housing finance was evolve naturally in the course of the development process. This may well be true, but **experience elsewhere in the region suggests that policy reform in this area takes a bit of "pushing".** If the tools and experience for the push are in hand, beginning now would just speed up the evolution.

- A Housing Guarantee lending program or housing finance would not be a necessary part of the activity. Once the right clients are located (admittedly a big if, but see below), technical assistance, training, U.S. conferences, and so forth would suffice.

- Given the progress that has been made in the technical, legal, and institutional aspects of housing finance elsewhere in the region, **a program could be introduced in the Czech Republic at low marginal cost with every expectation of high returns. Even if lending begun after the country had graduated from the program, the ground work for a market system can fairly easily be introduced.**

One reason cited for the decision to utilize HG funds for infrastructure finance was that lack of housing policy reform in other areas, such as quick elimination of low rent policies, is assumed

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to signify lack of readiness for reform in housing finance. Given that the Czech Republic has moved forward with especially effective macroeconomic reforms, progress in housing reform has not, in fact, lived up to this standard. It is nevertheless moving forward. Even since the team returned from Eastern Europe, AID has reported inquiries about assistance in housing finance. Also, a transcript from a January 1993 Cabinet meeting concerning housing policy cites liberalization of rent, preparation of programs for mortgage lending, and tenant/landlord relations as areas which must be addressed. (The Ministry of Finance indicated that rents would be increased 40 percent in January 1994 and all subsidies eliminated in four years.)

There also appears to be genuine interest in housing finance from other sources. The Commercial Bank has expressed interest in housing finance and also in establishing a mortgage bank subsidiary. Other participants in the May 1992 Conference in Prague have also expressed interest. A brief review by Fannie Mae suggests adoption of a more active role. The staff of Urban Research feel that the absence of housing finance is a major barrier to housing supply. On the other hand, the Czech Savings Bank is apparently not yet interested in housing finance reform.

6.1.2 Recommendations

(1) A technical assistance program for housing finance technical assistance program should be quickly established in the Czech Republic.

Weighing the pros and cons of the current debate over the utility of assisting with housing finance, we conclude that it would be (1) quickly absorbed and very useful to the development of the shelter sector; (2) a cost-effective topic for technical assistance since a separate Housing Guarantee is not required and many of the precepts, manuals, and guidelines are already developed for other countries; (3) a unique opportunity in the region *not* to necessarily have to introduce indexed mortgages; and (4) an excellent opportunity for cross-regional fertilization and transference of experiences from clients in Poland and Hungary.

Around the world as well as in Eastern Europe, PRE/H has had extensive experience in assisting the development of a "big picture" framework for the legal, administrative, and financial aspects of a housing finance system. There is no reason not to do this in the Czech Republic: (1) the country is more ready than most for demand to take off; (2) the supply side is also apparently ready; (3) as noted, a HG is not necessarily needed, just technical assistance, which could be well along before the country graduates from the program; and (4) in terms of the relative sophistication of its financial and capital markets, it is among the front runners.

(2) Continue the search for a client who will "champion" policy reform.

Experience in Hungary and Poland suggest that the reform champion will not come from the state savings banks. Rather, those facing fiscal responsibilities (for the subsidies) or those generally concerned with policy reform are more likely candidates. It is true that the State Savings Bank, as elsewhere, is the logical home for housing finance; their staff may benefit from

U.S. conferences and technical assistance (as in Poland, Hungary, and Bulgaria) and become more willing participants once certain policy trends are put in place.

6.2 Local Government

6.2.1 Context

Conditions are probably more conducive for progress in market-oriented, decentralized local government in the Czech Republic than in the other countries. Inflation has been a moderate 11 to 12 percent, budget deficits are under control, and unemployment is low. The local resource mobilization that is worrying municipal leaders in other countries will be much easier in the Czech Republic's growing and relatively stable economy. **AID is now developing the Housing Guarantee project for municipal lending, with its complementary municipal technical assistance.**

But there are serious problems. As elsewhere, there has been a substantial devolution of responsibility with inadequate tools for financial resources. Local government now owns most land and communal housing and is responsible for managing the urban development process, including infrastructure. Housing stock and infrastructure are in serious disrepair because of age and deferred maintenance. Local government now receives no capital funds at all from central government, putting municipalities under the same fiscal pressure as in the other countries. Other subsidies have also been reduced. For example, Liberec had a CK 78 million operating budget for its 14,600 apartments in 1991, of which CK 23 million was state subsidies. This subsidy was discontinued in 1993, leaving the city with funds for emergency repairs only. Cities are privatizing the management of housing. Urban Institute is now providing assistance with management contracts for operation of the buildings and the collection of rents.

6.2.2 Successes and Lessons Learned

Accomplishments. Accomplishments to date under the local government program include 6,000 units brought under private management in Prague District 2; hands-on guidance on streamlining zoning and development approvals process in Prague 6; assistance in drafting a condominium law which will help the housing privatization process at the local level; establishing a housing database in Liberec that will assist in privatization; two case studies on privatization of housing management in Prague; and papers on infrastructure finance.

Senior staff at the Ministries of Economy and Finance reported that they were very pleased with the support provided by the Urban Institute staff. It was also reported that the Mayor of Liberec was pleased with the assistance he has received on the management of rental housing and on setting up a database on the economic performance of individual buildings. Less enthusiasm was expressed by the Mayor of Prague 6, who felt he had been severely let down by the consultants who were supposed to help him with management issues -- he had been waiting over a year for a report. In fact, a number of reports have not been prepared on time.

Research. A notable characteristics of the Urban Institute's work in the Czech and Slovak Republics is the large amount of research that is carried out in preparation for any action at the local or national government levels. Urban Institute has produced 22 full papers and 25 memoranda covering housing as well as local government according to a February 1992 memorandum from Urban Institute to AID.

Strategy. The most important lesson learned from the Czech Republic program for the rest of the local government program lies in strategies prepared by the mission and the local government contractor, and the relationship between the two. *The local government strategy prepared by the Urban Institute in January 1992 should serve as a model for the other countries partly because it is a full strategy statement, partly because it speaks so well to the AID Rep's strategy, and partly because the strategy itself included a balance of support to central and local government.* Both strategies will be outlined here.

The AID Representative's program will focus on supporting three Czech initiatives, each of which are important for local government. These are: (1) complete the privatization program and establish the infrastructure needed for the financial sector and capital markets; (2) broaden participation at the local and regional levels and strengthen municipalities' administrative and financial capabilities; and (3) bolster legal and education institutions to broaden public participation. The privatization support has been focused on the Ministry of Privatization rather than local government. However, the mission is adding municipal finance to its banking activities, with a HG helping to capitalize municipal credit. Technical assistance will be provided at the national level to implement existing laws and develop regulations that support local government resource mobilization and develop expertise in municipal finance in lending institutions. Technical assistance will be provided for planning urban infrastructure for about six municipalities. The mission plans to use the new Public Administration project to provide technical assistance and training for municipal staff.

The local government strategy for the Czech and Slovak Republics, which was prepared in January 1993, has a "substantive focus on helping cities develop cost effective capital investment strategies and working at the Republic level to develop market-oriented credit systems to finance those strategies." The strategic goal is to "strengthen local government to act as self-reliant change agents in transforming the development and management of the physical city so as best to contribute to economic restructuring, capital market development, and other societal objectives."

AID is now developing the HG municipal lending system for the Czech Republic. There will be a combination of intensive and short term assignments with a few cities. The intensive assignments will begin with assistance on one or two topics in several cities at one time and move into more general guidance on project preparation and appraisal and capital improvement programming.

Short-term assistance would be given to a broader range of cities, but would focus on the central themes of developing local infrastructure investment strategies and appraising projects that could

be financed by the new credit system. There will also be a training and dissemination program carried out by indigenous institutions and coordinated through the Association of Town and Cities. The strategy identifies a number of "end of project indicators," that have been missing for all other strategic statements. The strategy outlines staffing arrangements, with a three-person central Program Management and Training Team, that would be part-time but continuing, and a City Team that would be guided and supervised by the Program Team. Staff are actually proposed for the Program Team, two from Urban Institute and the third a field coordinator, their local contractor.

Consultant Dominance. Another success of this program is the high respect that the Urban Institute managers of the program and its subcontractors have earned from central and local government alike. Urban Institute has clearly been highly responsive to the Government's needs in providing assistance to draft the condo law. The Urban Institute advisors have very carefully "led from behind." The original model was US Condo Law and considerable advice has been given to the Czech Ministry staff who are responsible for the law.

And yet in that very success lies a danger and a lesson. AID had almost no name recognition with the Ministry staff we met. There seemed to be almost no direct contact with the Ministry and AID on local government or housing. Their contacts with AID were managed by the local contractor and by Urban Institute. This was a matter of some considerable concern for the AID Representative's Office. They felt that the program was Urban Institute's not AID's and they welcome the introduction of a PSC to impose AID management to the program. There was particular concern about a local contractor having such an important managerial role since would be bound to have an agenda that went beyond AID's. However, that said, the Mission did agree that the municipal finance emphasis for the future program was correct, although its form could be disputed. *The lesson is that there needs to be clear country management of the program by AID, and fortunately AID is now moving in that direction.*

6.2.3 Recommendations

(1) ***Continue development of the municipal lending system using the Housing Guarantee and the complementary municipal government program outlined in the strategy.***

The proposed focus on finance at the national level will appeal to local and central government and to the AID Rep. This strategy should also be distributed as a model for those preparing strategies for other countries.

(2) ***AID should prepare a plan to introduce PSC management and monitoring without disrupting the institutional progress made by Urban Institute.***

The first step is for the AID Rep and the Urban Institute/ICMA, including Urban Institute's local contractor, to agree on the strategy, and for the respective roles in the implementation of that strategy be made clear.

6.3 Private Sector in the Czech Republic

6.3.1 Context

The two most obvious factors affecting the evolution of private sector assistance has been the relative good health of the Czech economy overall, and the split with Slovakia. A stable currency, positive balance of payments, relatively low interest rates, rapid Phase I privatization and restitution, and reduced inflation have all signaled the vitality of the Czech economy. Preoccupation with the separation of the two republics did delay a lot of internal policy initiatives in each country, but did not seem to deter short-term activity in the private development sector.

There are three issues, however, that should be noted. First, the passage of bankruptcy laws in the near future may induce many firms holding worthless accounts receivables or other over-valued assets on their books to seek protection from creditors in bankruptcy. In the construction industry, privatization followed by partial bankruptcy could result in undercutting the financial strength of this sector and increasing unemployment. This is a major concern for members of the Guild of Private Contractors.

Second, for the private real estate, construction and development sector, the playing field between public and private, and between large and small organizations is not yet level. Access to bidding opportunities, capital, labor and other information is not equal, and many small firms are vulnerable to capital shortages and cash flow difficulties as a result. In the transition economy there has been little formal government help for small businesses in the construction/development sector. AID's private sector assistance is designed to compensate for this weakness.

Third, the disparity between economic activities in Prague and in the rest of the Czech Republic seems to be quite large. Members of the Guild of Private Contractors point out that all of their regional centers set up as a result of AID technical assistance are today under-funded and inactive due to a shortage of local support to keep them going. Unemployment and low productivity in regions outside of Prague together with limited municipal resources mean that private sector development activities—especially those undertaken in conjunction with local governments—may not get off the ground without outside assistance.

Since 1991 EUR/DR/H has undertaken a variety of activities to provide assistance to the private development sector in the Czech Republic. Early studies in 1991 on housing production costs and affordability in the Czech and Slovak Republics indicated significant potential to build private housing at free market prices. Since then, activities have focused primarily on training programs for private contractors and developers, and technical assistance for the Guild of Private Entrepreneurs in the Construction Business. Relative to other countries and to other subsectors in the Czech Republic, private sector assistance has had a purposefully low profile. Activities benefiting both Czech and Slovak Republics have included:

- Surveys of the construction industry
- Workshop on financial management for construction companies
- Support for a construction fair on housing technologies
- Construction management workshops
- Technical assistance to the Guild of Private Contractors to establish regional training and information centers
- Technical assistance to the Guild in association management
- Technical assistance to a private appraisal group

6.3.2 Program Successes and Lessons Learned

Those who attended the various technical assistance and training programs for professionals in the construction industry have expressed satisfaction with the relevance and utility of the information received. They seem to be much more aware of the requirements for sustaining profitability and growth in the private sector, and of the ways their industry has to change in order to catch up to Western European standards of productivity. Several construction companies are actively involved as subcontractors in other countries (primarily Germany and Austria). More than 200 professionals and public officials have attended these sessions, and those with whom the evaluation team was able to speak indicated their confidence in the growing strength of the private sector. The continued economic uncertainty and evolution of the legal system affecting the private sector (e.g. public bidding and procurement, bankruptcy) make construction risks still high. But the high risk is more than compensated for by the opportunities for profit.

More seminars and workshops have been requested, particularly in the areas of business management, project feasibility analysis and financing, and marketing/sales. The Guild of Private Contractors has been happy with the assistance delivered to their Association on organizational issues, but they are still concerned about not being able to convince all their members to pay their dues. Several issues continue to cloud relations with these clients:

- Several commented on the considerable delays in receiving information and/or feedback that had been requested from trainers—some as long as six months after the program (weak or little follow-up support).

- The Guild of Private Contractors has expressed concern that they are still waiting for hardware and software for their regional centers.

District 6 in Prague has had two problems: (1) one consultant who was asked to leave because he could not deliver the products that were requested and promised; and (2) the private housing management database program for over 12,000 units, which is overdue. The complexity and scope of this latter task turned out to be much greater than originally anticipated. With the recent switch to a new Czech software company, the project seems to be on the right track now, but it has to be managed on a weekly basis until the promised product is delivered. The District

had threatened to drop the whole effort if the program was not delivered by the end of May (six months after the promised delivery schedule). District 6 is currently silent on the issue of possible follow up to technical assistance in the area of land development generally, or specific public/private partnership projects that had earlier been under consideration. The important lessons to be learned from these events are threefold (and very similar to those in Hungary):

1. Before promises are made regarding information systems, AID and its contractors must clarify the client's expectations and requirements regarding the product or service being supplied. Written specifications are essential where the clients' needs may continue to grow, but the ability to deliver does not.

2. With complex systems it is helpful to survey what has already been produced, both in the U.S. and the country in question. This would help determine whether there are local providers who can deliver the product. Such investigations in this case, for example, would have revealed that similar programs in the U.S have required three to four years to be developed with a whole industry behind them.

3. Where ever possible, AID should avoid playing a middle-man role in the delivery of complex software products and services. A local government client such as District 6 in Prague is also likely to have much more leverage over local providers than a foreign donor organizations.

6.3.3 Recommendations

AID has developed productive working relations with policy makers and public official at several levels of government. The efforts in policy reform should be continued because many legislative issues affecting the development of a healthy private housing market remain to be addressed—for example the condominium law which is still not passed, and procurement and bonding statutes which would help level the playing field for private sector actors. The availability of (affordable) housing may have been overstated according to some news reports and the Building Information Institute, so that the potential role for private sector production of affordable housing could grow substantially in the near term.

Thus, even with AID's consciously reduced profile of assistance to the private sector, it seems important to sustain the momentum of assistance already being provided, namely:

- **macro/national level** assistance in policy development and regulatory issues (e.g. support for passage of the condominium law, bonding insurance and other guarantees, procurement regulations, etc.);

- **intermediary assistance** to the Guild of Private Contractors and to its affiliated organization, the Building Information Institute in order to strengthen their regional networks and their ability to represent the interests of their members at

the national level; also, support via EERPF for developing a nationally based private real estate network through the Association of Realtors in Prague.

Because of EUR/DR/H's already considerable network among policy-makers and government officials, support for private sector development should be funneled through an expanded program of support for municipal development (particularly infrastructure). As indicated in the 1992 study of cities outside of Prague, there are many municipalities in addition to Liberec where technical assistance in developing public/private partnerships in the areas of economic development, housing and infrastructure finance would be well received.

7.0 HOUSING AND URBAN DEVELOPMENT IN SLOVAKIA

7.1 Housing Finance

7.1.1 Context

As in the Czech, no program of assistance to housing finance is being undertaken by AID. The State Savings Bank is, however, currently implementing a Contract Saving program with the assistance of the Bausparrkassen. A subsidiary is being set up with some input of Austrian capital. Informal reports to-date indicate that there is very little demand for this scheme at the present time. It is also felt by some observers that contract savings schemes are difficult to introduce if inflation is more than very modest (it is guess-timated to be 20 percent annually in Slovakia, but expected to rise because of budget pressures stemming from the split).

Since the evaluation team visited Slovakia, EUR/DR/H has reported some interest on the part of the government to participate in a housing finance project. This is viewed by the team as a positive development. Throughout this report, we have stressed the importance we attach to the housing finance sector as a component of a balanced development package (see Chapter 3.0 in particular).

Some of the same arguments that were presented in favor of introducing housing finance in the Czech Republic hold for Slovakia (see Section 6.1). Thus, given the extensive work that already been done on system development, instruments, manuals, training programs, and so forth, the program could be introduced at low marginal cost. Poland and Hungary provide strong regional examples, and much could also be learned rom the program in Bulgaria. Second, given the long lead time that has been required for policy reform and client development throughout most of the region, it is important to begin as soon as possible.

It is also the case that some of the arguments may be more relevant to the Czech Republic than to Slovakia. Thus, it was also argued that the technical assistance could be quickly absorbed in the Czech Republic and that the system could probably take off on its own if no HG was involved. These arguments probably do not hold for Slovakia. There are likely to be problems regarding both liquidity and institutional reform.

Given Slovakia's debt situation, a HG is not likely in the near future. Also, the AID representative has established municipal finance as a higher priority. Absence of long-term capital is likely to be a problem, however. The evaluation team does not have detailed information regarding the financial situation of the State Savings Bank; however, as far as policy reform, the bank is not thought to be very forward looking or very flexible. The State Savings Bank phased out its subsidized loan program at the end of 1992 (some loans were for 40 years at either 1.0 or 2.7 percent). The Bank is said to have limited resources and has not taken any steps to mobilize private funds nor to think about how to replace the old system of subsidized lending.

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The banking system is considered to be somewhat less sophisticated than in the Czech Republic; it is very undercapitalized and lacks trained personnel. In summary, there seems to be less enthusiasm than in the Czech Republic for the notion that the system needs reforming in order to attract private capital.

7.1.2 Recommendation

(1) ***Pursue the current request for interest in housing finance.*** *Client development, followed by a technical assistance program in housing finance should be introduced in Slovakia.*

As has been noted for Poland, Hungary, and Bulgaria, the most likely clients may not be in the state savings banks, even though they are ultimately the logical home for housing finance. Given the conservative environment that persists in Slovakia, the development of an institutional structure for housing finance may take some time. This is all the more reason to get started. One logical place to begin is the Ministry of Finance. It has also been noted that the First Commercial Bank in Zilina is the type of bank which might be more amenable to reform.

(2) ***Begin with a program limited to policy reform until such time as the debt situation allows a HG program and/or internal or other sources of funds are available.***

Mortgage instrument design could build immediately on previous efforts. In summary, since the "technology" for this type of policy assistance is so available, and since Slovakia is likely to remain within the AID program for some time, it is important to begin the policy debate as soon as possible.

7.2 Local Government

PRE/H technical assistance to local governments in Slovakia is just starting. Before the split, the majority of activities carried out in the Czech and Slovak Republics were focused on surveys, case studies and initial seminars in Prague. In fact, the January 1993 strategy does not cite **any** accomplishments in Slovakia for the work with local government. Only after January 1993 did AID develop a separate program to address Slovak-specific issues.

The two activities for local governments in 1991 and 1992 include:

- a one day seminar in housing privatization and asset management for the local government officials in Bratislava in summer 1991 and
- participation in the Housing Finance and Infrastructure conference in Prague May 1992.

Following the development of strategies for providing assistance to local government in the fall of 1991, three activities for local government in Slovakia have been initiated (but only after a delay of nearly 18 months):

* Credit System Development and Municipal Revenue Assistance,
* Land Development Strategy in Trencin, and
* Sanitation System Strategy in Banska Bystrica.

7.2.1 Context

Although Slovakia officially split from the Czech Republic in January 1993, many government responsibilities were passed to the Republic and municipalities earlier. Therefore, legislative reforms have developed differently in the two Republics. Legislative issues affecting local governments have had to be tailored to Slovakia specifically. In response, the AID local government program is now based on separate RFS's for the Czech and Slovak republics for Credit System Development and Municipal Revenue Assistance (since January 1993). Likewise, assistance to the Slovak government for privatization of state housing units will need to respond to the specific proposals being currently prepared by the Slovak government.

Some of the technical work originally developed in the Czech Republic (i.e. privatization of housing management and strategies for management of land development) can be readily applied to the Slovak Republic.

In general, Slovakia is not viewed as having decentralized authority from the state to the municipalities as much as has been done the Czech Republic. The local government officials interviewed (Trencin and Banska Bystrica) do not think the central government really wants to decentralize planning and control of government services. They are therefore suspicious of promised financial support from Slovak central government. Very few government officials, however, seem ready to assume the full responsibility for managing their own affairs independently of the central government, they count on continued technical assistance and financial support through the districts.

7.2.2 Accomplishments -- Lessons Learned

The Mayor of Trencin believes that the assistance needed is not in technical planning for new infrastructure and land use, but in strategic planning for the city and in marketing the town for private investment. The city is particularly interested in putting together land development packages for private developers and securing development commitments in order to create additional sources of revenue.

The technical assistance recently initiated with Trencin and Banska Bystrica has been well regarded, but is viewed by both cities as short-term. The contribution on municipal budgeting

was unclear to Banska Bystrica officials, primarily because the consultant spent a lot of time trying simply to understand the budgeting system. Both cities look forward to preliminary reports and recommendations, and would like to know clearly what the follow-on programs will involve. Neither city has received a copy of the local government strategy for the Slovak Republic, and none of the officials interviewed has any clear concept of what USAID's program is all about. Urban Research remains in touch with the officials, but not in a programmatic way to clarify time lines, schedules, products etc.

7.2.3 Recommendations

(1) Assist municipalities to restructure their priorities and their budgets to balance costs and revenues.

Both cities visited have complained of diminishing revenue, but neither has specific plans for restructuring their budgets and activities to accommodate new revenue streams (with the exception of attempts to sell off some assets. They seem to be waiting for the central government to solve the revenue short-fall, or for regional/district governments to address their physical problems (i.e., water systems).

Future technical assistance should 1) tie the work with individual towns on sanitation system strategies and land development to the city fiscal strategy and 2) assist in the decentralization of central government responsibilities to the self governments (particularly housing privatization).

(2) Provide a clear overview of the AID program objectives and activities.

Not even the recipients of the TA have a clear understanding of the program objectives of USAID or the Office of Housing, or what Urban Research and Urban Institute's relationship is to USAID.

(3) Provide Slovak municipal officials access to technical assistance and training completed in the Czech Republic and other East Europe countries.

Much of the work in housing management privatization, asset management, and strategies in public/private land development in other countries can be readily applied to the Slovak Republic.

The mayors indicated that one of the most serious problems in local government was the passive, or reactive attitudes of most people in local government. **A component of the local government program should therefore address attitudinal changes**, both through exchanges with other East Europe countries and the United States, as well as through the technical assistance provided in the country.

(4) Continue to address a strategy for introduction of a program in housing privatization and housing allowances.

The AID Representative's Office has requested this assistance and EUR/DR/H is now looking into the best approach. In the long run, privatization could be important in helping relieve fiscal burdens at the local level in Slovakia.

7.3 Private Sector in Slovakia

7.3.1 Context

All private sector activities reviewed for this evaluation were conducted as part of the Czechoslovakian private sector work initiated before the split. Therefore the activities listed in Section 6.3 are all pertinent here with the exception of the association support provided to the Guild of Contractors in Prague in January 1993. Subsequent to the split, a study tour was organized for housing sector professionals from Slovakia to the NAHB convention in February 1993.

Most activities were focused directly on enhancing the capacity of private construction and development firms to respond to private housing sector opportunities. In Slovakia, the two primary clients were the Association of Entrepreneurs and the former Ministry of Construction. The latter ministry has since been split into two parts, The Ministry of Transportation and Public Works, and the Ministry of Economy.

The early work in the private development area, including the sectoral studies and capacity-building training programs, acknowledged the differences between the Slovak and Czech Republics, as well as the linkages between them. The process of decentralization was less advanced in Slovakia, and the resources were more limited. Despite this, the political and economic changes already underway had spurred considerable interest in privatization of the construction sector in Slovakia, and the growth of a private housing development industry. The second round of privatization could include the large state-owned building enterprises.

After the June 1992 training program, however, some of the momentum appears to have been lost to political and economic concerns about the impending split between the two Republics. The new housing law, permitting privatization of state owned units, has not yet been approved by the legislature, and appears to be drawing considerable fire from both sides of the political spectrum—some saying the prices are far too high, some saying that widows and orphans will be put out in the street, and some saying that prices do not adequately reflect the diversity of the "real housing market." The absence of this law may undermine, or at least hold back, the development of the private housing sector because of lack of condominium authorization, continued uncertainty regarding private sector opportunities, and the lack of transactions to establish market value.

The absence of construction financing and mortgages continues to be a major impediment to private development of housing. Among the entrepreneurs, the current central government is perceived as a brake on progress, particularly in the area of public procurement.

7.3.2 Accomplishments and Lessons Learned

Most of the feedback from private sector clients has been very positive regarding both the substance and the methods of the training and technical assistance offered. The Association of Entrepreneurs is happy with most of the training, although the Brno construction fair was somewhat disappointing with respect to the utility of the seminars offered. A study tour to the NAHB convention was organized in lieu of seminars on technology. The Slovak contractors who participated in the study tour were enthusiastic about their brief exposure to U.S. housing development and construction industry practices, and said they would recommend the study tour as a vehicle for hands on learning about new ways of doing business, and seeing first-hand the application of new technologies for solving old problems, and learning how associations conduct their business and support their members.

The Association of Entrepreneurs noted an absence of follow-up support after the initial training and technical assistance activities were delivered. They also recommend that future training seminars concentrate more on the business and marketing aspects of construction and development (like Irwig TA), and less on the physical aspects of building construction, where the Austrian and German building companies have a competitive advantage. There is continued interest, however, in staying abreast of developments in new U.S. building technology (e.g. plumbing systems, energy conservation, lightweight concrete systems, computer aided design, etc.) that could be imported from the U.S. to reduce development time, and therefore costs.

7.3.3 Recommendations

(1) AID should continue its commitment to supporting private sector development by strengthening communications with key public and private sector actors and providing follow-up support.

The recent PADCO visit in April and the arrival of a PSC in the near future represent important steps in this direction. The planning framework should include

- **Macro/national-level assistance** with a focus on policy development to level the playing field between small contractors and large SOE's (e.g. procurement regulations, bidding opportunities, bonding capacity, guarantee finance mechanisms and privatization policies); to facilitate property transactions through real estate companies; and to strengthen the municipalities' land development and housing privatization capabilities.

- **Intermediary assistance** should focus primarily on two client groups: (a) the Association of Entrepreneurs who would benefit from TA and training in the area of business development based on Slovak case studies; and (b) municipalities as sponsors of public/private partnerships in urban land development.

If further study tours are undertaken, they should first establish a context with a preliminary technical assistance program, then follow up with specific adaptations of the materials to the Slovak situation.

There are **substantial private sector development opportunities outside of Bratislava**-- e.g. Trencin, Banska Bystrica, and other towns where local governments want to work closely with the private sector in economic development. The private real estate market is very much a focus of their attention, as it represents a potentially large source of revenue they can use to replace lost subsidies from the central government. Thus, private sector support should be planned and coordinated with local government programs.

8.0 HOUSING AND URBAN DEVELOPMENT IN BULGARIA

8.1 Housing Finance

8.1.1 Context

Of all countries visited for this evaluation, Bulgaria has the highest level of private real estate ownership: 90 percent of all housing is privately held. Restitution of confiscated properties in both the country and the cities has been very rapid—particularly in the cities—leaving a number of questions about title and value unresolved. Despite this, the number of private sales (recorded transactions) has grown dramatically, putting pressure on manual recording systems and cadastral mapping. Among the residents of Sofia there is a significant portion second-home ownership outside of the city. Ironically, Bulgaria is also one of the countries farthest behind in terms of privatization of state-owned enterprises and decentralization—in part due to the long tradition of central planning and control. The housing finance system has collapsed, leaving new multi-unit housing development at a virtual stand-still.

Like Poland and Hungary, Bulgaria has received assistance in addressing numerous aspects of the reforms necessary to create a revised framework for the shelter lending. Bulgaria has its own version of an alternative mortgage instrument (the BICC), and has addressed issues regarding the legal framework, foreclosure, appraisal, underwriting, servicing, and so forth. Another round of short-term assistance for the SSB is about to begin, including more advice regarding legal issues, valuation, and computerization. A mid-term advisor (with a background in mortgage banking) is expected to arrive shortly.

Despite these considerable efforts, Bulgaria clearly illustrates the difficulties of system reform, especially when the issue of the "social right to affordable housing" is an important part of the political context. First, it became clear that the introduction of a new mortgage instrument was alone not able to "inspire" transformation of the system. Even now, however, following extensive technical assistance, efforts have become close to being stalled by lack of acceptance by either the State Savings Bank or the new Post Bank. **Thus, plans for a pilot program and the training that would precede this, are essentially on hold.**

Another issue involves discussion by several senior officials of forming a new institution. A former senior official of SSB and the Post Bank has recently introduced the idea of a new institution dedicated to market-based housing finance; the institution would be capitalized by a number of existing institutions, including the SSB. Although introduction of new lenders in housing finance is ultimately important to developing competition in the system, the current discussion demands clarification. **It is not clear yet whether formation of a new institution would "clear the conservative air" and let reform-minded clients get on with a program, or alternatively, bog down an already potentially overloaded situation.**

In addition, there seems to be another viewpoint as to what the discussion is about. Thus, the SSB appears to view a new institution as equivalent to creating a "Fannie Mae". In any event,

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these differences in perception of the structure and purposes of various institutions point out the need for greater understanding of institutional roles throughout the system.

8.1.2 Successes

Despite these problems, however, Bulgaria does have a number of important ingredients for eventual success in system reform. First, there are enthusiastic clients for housing finance who have endorsed undertaking a "big picture" strategy. The long-term field advisor has pushed the necessary framework approach, realizing the depth of problems extended far beyond lack of a suitable mortgage instrument.

Bulgaria has made progress in introducing the ingredients for a revised system. A great deal of work has been done on mortgage instruments, culminating in the BICC. Simulations have been done showing the impact that positive (real) rates have on SSB profitability. Underwriting and servicing guidelines and manuals have been developed. Several reviews of system strategy have been undertaken, and as noted above, more legal assistance and a six-month banking advisor are just now arriving.

Finally, it is fortunate that assistance is also being provided, through another AID project, to the overall banking sector; eventual introduction of competition into the housing finance system will rely heavily on these efforts.

8.1.3 Lessons Learned

Despite these successes, the major restructuring of the housing finance system is stalled. As has been discussed in Chapter 2, Bulgaria is a member of the "second tier" of countries in the region. **Housing finance in Bulgaria is not about to take off.** The Housing Finance Strategy paper prepared by Fannie Mae suggests that the "long-term" portion of the suggested program does not even begin until 2003. This is probably realistic. Bulgaria's development problems are relatively more severe than for some other countries in the region. Lack of capital, lack of sources of long-term finds, and a rudimentary banking system just in the process of restructuring, join inflation and severe unemployment in limiting both demand for housing and the ability to undertake mortgage or construction lending. Under a World Bank project with the BNB, the banking system in currently being consolidated through merger and privatization to include about 7 to 10 institutions rather than over 80. The system conforms more than most to Jan Brzeski's description of the legacy of "financial institutions as solely conduits for pre-planned financial flows". The SSB is still the sole housing lender. The result is a serious shortage of personnel who can quickly be brought up to proficiency in housing lending.

Finally, it should be noted that the natural conservation of the SSB and Post Bank suggest that they are not yet ready to compete in a market situation. Also, there is reluctance to introduce the new mortgage instrument in a highly inflationary environment.

8.1.4 Recommendations

(1) Clarify the institutional options for the short- and long-run structure of the housing finance system. Closely involve the key clients in this process, setting goals for SSB regarding staff training and the initiation of mortgage lending. Accept the long-term nature of the reform process and tailor the goals to meet the current absorptive capacity.

Basically, the SSB has been very receptive to technical assistance, but continues to have cold feet when faced with the prospect of actually lending. Thus, perhaps the client could become more invested in the "milestones" required in the AID strategy statement and set dates for initiation of training and lending. The AID representative should also be appraised of realistic timelines for specific goals.

In the short-run, only the SSB and perhaps the Post Bank can undertake mortgage lending. In any event, the demand for loans is likely to be very small in the present economic circumstances. Specific attention should be given to **rehabilitation lending**, both because the stock is in serious disrepair and because loan size makes it affordable to more households.

(2) The enthusiasm for a new lending institution should be assessed by a feasibility study.

Given the conservative tendencies of SSB, enthusiasm for a new lending institution is welcome. A smaller organization without SSB's institutional memory might be more aggressive. Rather than lend itself, SSB can also easily lend to a new institution.

In addition, however, pressure should continue to be placed on the SSB to further its reforms and begin market-based lending. In the long-run, it is clearly desirable to have competition in the system and, eventually, an apex institution. The long-run structure should be discussed with the BNB, Ministry of Finance, and SSB. However, again, discussion of the SSB becoming an apex in the future should not deter forward progress on introducing market lending. It is also the case that lending can begin even while legal and other policy reforms are in process.

(3) Cultivate additional champions of reform and address the staff qualifications issue through an extensive training program.

Additional senior personnel need to become invested in policy reform. Advisors on social policy need to understand that subsidies policies can still be utilized for poor people, for example, with housing allowances and other income policies. Reform policies are important to encourage private rental construction. Also, lack of adequate loan recovery/foreclosure policies are a major impediment to incentives to lend.

Complement the current program with extensive training of (potential) senior lending managers, and mid-level technical staff. As noted, one of the greatest barriers to more rapid implementation of reform is lack of personnel with understanding of housing finance. Not only the SSB, but also the Post Bank can currently benefit from this training. As an example, the departure of Mr. Groumev from the Post Bank seems to have left capable mid-level staff with no senior manager. Training should proceed on a broad basis even if the all the institutions receiving training are not able to begin lending immediately. In the long-run, these trained staff can participate in some institution, even if it is not the original home of the training.

It is important to distinguish a given institution from its current personnel. AID can institutionalize a set of skills in a country by convincing an institution to begin training staff around new objectives, skills and procedures. Eventually, these new skills will be diffused through the creation of new institutions.

8.2 Local Government

8.2.1 Context

As elsewhere there has been some decentralization of responsibility from central to local government, but not as much as in the other countries. National budgets are being cut back but there has been less devolution of fiscal responsibility to local government. The two Deputy Ministers we met at the Ministry of Regional Development, Housing and Construction clearly supported a devolution of authority to municipalities. However, one reported that the Local Self Government and Local Administration Act is "on legal paper only, finance is still an issue." The Ministry of Finance was said to be reluctant to give local authorities more fiscal authority. There are eight redrafts of the act waiting in Parliament. The Executive Secretary of Blagoevgrad admitted that the Ministry of Finance may have a point: most local authorities are not able to handle their own finances. He confirmed the need for support with finances: flows for the center have been "severely cut back, starving the city of funds for services such as water treatment and public transport." He even asked for long term technical assistance in finance and budgeting, and in the privatization of municipal assets, which he linked to the resolution of financial issues. Very little privatization has been carried out so far in Bulgaria. In the case of municipalities, privatization included businesses that were once owned by central government but have since been reallocated to local government. These include many medium and small construction companies which, according to the Ministry of construction are very inefficient.

8.2.2 Successes and Lessons Learned

It is difficult to identify successes and point to lessons learned since local government work has been focused on the application of housing allowance/rent increase model rather than broader based local government issues. The first ICMA review team arrived in Bulgaria just a few weeks before the evaluation team. Almost all the activity has been carried out by the Urban

Institute, which has had a long term advisor there for about two years, part time in the first year. Only five of the 21 accomplishments identified by the long term advisor are under the heading "local government", and three of them on the subject of housing. Other accomplishments include a computer model to assist in the design of a local development fund and the ICMA reconnaissance which focused on land information and local economic development.

The mission itself is very interested in local government, since it links well with the democratic initiative and decentralization goals of the mission and the bureau. The AID representative thought that it was now important to push for critical policy reforms by linking "real resources" and technical assistance. He thought that it would be good to have a HG to do this -- and that might be possible after the London Club meeting at the end of the year. He plans to prepare his own local government project for FY 1994 which will combine technical assistance and finance for municipal infrastructure.

However, discussions with the long-term advisors, local authorities, and central government indicate that **strengthening local finances would seem to be a good opportunity for AID supported technical assistance.** This could be in collaboration with the World Bank, which is just starting up in Bulgaria and will focus on redrafting national legislation in support of more effective local government. Thus AID would focus on local authorities and the Bank on central government. However, the Bank could benefit greatly from the current long term advisory team's carefully developed relations with central government. These relations have been made difficult by the frequent changes in Government -- three while Urban Institute has been in the country.

At the moment most attention is being given to the rent increase/housing allowance pilot at Blagoevgrad. The city is waiting for the Central Government to give the go ahead. An exception to the law will be required to permit the pilot. This is a consequence of a somewhat conflicting legal situation. Prior to 1991, municipal authorities were agencies of central government. The Local Self Government and Local Administration Act reinstated the pre-1944 self government. However, these acts clash with much of the rest of the legal framework. Rents are a case in point. They are still set by central government and are still paid to central government. For the pilot to work, rent income should be kept in a separate account and be off-budget, which is currently illegal. The City of Blagoevgrad, which, unlike some other cities, approached for this pilot, has not been deterred by the legal problems, is both lobbying for special treatment for the pilot alone and has offered to redraft the rental law itself. So at this moment the pilot awaits final approval, although we were told that the Council of Ministers had agreed to a pilot confined to Blagoevgrad alone.

The EUR/DR/H strategy (September 1992) for Bulgaria is to focus on housing strategies in the short term and assist in refining the proposed legislation of local government powers and administrative divisions in the medium term. FY 1993 funds are planned to be spent on land -- defining the land agenda and work on land issues in two cities. In reality, much will depend on the outcome of the ICMA reconnaissance, which has only just been completed. We were told

that ICMA is recommending technical assistance on an integrated land database and measures to stimulate economic development.

8.2.3 Recommendations

(1) Continued support should be given to the implementation of the Blagoevgrad housing allowance/rent increase pilot and its replication.

We were told that permission to begin the pilot was imminent -- the required exceptions from the law. Progress should be carefully monitored, as should the parallel Szolnok pilot in Hungary. Preparations should be made to hold the same sorts of conferences and have the same media campaign as in Hungary.

(2) The long-term advisor and the EUR/DR/H manager should respond to the AID Representatives' request that a "map" be prepared of where the program is going, with intermediate indicators of success.

This will help the mission to see where the local government program fits in with its own objectives. Bulgaria is one of the few countries that has actually drafted indicators of performance. They need to be set in a time phased context showing where activities are leading.

(3) Consideration should be given the same sort of attention to municipal finance as the Czech program plans to do.

This was requested by one local authority and another is planning a municipal fund. ICMA has included municipal finance support in its recommendations.

(4) The local government team should find a way to participate in the preparation of the AID Representative's local government project.

AID and its contractors should have much to offer. The Mission is prepared to add capital funding "clout" to the local government policy reform program -- there are numerous local government and housing policy-related bills tied up in Government or Parliament.

(5) As stated in the AID strategy, a Local Government Strategy should be prepared.

It would cover national and local government and provide a framework for TA in the sector. Such a strategy may propose a program similar to the medium term program suggested by AID: national legal assistance (although we were told that the World Bank may focus on this); implementation of TA/training in local housing strategies; and assistance in land, municipal finance, and infrastructure.

8.3 Private Sector in Bulgaria

8.3.1 Context

According to the draft September 1992 Strategy for Bulgaria, private sector activities in that country are aimed at three objectives: (a) establishing a market-based real estate sector, (b) building the capacity of private management and maintenance firms, and (c) strengthening the role of the private construction and rehabilitation sector. Private sector assistance was initiated in 1991 with an assessment of opportunities to strengthen the construction and development industries. Since then, the following activities have been undertaken:

- Real estate brokerage and appraisal course
- Technical assistance in private housing management and rehabilitation
- Assessment of constraints to small and medium-sized private construction firms
- Study tour to U.S. by minister of construction N. Karadimov.
- Development of resident's associations
- Development of private sector strategy, plans for more training

Developing a healthy real estate market in Bulgaria faces three main problems: (a) the playing field is not level because regulations and procedures for protecting buyers, sellers and intermediaries like contractors and developers are still evolving; (b) there is only limited access to construction finance and long-term capital for new construction and rehabilitation; and (c) economic conditions severely distort the market (e.g., 75 percent inflation, 45 percent interest). Nonetheless, real estate transactions in the private sector have picked up, corresponding to rapid growth in the number of real estate brokerage firms (30+ in Sofia alone).

Interviews with the Ministry of Construction and with the Bulgarian Building Chamber of Construction (BBCC) indicate a considerable degree of uncertainty about the transition process and the overlap of new and old laws. However there seems to be general optimism about the direction of change, but frustration with high levels of inflation and interest rates.

8.3.2 Accomplishments - Lessons Learned

AID-funded technical assistance and support in the private sector has been limited over the past two years. The two real estate brokerage and appraisal courses in 1991 were very well received, and through them 120 brokers/appraisers were licensed. Unfortunately, the SPONS organization, a broker's association created to sponsor the course, collapsed (because the people selected to start the organization were not the right ones to keep it going). The substance of the training was appropriate and well received, and should probably be elaborated with a new group provided there is adequate follow-up support.

The technical assistance and training program in capital planning and rehabilitation for multi-family units was not well received because the concepts and methods used were imported directly from the US, and not adapted to particular audience requirements and context. The

lecture presentations were felt to be too complicated, and not immediately useful. Subsequent technical assistance and training efforts should focus on a smaller range of rehabilitation and maintenance issues that are directly relevant to the audience.

The Minister of Construction, Mr. Karadimov has indicated that his work-study trip to the United States was very useful in providing him with a perspective on how the construction/development sector in the U.S. is organized.

PADCO has only recently begun to work with the BBCC to plan technical assistance and training in private sector construction systems and finance. This organization has doubled its national membership in the last two years (to 600+ organizations), and the membership itself has become much more oriented to the private sector— now 50/50 public/private, versus 75/25 at the end of 1991. The organization said that the delays in starting up the PADCO program (after initial visits in 1991) were unfortunate, but that they would still welcome any support that could be offered.

8.3.3 Recommendations - Targeting Private Sector Assistance

The Urban Institute's long-term advisor indicates that many of the same private sector issues and opportunities that were raised in his earlier reports (1991 and 1992) have not yet been addressed by specific private sector projects, and that the initiatives begun then should be followed up.

(1) National-level assistance to the private sector should be aimed at providing policy support to the Ministry of Construction in the development or clarification of laws and regulations that facilitate private sector development.

This would include more specific attention to (a) standardizing building codes, and procurement, permitting and bonding procedures to increase competition in the construction marketplace; (b) providing support to the MOC in the process of privatizing state-owned construction firms (if other AID-funded privatization resources/programs are not available); and (c) certification of building firms to assure their technical competence and financial strength.

The second category noted above could be an opportunity to help the Minister of Construction and local governments decentralize and/or privatize the large state-owned construction companies. This would be particularly useful if it could build on Bulgaria's already substantial presence as a contractor in external markets and contacts with Russia. Support for this kind of assistance should first be secured through AID's existing privatization program in Eastern Europe. If these resources were not available in the time frame indicated, EUR/DR/H could access its own network of resources with privatization experience.

(2) Intermediate-level assistance should be directed to two primary professional organizations: the BBCC and a replacement for the SPONS brokers organization.

Provided the BBCC's membership strength can be maintained, technical assistance to this organization should be expanded beyond the May course in construction finance to include marketing and management skills for construction/development companies, and support in building the association's membership base, regional structure and lobbying capabilities.

AID should take steps to identify and establish a replacement broker's organization for sponsoring continued courses in all aspects of real property transactions, finance and development. Long-range plans for providing assistance to both organizations should be developed now with specific elements describing how follow-up support will be provided for each proposed activity.

(3) Rehabilitation of the largely privately-owned stock is a serious problem. Assistance in the identification and support of demonstration projects should be undertaken in conjunction with municipal governments. The prospects for replication is an important rehab selection criteria.

The development of rehabilitation strategies and demonstration of rehabilitation methods can be very useful given the widespread private ownership of units and run-down condition of the stock. Demonstrating modest improvements in panelized housing systems, may be less advantageous that the **more visible redevelopment of older structures**, or the use of infill housing or roof-top designs. Such projects should be designed to capture the imagination of entrepreneurs in the housing market, secure the joint participation of private owners and municipal officials in the planning and approval process, and demonstrate the economic feasibility of specific technologies. A viable demonstration approach would seek to build on, or leverage, a municipality's concern for other land development projects —especially, privatization and infrastructure development.

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This Annex presents summary tables and background data on AID expenditures for the Eastern Europe Housing and Urban Program. The figures are based on EUR/DR/H data from current contracts, from RFS's and from the planning meetings held in March 1993. The table assumes that expenditures for East Europe under the PADCO World Wide contract are included in the overall $55 million SEED Act authorization.

Current versus Planned Expenditures

Current program expenditure are summarized in Table 1. Of the total of $55 million available for the total program, about $15.4 million was spent by March 1993 (or is specifically allocated to a task which has begun but is not necessarily complete). Thus, 28 percent of the funds have been spent in the first two years of a five year program. Without targets there is no way to interpret how funds expended relate to the achievement of objectives.

Table 1

Funds Spent as of March 1993
East Europe Housing & Urban Development Program

CONTRACTING VEHICLE	Spent	Unspent	Total	Percent Unspent
PADCO World Wide	$4,661,273	--	$4,661,273	0%
Individual Contracts	$2,087,701	--	$2,087,701	0%
ICMA/Local Government*	$3,120,613	$10,979,387	$14,100,000	78%
PADCO/Private Development*	$1,436,692	$4,183,165	$5,619,857	74%
UI/Housing Finance*	$3,098,878	$2,636,448	$5,735,326	46%
HBI	$500,000	$3,624,000	$4,124,000	88%
EERPF		$3,500,000	$3,500,000	100%
Poland Housing Finance**		$10,000,000	$10,000,000	100%
PSC's (DC/EE)	$499,969	$2,000,000	$2,499,969	80%
Unprogrammed		$2,671,874	$2,671,874	100%
Total	$15,405,126	$39,594,874	$55,000,000	72%

Major regional contracting vehicles available to the program in Spring 1992.

Regional Expenditures to Date

Table 2 on the following page sets forth current expenditures for the East Europe Housing and Urban Development Program overall, and for each of the six countries included in the evaluation. Results of the table may be summarized as follows:

- Within the region as a whole, expenditures over the two years and funds obligated to specific tasks total $15.4 million, of which nearly 39 percent have been spent on the combination of housing finance and housing policy activities (including housing allowances), another 29 percent on local government activities, and 20 percent on private sector activities (including the HBI program); the balance of $1.7 million has been spent on regional program management and development, an amount which has not been allocated to specific countries.

- By country, Poland has received the most funds ($5.6 million), followed by the Czech and Slovak Republics ($3.2 million together), Hungary ($2.6 million), Bulgaria ($1.7 million), and Albania ($105 thousand); in terms of future plans, Poland's share will increase to 40 percent, with Hungary moving into second place with 18 percent of the total.

Given the current rate of spending in each country with respect to a five-year planning horizon, Bulgaria is the furthest along in its spending profile (58 percent of all funds planned), versus 37 percent for the Czech and Slovak Republics combined, and 26 percent for Poland and Hungary. Only two activities have been undertaken in Albania which has only recently entered the program.

TABLE 2: EAST EUROPE HOUSING AND URBAN DEVELOPMENT PROGRAM
EXPENDITURES TO DATE BY SUBSECTOR AND COUNTRY

TOTAL Obligated & Spent	Total	Poland	Hungary	CSFR	Czech Republic	Slovak Republic	Bulgaria	Albania	EE Regional	EE Unprogrammed
Housing Finance	$2,454,851	$1,356,888	$378,396	$78,784	$0	$0	$481,201	$0	$159,582	
– Percent of Column	16%	24%	14%	3%	0%	0%	28%	0%	8%	
Housing Policy	$2,843,886	$549,886	$611,343	$965,244	$0	$0	$542,591	$105,444	$69,379	
– Percent of Column	18%	10%	23%	35%	0%	0%	32%	100%	3%	
Housing Allowance	$744,282	$0	$215,916	$291,565	$0	$0	$236,801	$0	$0	
– Percent of Column	5%	0%	8%	11%	0%	0%	14%	0%	0%	
Local Government	$4,490,803	$1,895,765	$1,077,730	$847,424	$239,468	$215,905	$192,952	$0	$21,560	
– Percent of Column	29%	33%	41%	31%	84%	81%	11%	0%	1%	
Private Development	$2,643,778	$1,375,413	$361,775	$539,878	$45,324	$51,151	$252,869	$0	$17,368	
– Percent of Column	17%	24%	14%	20%	16%	19%	15%	0%	1%	
HBI (Estimate to Date)	$500,000	$500,000	$0	$0	$0	$0	$0	$0	$0	
– Percent of Column	3%	9%	0%	0%	0%	0%	0%	0%	0%	
Management/Program Dev.	$1,727,526	$0	$0	$0	$0	$0	$0	$0	$1,727,526	
– Percent of Column	11%	0%	0%	0%	0%	0%	0%	0%	87%	
Total Expenditures	**$15,405,126**	**$5,677,952**	**$2,645,159**	**$2,722,895**	**$284,792**	**$267,056**	**$1,706,413**	**$105,444**	**$1,995,415**	
– Percent of Column	100%	100%	100%	100%	100%	100%	100%	100%	100%	
– Percent of Row	100%	37%	17%	18%	2%	2%	11%	1%	13%	
– Percent of Total Planned	28%	20%	26%	100%	8%	12%	58%	12%	26%	
– **Subtotal Other Committed**	**$24,923,000**	**$5,624,000**	**$6,950,000**	**$0**	**$3,000,000**	**$1,500,000**	**$1,250,000**	**$800,000**	**$5,799,000**	**$0**
– **Subtotal Uncommitted**	**$14,671,874**	**$10,500,000**	**$500,000**	**$0**	**$500,000**	**$500,000**	**$0**	**$0**	**$0**	**$2,671,874**
TOTAL EAST EUROPE FUNDS	**$55,000,000**	**$21,801,952**	**$10,095,159**	**$2,722,895**	**$3,784,792**	**$2,267,056**	**$2,956,413**	**$905,444**	**$7,794,415**	**$2,671,874**
– Percent of Row	100%	40%	18%	5%	7%	4%	5%	2%	14%	5%

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Expenditures by Contract Vehicle

Table 3 on the next page shows by country how the various AID resources have been allocated among the various contract vehicles over the past two years ("expenditures to date"), and current plans for committed and uncommitted funds in the future. With the addition of a major commitment to housing finance in Poland, Poland's share of all funds will increase from 28 percent to 40 percent.

According to current plans, EUR/DR/H has allocated approximately $15.5 million of the $17.8 million of resources remaining in the three regional contracts (ICMA, UI and PADCO) to specific countries, with the largest share going to Hungary ($6.95 million), followed by Poland, Czech Republic, Slovakia, Bulgaria and Albania in that order. The balance of the Homebuilder's Institute contract ($3.6 million) is committed to Poland, while specific allocations by country for the East Europe Real Property Foundation ($3.5 million) have not been determined.

Current expenditures plus commitments to specific contract vehicles total just over $40 million, or 73.3 percent of SEED Act authorizations. The balance of $14.6 million uncommitted funds will be divided up among personal services contracts (PSC's) in Poland, Hungary, and the Czech and Slovak Republics; and funds for housing finance in Poland. Assuming no other funds apart from the SEED Act authorization are provided, there remain $2.67 million of unprogrammed funds.

TABLE 3: EXPENDITURES, COMMITMENTS AND UNCOMMITTED FUNDS BY COUNTRY AND VEHICLE

FUNDING CATEGORY/VEHICL	Total	Poland	Hungary	CSFR	Czech Republic	Slovak Republic	Bulgaria	Albania	East Europe Regional	Unpro-grammed
EXPENDITURES TO DATE										
Padco World Wide	$4,661,273	$1,292,971	$1,106,024	$1,162,163	$0	$0	$779,169	$0	$320,946	$0
Regional Contracts	$7,656,183	$2,379,876	$956,539	$1,560,732	$284,792	$267,056	$927,244	$105,444	$1,174,500	$0
Individual Contracts	$2,087,701	$1,505,105	$582,596	$0	$0	$0	$0	$0	$0	$0
HBI (Estimate to Date)	$500,000	$500,000								
PSC's/DC	$499,969								$499,969	
– Subtotal Expenditures	**$15,405,126**	**$5,677,952**	**$2,645,159**	**$2,722,895**	**$284,792**	**$267,056**	**$1,706,413**	**$105,444**	**$1,995,415**	**$0**
– Pct of Expenditures (Row)	100.0%	36.9%	17.2%	17.7%	1.8%	1.7%	11.1%	0.7%	13.0%	0.0%
– Pct of Total Funds (Column)	28.0%	26.0%	26.2%	100.0%	7.5%	11.8%	57.7%	11.6%	25.6%	0.0%
OTHER COMMITTED FUNDS										
Allocated Regional Contracts	$15,500,000	$2,000,000	$6,950,000	$0	$3,000,000	$1,500,000	$1,250,000	$800,000	$0	$0
Balance of Regional Contracts	$2,299,000								$2,299,000	
Home Builders Institute	$3,624,000	$3,624,000	$0	$0	$0	$0	$0	$0	$0	$0
EERPF	$3,500,000	$0	$0	$0	$0	$0	$0	$0	$3,500,000	$0
– Subtotal Other Committed	**$24,923,000**	**$5,624,000**	**$6,950,000**	**$0**	**$3,000,000**	**$1,500,000**	**$1,250,000**	**$800,000**	**$5,799,000**	**$0**
– Subtotal Spent + Committe	**$40,328,126**	**$11,301,952**	**$9,595,159**	**$2,722,895**	**$3,284,792**	**$1,767,056**	**$2,956,413**	**$905,444**	**$7,794,415**	
– Pct of Spent/Committed (Row)	100.0%	28.0%	23.8%	6.8%	8.1%	4.4%	7.3%	2.2%	19.3%	0.0%
– Pct of Total Funds (Column)	73.3%	51.8%	95.0%	100.0%	86.8%	77.9%	100.0%	100.0%	100.0%	0.0%
UNCOMMITTED FUNDS										
PSC's (2 years)	$2 000,000	$500,000	$500,000	$0	$500,000	$500,000	$0	$0	$0	$0
Poland Housing Finance	$10,000,000	$10,000,000	$0	$0	$0	$0	$0	$0	$0	$0
	$2,671,874	$0	$0	$0	$0	$0	$0	$0	$0	$2,671,874
– Subtotal Uncommitted	**$14,671,874**	**$10,500,000**	**$500,000**	**$0**	**$500,000**	**$500,000**	**$0**	**$0**	**$0**	**$2,671,874**
– Pct of Uncommitted (Row)	100.0%	71.6%	3.4%	0.0%	3.4%	3.4%	0.0%	0.0%	0.0%	18.2%
– Pct of Total Funds	26.7%	48.2%	5.0%	0.0%	13.2%	22.1%	0.0%	0.0%	0.0%	100.0%
TOTAL EAST EUROPE FUNDS	**$55,000,000**	**$21,801,952**	**$10,095,159**	**$2,722,895**	**$3,784,792**	**$2,267,056**	**$2,956,413**	**$905,444**	**$7,794,415**	**$2,671,874**
Percent of Row	100.0%	39.6%	18.4%	5.0%	6.9%	4.1%	5.4%	1.6%	14.2%	4.9%

Total Allocations

By combining the previous two tables, Table 4 on the following page shows how the entire $55 million SEED Act authorization for housing and urban development activities in East Europe are allocated according to current PRE/H plans by country and by sector.

- **Housing finance** activities will consume approximately 25 percent of all funds, with the largest majority of that being spent in Poland (82 percent), followed by Hungary and Bulgaria (9 percent and 6 percent, respectively). (This distribution assumes that the allocation of new funds to Poland will be devoted to supporting the Housing Guarantee and related projects; the total $10 million can easily be redistributed across other categories).

- **Housing policy** activities (including housing allowances) will consume an additional 14 percent of resources ($7.8 million), with the largest part going to Hungary ($3.1 million), followed by the Czech/Slovak Republics($1.8 million), Bulgaria ($1.2 million), Albania ($0.9 million) and Poland ($0.5 million).

- **Local Government** activities receive just over $12 million (22 percent of total funds). This is smaller than the $14 million ICMA contract because many of the current expenditures by the Urban Institute and other subcontractors have been devoted to housing allowances, housing policy, and private sector activities. According to current plans, the largest share of those funds will be spent in Poland (32 percent), followed by the Czech Republic and Hungary (24 and 22 percent respectively). Slovakia and Bulgaria would receive about 10 percent and 5 percent of the funds allocated to this sector. Under current plans no funds are allocated for local government assistance in Albania.

- **Private sector** activities, primarily funded through the PADCO, HBI and EERPF contracts, will consume approximately 23 percent of total resources ($12.6 million). The largest portion of those funds are programmed for Poland primarily because of the $4.1 million American Polish Homebuilder's Institute in Gdansk. Another $3.5 million is allocated to the East Europe Real Property Foundation with the locus of their activities not yet assigned to specific countries.

- Management and program development funds for East Europe total $3.7 million, of which $2.0 million has been set aside for in-country PSC's. $1.7 million has not been allocated by country.

- Of the total $55 million of SEED Act resources, roughly $2.7 million remains unprogrammed either by sector or by country.

TABLE 4: EAST EUROPE HOUSING AND URBAN DEVELOPMENT PROGRAM
TOTAL ALLOCATION OF FUNDS (PLAN AS OF MARCH 93)

TOTAL Obligated & Not Obligate	Total	Poland	Hungary	CSFR	Czech Republic	Slovak Republic	Bulgaria	Albania	EE Regional	EE Unpro-grammed
Housing Finance	**$13,754,851**	$11,356,888	$1,378,396	$78,784	$0	$0	$781,201	$0	$159,582	
– Percent of Column	25%	52%	14%	3%	0%	0%	26%	0%	2%	
Housing Policy/Allowances	**$7,788,168**	$549,886	$3,127,259	$1,256,809	$300,000	$300,000	$1,279,391	$905,444	$69,379	
– Percent of Column	14%	3%	31%	46%	8%	13%	43%	100%	1%	
Local Government	**$12,190,803**	$3,895,765	$2,727,730	$847,424	$2,939,468	$1,115,905	$642,952	$0	$21,560	
– Percent of Column	22%	18%	27%	31%	78%	49%	22%	0%	0%	
Private Development	**$12,567,778**	$5,499,413	$2,361,775	$539,878	$45,324	$351,151	$252,869	$0	$3,517,368	
– Percent of Column	23%	25%	23%	20%	1%	15%	9%	0%	45%	
Regional Contracts not Allocated	**$2,299,000**	$0	$0	$0	$0	$0	$0	$0	$2,299,000	
– Percent of Column	4%	0%	0%	0%	0%	0%	0%	C%	29%	
Management/Program Devel.	**$3,727,526**	$500,000	$500,000	$0	$500,000	$500,000	$0	$0	$1,727,526	
– Percent of Column	7%	2%	5%	0%	13%	22%	0%	0%	22%	
Unprogrammed Balance of Fund	**$2,671,874**	0	0	0	0	0	0	0	0	$2,671,874
– Percent of Column	5%	0%	0%	0%	0%	0%	0%	0%	0%	
Total Expenditures	**$55,000,000**	**$21,801,952**	**$10,095,159**	**$2,722,895**	**$3,784,792**	**$2,267,056**	**$2,956,413**	**$905,444**	**$7,794,415**	**$2,671,874**
– Percent of Column	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
– Percent of Row	100%	40%	18%	5%	7%	4%	5%	2%	14%	5%

TABLE 5: Regional Contracts, PADCO World Wide, and Individual Contracts by Sector and Country

Regional Contracts	Total	Poland	Hungary	CSFR	Czech Republic	Slovak Republic	Bulgaria	Albania	EE Unprogramm Regional Other Countri
Housing Finance	$1,290,201	$754,350	$110,868	$78,784	$0	$0	$186,617	$0	$159,582
Housing Policy	$1,222,362	$112,500	$72,830	$850,591	$0	$0	$280,996	$105,444	$0
Housing Allowance	$407,596	$0	$215,918	$58,404	$0	$0	$133,276	$0	$0
Local Government	$2,567,240	$1,006,676	$432,047	$458,631	$239,468	$215,905	$192,952	$0	$21,560
Private Development	$1,175,426	$506,348	$125,078	$314,322	$45,324	$51,151	$133,203	$0	$0
Management/Program Dev.	$993,358	$0	$0	$0	$0	$0	$0	$0	$993,358
Total	$7,656,183	$2,379,876	$956,539	$1,560,732	$284,792	$267,056	$927,244	$105,444	$1,174,500

Padco World Wide	TOTAL	Poland	Hungary	CSFR	Czech Republic	Slovak Republic	Bulgaria	Albania	EE Regional
Housing Finance	$1,039,931	$601,194	$144,353	$0	$0	$0	$294,384	$0	$0
Housing Policy	$1,140,650	$229,886	$285,138	$314,853	$0	$0	$261,594	$0	$69,379
Housing Allowance	$336,686	$0	$0	$233,161	$0	$0	$103,525	$0	$0
Local Government	$856,456	$7,626	$459,837	$388,793	$0	$0	$0	$0	$0
Private Development	$1,053,352	$454,065	$236,697	$225,556	$0	$0	$119,666	$0	$17,368
Management/Program Dev.	$234,199	$0	$0	$0	$0	$0	$0	$0	$234,199
Total	$4,661,273	$1,292,971	$1,106,024	$1,162,163	$0	$0	$779,169	$0	$320,946

Individual Contracts	TOTAL	Poland	Hungary	CSFR	Czech Republic	Slovak Republic	Bulgaria	Albania	EE Regional
Housing Finance	$124,719	$1,344	$123,375	$0	$0	$0	$0	$0	$0
Housing Policy	$480,875	$207,500	$273,375	$0	$0	$0	$0	$0	$0
Housing Allowance	$0	$0	$0	$0	$0	$0	$0	$0	$0
Local Government	$1,067,107	$881,261	$185,846	$0	$0	$0	$0	$0	$0
Private Development	$415,000	$415,000	$0	$0	$0	$0	$0	$0	$0
HBI (Estimate)	$500,000	$500,000	$0	$0	$0	$0	$0	$0	$0
PSC's/DC	$499,969	$0	$0	$0	$0	$0	$0	$0	$499,969
Total	$3,087,670	$2,005,105	$582,596	$0	$0	$0	$0	$0	$499,969

TOTAL Obligated	TOTAL	Poland	Hungary	CSFR	Czech Republic	Slovak Republic	Bulgaria	Albania	EE Regional
Housing Finance	$2,454,851	$1,358,888	$378,396	$78,784	$0	$0	$481,201	$0	$159,582
Housing Policy	$2,843,886	$549,886	$611,343	$965,244	$0	$0	$542,591	$105,444	$69,379
Housing Allowance	$744,282	$0	$215,916	$291,565	$0	$0	$236,601	$0	$0
Local Government	$4,490,803	$1,895,765	$1,077,730	$847,424	$239,468	$215,905	$192,952	$0	$21,560
Private Development	$2,643,778	$1,375,413	$361,775	$539,878	$45,324	$51,151	$252,869	$0	$17,368
HBI (Estimate)	$500,000	$500,000	$0	$0	$0	$0	$0	$0	$0
Management/Program Dev.	$1,727,526	$0	$0	$0	$0	$0	$0	$0	$1,727,526
Total	$15,405,126	$5,677,952	$2,645,159	$2,722,695	$284,792	$267,056	$1,706,413	$105,444	$1,995,415

TABLE 6: Regional Contracts, PADCO World Wide, and Individual Contracts by Contract and Country

Regional Contracts/Obligated to Date	Total	Poland	Hungary	CSFR	Czech Republic	Slovak Republic	Bulgaria	Albania	EE Regional
ICMA	$3,120,613	$1,101,252	$318,882	$716,235	$239,468	$215,905	$112,404	$0	$416,667
PADCO	$1,436,692	$636,774	$0	$354,322	$45,324	$51,151	$90,551	$57,178	$201,392
Urban Institute	$3,098,878	$641,650	$637,657	$490,175	$0	$0	$724,269	$48,266	$556,441
– Subtotal	$7,656,183	$2,379,676	$956,539	$1,560,732	$284,792	$267,056	$927,244	$105,444	$1,174,500
Padco WW	$4,661,273	$1,292,971	$1,106,024	$1,162,163	$0	$0	$779,169	$0	$320,945
Individual	$3,087,670	$2,005,105	$582,596	$0	$0	$0	$0	$0	$499,969
– Subtotal	$7,748,943	$3,298,076	$1,688,620	$1,162,163	$0	$0	$779,169	$0	$820,915
Total Obligated to Date	$15,405,126	$5,677,952	$2,845,159	$2,722,895	$284,792	$267,056	$1,706,413	$105,444	$1,995,415
	100%	37%	17%	16%	2%	2%	11%	1%	13%
Contract Total									
ICMA	$14,100,000								
PADCO	$5,619,857								
Urban Institute	$5,735,326								
Total	$25,455,183								
Remaining									
ICMA	$10,979,387								
PADCO	$4,183,165								
Urban Institute	$2,636,446								
Total	$17,799,000								

TABLE 7: ALLOCATION OF INDIVIDUAL RFS'S TO TOPIC AREAS

	Title	Country	RFS $	HF	HP	HA	LG	PD	SM	DC	HF	HP	HA	LG	PD	SM	DC
218.0	International Development Association Program	A	$57,178		100%						$0	$57,178	$0	$0	$0	$0	$0
328.2	World Bank Housing Sector Mission: Albania	A	$48,266		100%						$0	$48,266	$0	$0	$0	$0	$0
Total			$105,444								$0	$105,444	$0	$0	$0	$0	$0
	ICMA		$0														
	PADCO		$57,178								0	57178	0	0	0	0	0
	Urban Institute		$48,266								0	48266	0	0	0	0	0
	Total		$105,444														
102.0	Development of Local Housing Strategies	B	$43,239			0%	100%				$0	$0	$0	$43,239	$0	$0	$0
127.0	Access to Land for Private Development	B	$69,165				100%				$0	$0	$0	$69,165	$0	$0	$0
214.0	Bulgaria Program Development – Private Housir	B	$90,551					100%			$0	$0	$0	$0	$90,551	$0	$0
302.3	BulgarianShelter Sector/Pilot Housing Allowance	B	$133,276			100%	0%				$0	$0	$133,276	$0	$0	$0	$0
309.0	Bulgarian Shelter Sector Resident Advisor	B	$322,191	0%	75%		25%				$0	$241,643	$0	$80,548	$0	$0	$0
314.0	Housing Finance Strategy and Stimulating Comp	B	$31,917	100%							$31,917	$0	$0	$0	$0	$0	$0
321.0	Work–Study Tour for N. Karadimov	B	$32,901		100%						$0	$32,901	$0	$0	$0	$0	$0
322.2	Strategy, Underwriting, and AMI Refinement	B	$154,900	100%							$154,900	$0	$0	$0	$0	$0	$0
326.1	Development of Tenant and Owner's Associatio	B	$42,652					100%			$0	$0	$0	$0	$42,652	$0	$0
327.0	Housing Indicators/Monitoring and Evaluation	B	$6,452	0%	100%						$0	$6,452	$0	$0	$0	$0	$0
333.0	Support for Bulgarian Finance System Developm	B	pending	100%							$0	$0	$0	$0	$0	$0	$0
			$927,244								$186,817	$280,996	$133,276	$192,952	$133,203	$0	$0
	ICMA		$112,404														
	PADCO		$90,551														
	Urban Institute		$724,289														
	Total		$927,244														
103.0	Privatization/Management of Govt–Owned Hous	C	$41,013				100%				$0	$0	$0	$41,013	$0	$0	$0
104.0	Privatization/Management of Govt–Owned Hous	C	$33,839				100%				$0	$0	$0	$33,839	$0	$0	$0
105.0	Coordination and Logistical Support	C	$43,383		100%						$0	$43,383	$0	$0	$0	$0	$0
106.0	Strategic Management of Land Development	C	$44,123				100%				$0	$0	$0	$44,123	$0	$0	$0
107.0	Strategic Land Management/Local Experts	C	$10,632				100%				$0	$0	$0	$10,632	$0	$0	$0
110.1	Strategy for Assistance to Local Governments in	C	$141,784				100%				$0	$0	$0	$141,784	$0	$0	$0
113.0	Municipal Services Seminars	C	$10,797				100%				$0	$0	$0	$10,797	$0	$0	$0
114.0	Development of a Housing Management System	C	$95,832				100%				$0	$0	$0	$95,832	$0	$0	$0
120.0	Coordination and Logistical Support	C	$294,832		100%						$0	$294,832	$0	$0	$0	$0	$0
205.0	Local Support for Training in Private Sector	C	$0					100%			$0	$0	$0	$0	$0	$0	$0
206.2	Training and TA for Private Contractors and Deve	C	$178,640					100%			$0	$0	$0	$0	$178,640	$0	$0
207.0	Coordination and Logistical Support	C	$40,000		100%						$0	$40,000	$0	$0	$0	$0	$0
209.0	Design of Training Curriculum– –Private Real Es	C	$89,985					100%			$0	$0	$0	$0	$89,985	$0	$0
212.0	Technical Support to Trade Mission	C	$45,697					100%			$0	$0	$0	$0	$45,697	$0	$0
307.3	Policy/Legal Dev., H & Inf. Finance, H Allowance	C	$233,616	25%	50%	25%					$58,404	$116,808	$58,404	$0	$0	$0	$0
308.1	Housing and Infrastructure Finance Cont.	C	$20,360	100%							$20,360	$0	$0	$0	$0	$0	$0
312.1	Privatization and Management of Government O	C	$16,439				100%				$0	$0	$0	$16,439	$0	$0	$0
313.0	Coordination and Logistical Support	C	$104,086		100%						$0	$104,086	$0	$0	$0	$0	$0
317.1	Technical Assistance and Training	C	$46,627				100%				$0	$0	$0	$46,627	$0	$0	$0
318.1	Technical Assistance and Training– Local	C	$17,545				100%				$0	$0	$0	$17,545	$0	$0	$0
329.0	Rent Control and Tenant Rights Conference	C	$51,482	0%	100%						$0	$51,482	$0	$0	$0	$0	$0
			$1,560,732								$78,784	$650,591	$56,404	$458,631	$314,322	$0	$0
	ICMA		$716,235														
	PADCO		$354,322														
	Urban Institute		$490,175														
	Total		$1,560,732														

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116.0	Liberec – Housing Privatization Strategy	CR	$18,727				100%					$0	$0	$0	$18,727	$0	$0	$0
124.0	Credit System Development & Municipal Rev. As:	CR	$72,070				100%					$0	$0	$0	$72,070	$0	$0	$0
126.0	Liberec – Housing Privatization Strategy – Phas	CR	$148,671				100%					$0	$0	$0	$148,671	$0	$0	$0
210.0	Technical Assistance Support to the Czech Guilc	CR	$45,324					100%				$0	$0	$0	$0	$45,324	$0	$0
													$0	$0				
			$284,792									$0	$0	$0	$239,468	$45,324	$0	$0
	ICMA		$239,468															
	PADCO		$45,324															
	Urban Institute		$0															
	Total		$284,792															
													$0	$0				
101.1	Project Management and Ad ministration	EE	$384,890						100%			$0	$0	$0	$0	$0	$384,890	$0
111.0	Environmental Management TDY	EE	$18,157				100%					$0	$0	$0	$18,157	$0	$0	$0
122.0	Training Assessment & Needs	EE	$10,217						100%			$0	$0	$0	$0	$0	$10,217	$0
129.0	International Conference – Florence	EE	$3,403				100%					$0	$0	$0	$3,403	$0	$0	$0
202.1	Management and Administration	EE	$116,152						100%			$0	$0	$0	$0	$0	$116,152	$0
203.3	Program Development in Private Sector	EE	$75,194						100%			$0	$0	$0	$0	$0	$75,194	$0
211.0	Program Review	EE	$4,393						100%			$0	$0	$0	$0	$0	$4,393	$0
213.0	Program Review	EE	$5,653						100%			$0	$0	$0	$0	$0	$5,653	$0
303.1	Management Services for Housing Finance	EE	$209,773						100%			$0	$0	$0	$0	$0	$209,773	$0
304.2	Program Development Eastern Europe	EE	$150,676						100%			$0	$0	$0	$0	$0	$150,676	$0
315.1	Management and Administration FNMA	EE	$16,450						100%			$0	$0	$0	$0	$0	$16,450	$0
316.1	Management and Administration – CHF	EE	$19,958						100%			$0	$0	$0	$0	$0	$19,958	$0
331.0	Utah Housing Finance Conferance: Logistical Su	EE	$159,582	100%								$159,582	$0	$0	$0	$0	$0	$0
			$1,174,500									$159,582	$0	$0	$21,580	$0	$993,358	$0
	ICMA		$416,667															
	PADCO		$201,392															
	Urban Institute		$556,441															
	Total		$1,174,500															
108.0	Assistance in Urban Planning and Devalopment:	H	$72,671				100%					$0	$0	$0	$72,671	$0	$0	$0
115.0	Resident Housing Economist	H	$110,349	0%	66%	0%	34%					$0	$72,630	$0	$37,519	$0	$0	$0
118.1	Assistance to Budapest, Redev. of Lagymanyos	H	$46,455				100%					$0	$0	$0	$46,455	$0	$0	$0
119.0	Implementation of Housing Allowance Program	H	$69,207			100%	0%					$0	$0	$69,207	$0	$0	$0	$0
301.3	Local Government Housing Strategy/Finance Iss	H	$169,395			50%	50%					$0	$0	$84,698	$84,698	$0	$0	$0
310.2	Privatization/Management of Social Housing – TA	H	$188,046			25%	75%					$0	$0	$42,012	$126,035	$0	$0	$0
311.2	Privatization and Rehabilitation	H	$64,670				100%					$0	$0	$0	$64,670	$0	$0	$0
320.3	Technical Assistance in Housing Finance	H	$110,668	100%								$110,668	$0	$0	$0	$0	$0	$0
323.1	Condominium Associatin Training – HAH	H	$125,076					100%				$0	$0	$0	$0	$125,076	$0	$0
324.1	Program Development and Implementation	H	Cancelled									$0	$0	$0	$0	$0	$0	$0
325.1	Resident Housing Economist – Program Develop	H	Cancelled									$0	$0	$0	$0	$0	$0	$0
			$956,539									$110,668	$72,630	$215,916	$432,047	$125,076	$0	$0
	ICMA		$316,682															
	PADCO		$0															
	Urban Institute		$637,857															
	Total		$956,539															

109.1	Design of a Prototype Property Tax System for P	P	$104,326			100%				$0	$0	$0	$104,326	$0	$0	$0
112.1	Municipal Management Assistance	P	$195,825			100%				$0	$0	$0	$195,825	$0	$0	$0
117.1	Assistance in Urban Planning and Dev./Warsaw	P	$36,804			100%				$0	$0	$0	$36,604	$0	$0	$0
121.0	Gdansk Technical University Curriculum	P	$105,527				100%			$0	$0	$0	$0	$105,527	$0	$0
123.0	Long-Term Resident Advisor – Krakow	P	$658,770			100%				$0	$0	$0	$658,770	$0	$0	$0
201.0	Assistance to Residential Developers	P	$32,442				100%			$0	$0	$0	$0	$32,442	$0	$0
204.0	Krakow Seminar Support	P	$10,953			100%				$0	$0	$0	$10,953	$0	$0	$0
208.0	Assessment and Strategy TA/Training in Private	P	$85,900				100%			$0	$0	$0	$0	$85,900	$0	$0
215.0	Poland Housing Project Review – Assistance to	P	$282,479				100%			$0	$0	$0	$0	$282,479	$0	$0
217.0	Services of a Housing Policy Specialist (Residen	P	$225,000	50%	50%					$112,500	$112,500	$0	$0	$0	$0	$0
305.1	Development of Lender Guides for Poland HF Pr	P	$67,687	100%						$67,687	$0	$0	$0	$0	$0	$0
306.1	HG Program Impl. Plan/Initial Fieldwork Financia	P	$14,153	100%						$14,153	$0	$0	$0	$0	$0	$0
319.2	Development of Lender Guides – Polish Housing	P	$204,058	100%						$204,058	$0	$0	$0	$0	$0	$0
330.0	Housing Guaranty Program Implementation	P	$6,952	100%						$6,952	$0	$0	$0	$0	$0	$0
332.1	Housing Finance Project Preparation	P	$349,000	100%						$349,000	$0	$0	$0	$0	$0	$0
			$2,379,876							$754,350	$112,500	$0	$1,006,678	$506,348	$0	$0
	ICMA		$1,101,252													
	PADCO		$636,774													
	Urban Institute		$641,850													
	Total		$2,379,876													
125.0	Credit System Dev. & Muncipal Revenue Assista	SR	$84,951			100%				$0	$0	$0	$84,951	$0	$0	$0
128.0	Banska Bystrica Sanitation System Strategy	SR	$88,970			100%				$0	$0	$0	$86,970	$0	$0	$0
130.0	Trencin Land Development & Sanitation System	SR	$41,984			100%				$0	$0	$0	$41,984	$0	$0	$0
216.0	NAHB Study Tour – Slovaks and Poles	S	$51,151				100%			$0	$0	$0	$0	$51,151	$0	$0
			$267,056							$0	$0	$0	$215,905	$51,151	$0	$0
	ICMA		$215,905													
	PADCO		$51,151													
	Urban Institute		$0													
	Total		$267,056													
	Poland – – PADCO WW			HF	HP	HA	LG	PD	SM	HF	HP	HA	LG	PD	SM	SM
				===	===	===	===	===	===	====	====	====	====	====	====	====
41 PWW	HPU Advisory Service – – Jones, Rewald, Johns	P	183,626	100%						$183,626	$0	$0	$0	$0	$0	$0
59 PWW	Hsg Fin Syst Rev – Britell Henderschott, Marcus	P	34,955	100%						$34,955	$0	$0	$0	$0	$0	$0
81 PWW	TA National Bank of Poland	P	6,867	100%						$8,867	$0	$0	$0	$0	$0	$0
86 PWW	Housing Finance Assistance	P	15,905	100%						$15,905	$0	$0	$0	$0	$0	$0
97 PWW	Senior Housing Specialist	P	196,528	100%						$196,526	$0	$0	$0	$0	$0	$0
134 PWW	Housing Guarantee Program Preparation	P	163,313	100%						$163,313	$0	$0	$0	$0	$0	$0
122 PWW	Peace Corps Training	P	7,826				100%			$0	$0	$0	$7,826	$0	$0	$0
61 PWW	Local Housing Construction Research	P	36,634					100%		$0	$0	$0	$0	$36,634	$0	$0
62 PWW	Real Estate Training – MIT/NAR	P	15,799					100%		$0	$0	$0	$0	$15,799	$0	$0
68 PWW	June Training Program	P	124,682					100%		$0	$0	$0	$0	$124,682	$0	$0
89 PWW	Residential Developer Assistance	P	255,191					100%		$0	$0	$0	$0	$255,191	$0	$0
115 PWW	Real Estate/Land Planning U of Gdansk	P	21,759					100%		$0	$0	$0	$0	$21,759	$0	$0
17 PWW	Program Development	P	12,934		100%					$0	$12,934	$0	$0	$0	$0	$0
36 PWW	Eval TA Needs – – Baker, Erbach, Richards, Ver	P	103,317		100%					$0	$103,317	$0	$0	$0	$0	$0
31 PWW	Program Development	P	67,675		100%					$0	$67,675	$0	$0	$0	$0	$0
57 PWW	Program Development – Benjamin	P	14,476		100%					$0	$14,476	$0	$0	$0	$0	$0
65 PWW	Program Development – Gardner	P	31,484		100%					$0	$31,484	$0	$0	$0	$0	$0
			1,292,971							601,194	229,686	0	7,826	454,065	0	0

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Poland -- Individual Contracts																	
Ind	FNMA	P	1,344	100%						$1,344	$0	$0	$0	$0	$0	$0
Ind	Lublin	P	35,000			100%				$0	$0	$0	$35,000	$0	$0	$0
Ind	Abt	P	66,065			100%				$0	$0	$0	$66,065	$0	$0	$0
Ind	Local Govt Training	P	510,196			100%				$0	$0	$0	$510,196	$0	$0	$0
Ind	CHF (1992)	P	830,000		25%	25%	50%			$0	$207,500	$0	$207,500	$415,000	$0	$0
Ind	UNCHS/MIT/NAR	P	62,500			100%				$0	$0	$0	$62,500	$0	$0	$0
			1,505,105							1,344	207,500	0	881,261	415,000	0	0
Hungary -- PADCO WW																	
27 PWW	Developing Mortgage Financing	H	49,628	100%						$49,628	$0	$0	$0	$0	$0	$0
29 PWW	Housing Policy Advisory Service	H	61,194		100%					$0	$61,194	$0	$0	$0	$0	$0
67 PWW	World Bank AID Budapest	H	124,977	50%	50%					$62,489	$62,489	$0	$0	$0	$0	$0
121 PWW	Private Mortgage Bank Feasibility	H	32,236	100%						$32,236	$0	$0	$0	$0	$0	$0
138 PWW	Housing Survey Analysis	H	45414		100%					$0	$45,414	$0	$0	$0	$0	$0
35 PWW	Local Housing Strategy Training	H	104,103			100%				$0	$0	$0	$104,103	$0	$0	$0
40 PWW	Local Gov't -- Struyk, Telgarsky, Mark	H	77,063			100%				$0	$0	$0	$77,063	$0	$0	$0
52 PWW	Budapest District II -- Henward, Ricco, Dubinsky	H	161,116			100%				$0	$0	$0	$161,116	$0	$0	$0
72 PWW	Local Gov't Regulation -- Kecskemet	H	73,394			100%				$0	$0	$0	$73,394	$0	$0	$0
102 PWW	Privatization Strategy for Budapest Inner City Dis	H	44,161			100%				$0	$0	$0	$44,161	$0	$0	$0
43 PWW	Hungary Real Estate Struyk	H	25,443				100%			$0	$0	$0	$0	$25,443	$0	$0
103 PWW	Housing Construction Subsector Assessment	H	201,489				100%			$0	$0	$0	$0	$201,489	$0	$0
140 PWW	Hungarian Real Estate Federation MLS	H	9,765				100%			$0	$0	$0	$0	$9,765	$0	$0
21 PWW	Program Development	H	10,216		100%					$0	$10,216	$0	$0	$0	$0	$0
66 PWW	Program Development -- Veret	H	66,716		100%					$0	$66,716	$0	$0	$0	$0	$0
139 PWW	Program Development	H	19,109		100%					$0	$19,109	$0	$0	$0	$0	$0
			1,106,024							144,353	265,138	0	459,837	236,697	0	0
Hungary -- Individual Contracts																	
Ind	IBRD	H	246,750	50%	50%					$123,375	$123,375	$0	$0	$0	$0	$0
Ind	IBRD Indicators	H	150,000		100%					$0	$150,000	$0	$0	$0	$0	$0
Ind	City of Kecskemet	H	185,846			100%				$0	$0	$0	$185,846	$0	$0	$0
			582,598							123,375	273,375	0	185,846	0	0	0
Czech and Slovak Republics -- PADCO WW																	
				HF	HP	HA	LG	PD	SM								
55 PWW	Ph 1 TA -- Kingsley Telgarsky	C	137,039		50%		25%	25%		$0	$68,520	$0	$34,260	$34,260	$0	$0
79 PWW	Housing TA and Training	C	83,269		25%	25%	25%	25%		$0	$20,817	$20,817	$20,817	$20,817	$0	$0
99 PWW	Legal and Policy Guidance	C	129,275		100%					$0	$129,275	$0	$0	$0	$0	$0
96 PWW	Housing Allowance/Safety Net	C	161,149			100%				$0	$0	$161,149	$0	$0	$0	$0
136 PWW	TA and Training in Housing Reform	C	204,779		25%	25%	25%	25%		$0	$51,195	$51,195	$51,195	$51,195	$0	$0
93 PWW	Privatization/Management of Government Owne	C	227,811				100%			$0	$0	$0	$227,811	$0	$0	$0
94 PWW	Stimulating Private Entrepreneurship in Housing	C	159,046				25%	75%		$0	$0	$0	$39,762	$119,285	$0	$0
39 PWW	Shelter Sector Action Plan -- Kingsley Telgarsky	C	59,795		75%		25%			$0	$44,846	$0	$14,949	$0	$0	$0
			162,163							0	314,653	233,161	388,793	225,556	0	0
Bulgaria -- PADCO WW																	
71 PWW	Shelter Sector Assistance	B	142,289	25%	50%		0%	25%		$35,572	$71,145	$0	$0	$35,572	$0	$0
95 PWW	Housing Program Development	B	147,349	50%	20%	20%	0%	10%	0%	$73,675	$29,470	$29,470	$0	$14,735	$0	$0
120 PWW	TA to Bulgarian Shelter Sector	B	109,391	50%	20%	20%	0%	10%	0%	$54,696	$21,878	$21,878	$0	$10,939	$0	$0
133 PWW	Bulgarian Shelter Sector	B	260,884	50%	20%	20%	0%	10%	0%	$130,442	$52,177	$52,177	$0	$26,088	$0	$0
88 PWW	Real Estate Brokerage and Appraisal Course	B	32,331					100%		$0	$0	$0	$0	$32,331	$0	$0
50 PWW	Shelter Sector Action Plan	B	86,925		100%					$0	$86,925	$0	$0	$0	$0	$0
			779,169							294,384	261,594	103,525	0	119,666	0	0

Regiona – PADCO WW													
87 PWW	Country Risk/Debt Service Analysis	EE	2,541	100%			$0	$2,541	$0	$0	$0	$0	$0
129 PWW	Cooperative and Enterprise Housing	EE	34,736	50%	50%		$0	$17,368	$0	$0	$17,368	$0	$0
5 PWW	Eastern Europe Program Development	EE	62,241			100%	$0	$0	$0	$0	$0	$62,241	$0
101 PWW	EE Shelter – – Monitoring and Evaluation Syste	EE	32,809	0%		100%	$0	$0	$0	$0	$0	$32,809	$0
114 PWW	Eastern Europe Program Development	EE	80,960			100%	$0	$0	$0	$0	$0	$80,960	$0
161 PWW	EE Housing Program Management	EE	6689			100%	$0	$0	$0	$0	$0	$6,689	$0
147 PWW	NIS/EE Office Space	EE	51500			100%	$0	$0	$0	$0	$0	$51,500	$0
116 PWW	Books and Journals for EE	EE	49,470	100%			$0	$49,470	$0	$0	$0	$0	$0
			320,946				0	69,379	0	0	17,368	234,199	0
Regional – – Individual													
	PSC – DC 2 years	EE	0			100%	$0	$0	$0	$0	$0	$0	$0
	PSC – DC 2 years	EE	0			100%	$0	$0	$0	$0	$0	$0	$0

ANNEX 2

EUR/DR/H's Summaries of Programs and Strategy Statements

Project Memorandum (Green Paper)

Housing Sector Reform: A Key Element of the Transition of Eastern Europe

USAID Assistance to Eastern Europe

Housing and Urban Development Program - Poland - Overview and Strategy

Poland - Visit by EE Housing Finance Delegation - March 5, 1993

Housing and Urban Development Program - Hungary - Overview and Strategy

Hungary - Visit by EE Housing Finance Delegation - March 5, 1993

Housing and Urban Development Program - Czech Republic - Overview and Strategy

Housing and Urban Development Program - Slovak Republic - Overview and Strategy

Housing and Urban Development Program - Bulgaria - Overview and Strategy

Bulgaria - Visit by EE Housing Finance Delegation - March 5, 1993

PROJECT MEMORANDUM

(GREEN PAPER)

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Attachment A

PROJECT MEMORANDUM

PROJECT: Housing

PROJECT PURPOSE:

To provide technical assistance and training, and fund demonstration projects, in support of 1) the decentralization of housing responsibilities to the municipal level, 2) privatization of existing public housing, 3) increased production of affordable housing by private developers and builders, and 4) the development of viable systems for construction and mortgage financing.

PROJECT RATIONALE:

Increasing the supply of housing and developing a private sector housing and real estate industry are priority objectives of the regional strategy for Eastern Europe.

As a result of democratic political reforms, increased responsibility is being assigned to the local level to deal with the housing sector. Newly elected and appointed municipal officials need assistance and training with respect to their expanded role. These local authorities will have to develop housing strategies for their communities and develop the necessary systems and incentives for private developers and builders, the privatization of public housing stock, and the management of rental housing.

At the same time, there will be important changes in the housing production systems. State owned or controlled housing developers, construction companies, and building materials suppliers will be privatized. A new and expanded role will also become possible for small independent builders. The market driven housing delivery system will encourage builders and developers to improve efficiency and volume by modernizing construction technology and management. It will also require the expansion and modernization of the building materials industry to support increased private housing production.

Ultimately, the availability of credit and the effective functioning of the housing finance system is critical to the achievement of these housing sector objectives. Housing finance resources are prerequisite to privatization, home ownership, and production of new housing at the scale needed. The economic impact of the housing sector and its relationship to the financial circumstances of individual families and the overall macroeconomy require a special focus on this specialized part of the financial market.

PROJECT DESCRIPTION:

The project will provide technical assistance and training at the municipal level and in the development of the private sector housing production industries . It will also provide advisory assistance at the national policy and institutional level as these impact on the housing sector.

It will be designed to help municipalities to formulate and implement programs dealing with the management and divestiture of public housing. Such programs will improve the capacity and performance of local authorities in providing land and infrastructure for shelter and in performing regulatory functions affecting the private developers and builders. These functions include, for example, land planning and zoning, building standards, land titling and property taxation, and public/ private sector partnerships.

The project will provide technical assistance, training and demonstration project funding to improve and expand housing production and construction undertaken by private developers and builders and by SOEs undergoing privatization. Over time, support will be provided for the development of non-governmental housing industry associations and organizations which can help address shelter issues and support private sector training and data and research efforts. Demonstration projects will be aimed at rehabilitation of existing housing stock, use of new construction technology and management methods, and public/private partnership relationships.

The project will also address both policy and institutional development aspects of housing finance. It will include such matters, among others, as the roles of private and public sectors in housing finance, the establishment of effective market-oriented lending institutions, financial instruments and regulatory framework, and the problems of housing affordability and subsidies. Under the Project sound economic policies will be promoted in the larger financial market. For example, the reduction of negative interest rate spreads will be encouraged in housing finance.

Furthermore, in working with local government in support of the housing sector, there will be an opportunity to consider important issues of local revenue and municipal finance. The financial responsibility for both housing and urban services and facilities will doubtless fall increasingly upon municipalities. This will require us to address, under this project, questions regarding the capital and operating costs of local infrastructure, and the sources of funding available to meet these needs.

BACKGROUND:

The housing sectors of Central and Eastern European countries have been characterized by chronic shortages, lack of choice, poor

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quality of construction and massive public subsidies. In the context of economic and political reform, adequate and affordable housing is critical to assuring a decent quality of life at a manageable cost. The importance of the sector is further evidenced by the fact that in Poland and Hungary, for example, housing investment accounts for roughly six per cent of GDP (1989) and the construction industry provides more than seven per cent of total employment.

The Office of Housing has produced a series of studies and reports covering the housing sector in each of the countries of Eastern Europe. These have provided the basis for program activity planned under the Housing Project. Preliminary planning and development TDYs have already been undertaken in Poland and Hungary and this has sharpened A.I.D's understanding of the constraints. Similar planning and development TDYS are being scheduled for Czechoslovakia and Bulgaria and, in due course, for the other countries of Eastern Europe.

DONOR COORDINATION:

There has been close and continuing coordination with the World Bank on programs in Poland and Hungary. For example, plans are being developed for World Bank capital assistance to be available in cities in which A.I.D. technical assistance will be carried out under the Project.

The World Bank program in Poland is expected to be in the range of $200 - $300 million over a three year period matched by an equivalent amount of counterpart funding and will involve housing investment programs in about 16 cities. Both A.I.D. and the World Bank will be working on this program and on other housing issues with a National Housing Unit in Poland, an interministerial body attached to the Ministry of Finance and charged with coordinating housing policies and programs at the national level.

Additional attention is also being directed at establishing contacts with other donors through U.N. meetings, with bilateral representatives and host country counterparts and coordinating ministries. For example, A.I.D. has contacted the British representatives in Hungary to assure that a much needed British - sponsored assessment of the of the construction industry is in fact going forward.

Once approved, the Housing Project will provide the basis for A.I.D. to coordinate more effectively with other donors as further work is done in planning and carrying out country programs.

PROPOSED GRANT OR CONTRACT MECHANISM:

a. Three sets of core contracts for technical assistance in 1)

Local government in support of shelter, 2) Private sector housing production and construction, and 3) Housing finance. Because of the limited number of firms and institutions experienced in the specialized international housing sector, it may be appropriate to limit competition for some of these contracts to a preselected list.

b. Institutional contracts for long-term and short-term resident advisory services to selected municipalities in support of capital and demonstration projects of A.I.D., the World Bank, and other donors.

c. One or more grant agreements or cooperative agreements with non-government institutions in support of research, training, educational, or other cooperative programs related to housing in Eastern Europe.

d. A series of contracts or cooperative agreements for training programs in municipal management of housing programs, housing production and construction, and housing finance.

e. Grants or cooperative agreements for pilot capital projects.

f. PASA arrangements with the Peace Corps, HUD or other agencies.

RISK ASSESSMENT

a. Domestic political issues between central and local governments may make it difficult to determine which municipalities should be selected for participation in the program.

Answer: Key interested elements of the central governments will be involved in selecting the municipalities in which to work. Only interested and motivated municipalities will be selected.

b. It will be impossible to work very intensively with more than a handful of municipalities, and the overall impact of the project may not extend very far.

Answer: Broad dissemination of lessons learned from work in specific municipalities will be built into the project activities. This will be done through regional training centers, associations of local government officials, and similar host country institutions.

c. A lack of private developers and builders in Eastern Europe may make it difficult to move this project forward within a short time frame.

Answer: The housing and construction industry will be evolving quickly, and it is important to begin working with the process as

soon as possible in order to assure a successful transition to the private sector. There are enough building trades people and small builders to start the process. In addition, privatized components of the housing construction SOEs will provide part of the core for the expanding private sector in housing production.

d. It will be difficult to manage a program targeted toward the small-scale private sector rather than responding to requests for assistance from national ministries or municipal governments.

Answer: A major objective of this project is to develop a functioning network of private sector industry leaders and associations through which technical assistance and training and policy dialogue can be channeled. Initial efforts in bringing together industry representatives will be designed to lead toward the development of institutions which can serve this purpose.

e. Economic dislocation and low-income levels may make it difficult to provide market rate housing finance for much of the population in need of improved shelter.

Answer: Techniques such as housing allowance "safety net" schemes, indexation of mortgage rates, and other financial systems and policies will be explored.

f. Sufficient funds may not be available to provide the financing needed to support the privatization and expansion of the housing sector.

Answer: Housing finance activities will be closely coordinated with overall financial and capital market policies. Institutional and policy reforms will be promoted to mobilize domestic savings and assure that the housing sector can access the capital market.

FUNDS TO BE OBLIGATED: $ 15 million

HOUSING PROJECT IMPLEMENTATION PLAN:

1. Core Contracts - $ 4 million

Three sets of contracts covering Housing Finance, Local Government in Support of Shelter, and Private Sector Housing Production and Construction.

Procurement action should commence immediately on an expedited basis. (See attached contracting timeline).

2. Long-Term Technical Assistance in Selected Polish Municipalities - $ 5 million

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Two institutional contracts are anticipated. One will cover six cities and be coordinated with World Bank capital programs. The other will cover two other selected cities and focus on privatization of public housing stock.

Program design and terms of reference to be completed by May. Procurement action to commence in May/June on an expedited basis.

3. Cooperative Housing Technical Assistance and Capital Projects (Poland) - $ 3.5 million

Cooperative Agreements with the Cooperative Housing Foundation (CHF) are anticipated to work with housing development cooperatives in two communities in Poland, providing both technical assistance and capital funding for demonstration housing projects.

Program design and proposal to be completed by March/April.

4. Private Developer Demonstration Projects - $ 2.5 million

Grant/Cooperative Agreements with Polish "apex" financial institutions or private banks to fund other small-scale private developer projects. Technical assistance to be provided through core contracts.

Program feasibility to be evaluated by May. Program design and proposal to be completed by August. Grant/Cooperative Agreements to be in place by September.

5. Miscellaneous

Contracts/Cooperative Agreements may be needed for training programs not covered by the core contracts. Also there may be need for buy-ins, PASAs and other arrangements for activities for which above contracts are not suitable.

TIME-LINE:

Project Decision Paper

Drafted	completed
Interagency Review	completed

Congressional Notification

Drafted	completed
Sent to Hill	3/7/91
Cleared	pending

Project Authorization

Drafted and Distributed	2/25/91
Signed	pending

Basic Contracts for Housing Finance and Local Government (Housing)

PIO/Ts sent to Contracts	3/22/91
RFPs issued	4/11/91
Proposals due	5/8/91
Technical evaluation and cost analysis	5/15/91
Final selection/contract execution	6/14/91

Basic Contract for Housing Production

PIO/T sent to Contracts	3/22/91
CBD transmitted	3/29/91
RFPs issued	4/11/91
Proposals due	5/12/91
Technical evaluation and cost analysis	5/26/91
Best and final offers due	5/23/91
Final selection/contract execution	6/21/91

Revised: 2/27/91; 3/18/91

Housing Sector Reform:
A Key Element in the Transition of Eastern Europe

Importance of the Sector

Housing sector reform is vital to the success of competitive markets in Eastern Europe. In these centrally planned economies, the housing sector accounts for 4-6 percent of national income. Their history of massive housing subsidies and arbitrarily low mortgage interest rates has led to substantial distortions in the housing market that have wider macroeconomic implications.

Evidence from A.I.D. and other donor programs show that where housing policies create economic distortions, the effect on the macroeconomy is severe. Therefore, the importance of developing housing policies that make positive contributions to economic restructuring and development cannot be understated.

Housing sector reform will promote sustainable economic growth as well as demonstrate that economic and political transformation can result in improved standards of living. Dissatisfaction with housing conditions in these countries makes improvement of the housing sector an important benchmark for economic restructuring and reform.

The Need for Reform

Among the wide ranging problems affecting the Eastern Europe housing sector are:

- Severe and chronic housing shortages
- Massive, inefficient public housing subsidies which drain national budgets
- Poorly constructed and maintained housing stock
- Lack of a functioning housing finance system
- Unorganized and mismanaged housing construction industry
- Inexperienced and untrained local officials newly responsible for the public housing stock

Changes have already occurred that will influence the pace and direction of sectoral reforms:

- Local public authorities have been assigned responsibility for operation, maintenance and divestiture of the public housing stock.
- State owned housing institutions and building materials suppliers are being restructured and privatized.
- State housing production is declining rapidly. Private sector activity must increase to prevent more severe housing shortages.

The Approach

The principal objective of A.I.D.'s Eastern European Housing Program is to promote development of a **market oriented housing sector.** This requires eliminating impediments to free real estate markets and encouraging formation of institutions to support market functioning. More specifically, the program assistance is directed towards the following objectives:

Expand the private sector role in housing delivery

- establish and assist development of private sector organizations;
- improve access to inputs: financing, land, materials, technology, information;
- advocate equal treatment of state and private firms;
- promote restructuring and privatization of the construction industry and private firm development.

Strengthen local government capacity to promote private housing development

- develop and implement strategies for privatizing the state-owned rental stock and for privatizing management of stock;
- imporve efficiency in facilitating private housing sector development through regulatory reform and training;
- eliminate rent controls and where necessary implement housing allowances to help the poorest households.

Develop a functioning system of housing finance and related policies

- establish an effective system of construction and mortgage finance with market based interest rates and underwriting on market terms;
- reduce subsidies in part through adoption of appropriate mortgage instruments;
- establish appropriate legal and regulatory framework.

USAID ASSISTANCE TO EASTERN EUROPE

The Housing Sector in Eastern Europe in the 1980s

The housing sector in Eastern Europe through the 1980s suffered through a decline that matched the weakening of the centrally-planned economies of the region. Subsidies to the sector often amounted to 6 to 7 percent of national income. The mispricing of rental units, inefficient housing production by state construction companies, and heavy subsidies to home-owners combined to make housing both scarce (especially in relation to demand at the artificially low prices) and expensive in terms of its value in the open market.

In the rental sector, state ownership was dominant, accounting for over half the housing in major cities. Key characteristics of state rental units included:

- Low rents, often accounting for less than 5 percent of occupants' income;
- Large on-budget subsidies for construction and maintenance (and massive implicit subsidies in the form of below-market rents);
- Substantial deferred maintenance;
- Allocation of units by bureaucratic regulation;
- Possession of implicit property rights by tenants;
- Inefficient management by state property management enterprises.

In the owner-occupier sector, issues concerning the financing and development of housing had the greatest distorting effect. The result was quite widespread home ownership—upwards of 50 percent in most countries—but at enormous cost to the state budget and excess demand for housing. Distortionary policies in the sector included:

- Artificially cheap—but limited—credit (housing loans with interest rates of less than 3 percent and terms as long as 40 years);
- Low-interest construction financing provided to state construction enterprises;
- Banks extending housing credit acted simply as pass-through agents, with no concern about construction costs or repayment;
- Inefficient housing construction by state construction companies (large-scale developments for cooperatives and other quasi-public clients) while private contractors faced enormous problems gaining access to land, materials, and credit.

Change in the Housing Sector Since 1990

Since 1990, Eastern European countries have been tackling the problems outlined to shift the housing sector towards a market orientation. In general, the changes being implemented fall into four categories:

- Privatization and local government;
- Private development;
- Housing finance;
- Supporting institutions.

Privatization and Local Government. Almost without exception, the responsibility for formerly state-owned housing (also called "social housing") has been passed from the central government to the local level.

These local governments, many of which did not even exist before 1990, face the task of developing strategies for how to handle the problems of the state rental stock described above and to deal with the issue of privatization. Most local governments agree that a significant portion of the state housing which they inherited should be privatized. However, there are very real problems concerning the process:

- The present distribution of social housing is the result of bureaucratic allocation, not market forces—privatizing units to current occupants would compound the subsidies granted to these households;
- Many tenants would be unwilling to purchase their units even at very deep price discounts because the real costs of home-ownership (debt service and maintenance) would be much higher than current low rents;
- In the medium term, massive privatization would virtually eliminate the rental sector;
- Local governments have very little information from which they can determine what the "market" price of units to be privatized.

Despite these problems, privatization is proceeding on two fronts. First, local governments are selling units. In the case of Budapest, generous financing terms and discounts of 85 percent are offered. However, as the housing market develops, the local councils are finding it very difficult politically to move sales terms closer to market levels. The second avenue of privatization is to switch from state-owned property management to services provided by the private sector. In District 2 of Prague, the local council fired the state management company and received over 40 responses to its call for private managers. It now has 16 private companies managing all of its properties.

Private Development. The switch from large-scale, state-sponsored construction of housing to small-scale, private development is one of the most fundamental changes in the Eastern European housing sector. This switch requires not only the development of private sector capacity, but also a reorientation of the planning and development approval process.

Private construction firms are being created, both as new businesses set up by entrepreneurs and by the former employees of state construction enterprises that have been dismantled and privatized. Many of these new firms, however, lack the skills and information needed to function efficiently in a market-oriented housing market and are only able to operate at the smallest scale. In Czechoslovakia, for example, the largest private development of housing in Prague consists of 10 units. The Construction Guild of the Association of Private Entrepreneurs in that country is trying to develop the sector by improving its members knowledge about what private firms exist, where they are located, and what products and services they provide. This should help construction firms gain better access to materials and services.

Private housing development also requires access to land to succeed. In the past, land was set aside by the state for housing and later developed on a large scale by state construction companies. These developments typically contained hundreds or thousands of units in large blocks using panel construction technology. Private housing development will require planning authorities to be able to provide access to serviced land, provide development permission for smaller parcels, and to develop regulatory procedures which do not place onerous costs on the private developer. Currently, many development decisions are made by local councils (because a clear set of development regulations is not in place), but this leads to *ad hoc* and inconsistent development decisions. Local governments are beginning to realize that increasing private sector development will require a stable regulatory environment that produces clear and quick development decisions.

Housing Finance. The movement of lending terms and rents to levels that reflect economic reality requires tremendous changes in the system of credit for housing and in the way public budgetary support needs

to be directed to the sector. In Poland, Hungary, and Bulgaria, interest rates on lending for housing have been moved towards levels that match market-determined commercial rates. Further, the subsidy cost of low-interest lending has been explicitly recognized and incorporated into the government budget rather than being carried by the banking system. However, while these moves have improved the economic efficiency of the lending system, these changes have raised affordability and administrative problems which now must be overcome. High rates of inflation make traditional fixed-rate loans unattractive to both borrowers and lenders. Alternative lending instruments which share the risk of changes in inflation and interest rates between lenders and borrowers are being evaluated by savings banks in Hungary and Bulgaria as a means of increasing the availability of credit for housing. The use of market interest rates also implies that lenders will have to develop underwriting skills that accurately assess the borrower's repayment capacity; this was an unneeded skill in the past.

In the rental sector, increasing rents is imperative for many reasons:

- Need to cover operating and maintenance costs;
- Development of a private rental market that offers fair returns to investors;
- Increase the attractiveness of privatization of state-owned units so that the relative costs of home-ownership and renting are more balanced.

It is clear, though, that not all households will be able to afford the higher rents, particularly those on pensions or the long-term unemployed. Tightly targeted housing support, such as a housing allowance program, can assist low-income households meet their housing needs while higher rents are implemented to take away the subsidy that formerly went to all households in rental units, regardless of income. For Hungary and Czechoslovakia, analysis of the introduction of housing allowances indicates that the net subsidy to the housing sector would fall sharply, as higher rents generate resources several times larger than the cost of the allowance program.

Supporting Institutions. Finally, the supporting institutions needed to allow a market-oriented housing sector to run smoothly—such as a real estate profession and a legal framework supportive of property rights—require development. In Hungary, real estate brokers operate only on a local basis, collecting information on sales and potential offerings only in their own neighborhood. This means buyers and sellers can obtain only limited information about available units and prices. The National Real Estate Federation in Budapest has recognized these problems and is working to establish a multiple listing service so that real estate information can be shared more readily and the market operate more efficiently.

Legal reforms to allow the housing market to function more effectively are also being considered throughout Eastern Europe. The Czechoslovak parliament is about to consider a new condominium law that spells out the property rights and responsibilities of condominium participants. This law will govern the sales of public units through privatization and should increase the number of units being privatized. In Poland, laws requiring provision of substitute housing for households subject to foreclosure or eviction —which, in practice, made foreclosure and eviction impossible to carry out—have been repealed. Establishing legal norms that protect the property rights of all parties in the housing market—borrowers and lenders, landlords and tenants—is a necessary step for developing a full-fledged housing market.

USAID Strategy and Programs in Housing

To promote these needed changes and provide assistance in formulating new policies and implementing them, USAID is working at all levels of government and with the private sector.

Policy Advice to National Governments. Technical assistance, emphasizing analytic support and policy advice, is being provided to national policymakers responsible for housing. Assistance provided to date has dealt with reforms to the legal framework, need and feasibility for housing allowance programs in support of rent increases, and options for housing finance and subsidy reform.

Development of Local Government Capacity. At the local level, USAID technical assistance has focused on working with local governments to help them define problems and formulate responses to their new responsibilities in the housing sector. USAID's strategy here is to gain a full understanding of the issues and potential solutions through actual hands-on experience and at the same time develop a means of sharing the results with other local governments through in-country organizations, such as the Association of Cities and Towns in Czechoslovakia. Topics addressed in work to date include development of housing privatization strategies, implementation of private management for social housing, and reviews of local government planning and regulatory procedures.

Private Sector Development. With the private sector, USAID is attempting to respond to the need of local construction firms and developers by formulating direct technical assistance strategies and identifying blockages in the regulatory process governing housing. Working with local trade associations, U.S. business skills and technologies in the fields of construction, real estate brokerage, appraisal and valuation, and marketing are being transferred to local counterparts to improve the quality and capacity of the private sector.

Types of USAID Assistance. Assistance supporting the development of a market-oriented housing sector in Eastern Europe is available in a variety of forms:

- U.S. expertise through consultants and private sector organizations, funded through grants or contracts;
- Cooperation and coordination with other donor programs (particularly the World Bank in Poland and Hungary);
- Housing Guaranty financing for demonstration programs.

HOUSING AND URBAN DEVELOPMENT PROGRAM
POLAND
OVERVIEW AND STRATEGY
September, 1992

CONTEXT. Currently, the housing sector is characterized by:

- a deficit of 1.5 million units,
- declining production levels as measured by housing completions and new starts
- virtual halt in construction and mortgage lending
- a large percentage (40%) of the urban stock subject to rent controls with strong tenancy rights, representing a burden on the budgets of municipalities, coops and state-owned enterprises.

The GOP's Housing Finance Policy Office (HFPO) and Ministry of Spatial Economy and Construction (MOSEC), with technical and policy assistance from AID and the World Bank have embraced a fairly extensive reform program which includes the following key elements:

- reducing and redirecting subsidies by gradually eliminating rent control, removal of interest rate subsidies
- developing a sustainable housing finance system
- changing the role of the supply agents and encouraging private participation in housing construction
- managing the public rental housing stock through privatization of the stock and its management
- revising the legal and institutional framework by decentralizing responsibility for the control of urban land and infrastructure and housing

While many of these reforms are at an early stage of development - and some still subject to much debate - some progress has been made towards introducing the basic elements of a housing finance system and towards decentralizing responsibility for housing and urban development and allowing municipalities greater flexibility in land-use planning and development.

OBJECTIVES

AID's strategy in support of the GOP's efforts to transform the housing sector from a monolithic supply driven system based on administrative allocation to a more competitive and responsive market based system has focused on the following major objectives:

- Introducing a market based housing finance system
- Strengthening local government capacity to assume role of facilitating private sector investment in housing and new responsibilities for housing and urban development
- Strengthening capacity of private sector to participate in housing development
- Assisting the development of a policy and regulatory framework that will facilitate the emergence of a market-based housing system

CLIENTS

Housing Policy and Finance: Ministry of Spatial Economy and Construction, Ministry of Finance, Housing Finance Project Office, Bud Bank, PKO BP.

Local Government: Association of Polish Cities, Foundation in Support of Local Democracy (FSLD), Municipalities of Lublin, Krakow, Gdansk, Lodz, Zory, Bialytstok, Warsaw, Council of Ministers.

Private Developers: Coops in Zory, Bialystok, Krakow Real Estate Institute.

ACCOMPLISHMENTS

1. Housing Finance

- Design and negotiation of a $25 million program to support GOP policy to establish a market based housing finance system which would help establish institutional capabilities in housing finance, demonstrate feasibility of market-rate housing finance mechanisms and provide resources to private sector for construction and mortgage finance.
- Development of underwriting, servicing and appraisal guides to be used by Polish banks for construction and mortgage lending.
- Technical assistance on housing finance which emphasized need for enforceable foreclosure procedures and a revision of the mortgage statutes resulting in passage of acts making eviction possible and allowing individual mortgages on cooperative units.

2. Housing Policy

- Review of policy on privatization of SOE and cooperative housing and recommendations outlining the basic parameters of a condominium law has resulted in drafting of a condominium law as part of GOP housing policy, which is ready for submission to Parliament.
- Assistance to HFPO and MOSEC has led to policy statement on GOP strategy which contains basic elements for moving towards a market-based housing system. Acceptance of a market-based system of housing supply has continued despite three changes in leadership at the Ministry over the last year, though there are differences over the means and pace of reform.

3. Local Government

- Trained municipal officials for new responsibilities in land appraisal, housing management, land use planning and revenue generation. Training is being institutionalized through the FSLD and Krakow University; follow-up courses by Polish trainers have been provided to additional municipalities. Introduction of land appraisal techniques has resulted in interest in development of a prototype property tax assessment in Krakow.

4. Private Development

- Assistance provided to developers in the Warsaw area to help them prepare "feasible" projects for financing by banks.
- Ongoing assistance provided through CHF in Zory led to redesign of projects to reduce costs and to review design alternatives most suited to market affordability, introduced concept of effective demand and market feasibility of projects, introduction of competitive bidding procedures to carry out infrastructure works, commitment by municipality to finance cost of infrastructure improvements and recover costs from land sales.
- Initiating the creation of an Polish American Homebuilders Institute which will showcase appropriate technologies, establish market information for use by both US and Polish developers, develop training for developers in construction management, and has already established linkages to a newly formed Polish developers association.

STRATEGY

1. Housing Finance

Short-term - 6 months

- Provide hands on assistance and training to on-lending institution and participating banks in implementation of mortgage lending and construction guides. (Fannie Mae/ Contractor for Poland HG TA/Bud Bank, PKO)
- Provide assistance to HFPO, onlending institution and MOSEC to develop a program implementation plan to satisfy conditions precedent (CP) to the first borrowing. (Fannie Mae/PADCO)
- Provide advice to MOSEC and Ministry of Finance on other housing finance issues (Fannie Mae).

Outcome: PKO Bank uses guides to evaluate construction projects, borrower eligibility, credit risk, adopts procedures, pipeline of eligible projects appraised by banks using these procedures and submitted for funding to allow for an early-Spring start-up of construction.

Medium Term - 1-2 years

- Monitor progress of HG program and implementation of DIM financing. Assist on-lending institution to develop means of expanding program beyond PKO, identify constraints encountered in expanding system and make recommendations for overcoming these constraints. (Poland HG TA Contract/MOSEC/ HFPO/ Intermediary Institution/Ministry of Finance)
- Work with Ministry of Finance on integrating housing finance reform into overall financial sector reform, mobilizing internal domestic resources for housing finance and for increasing competition in the sector. (Poland HG TA Contract/ Ministry of Finance)

Outcomes

- A functioning intermediary institution which provides guidance and regulates mortgage lending operations, expansion of system beyond PKO.
- Institutionalization of a standardized loan origination and servicing standards.
- At least 2 banks, other than PKO, lending for housing
- Cooperative and private developers utilizing techniques of market analysis financial feasibility, and construction management, introduced through technical assistance and through discipline imposed on participating banks to work with developers and stricter appraisal methods.

2. Housing Policy

- Assist MOSEC in developing a set of indicators it will use to monitor performance of the sector.
- Monitor developments in housing policy and legislation due to change in government and build upon established relationships to assist MOSEC formulate a coherent strategy for the sector, undertake policy analysis and advice on regulatory, legislative and policy measures to deal with developing a viable financing system encouraging greater diversification of housing suppliers, and addressing issues related to existing stock such as privatization, rent control and rehabilitation.
- Monitor legislation on local government and GOP policy on decentralization of housing and urban development responsibility to the local level, provide where appropriate advice on reform measures.

3. Local Government

Short-term - 6 months

- Building on various reports and activities undertaken to date and in response to requests by the Association of Polish cities and several municipalities, develop framework and Action Plan for a Technical Assistance and Training Program for municipal development. The Strategy and Action Plan is to be supported by national and local governments and targeted to assisting selected municipalities in performance of their roles in land, infrastructure, housing and municipal finance with the objective of strengthening their capacity to facilitate private real estate development. Framework would be developed to target specific cities for assistance, dissemination of experience, and address policy and legislative issues affecting housing and urban development at the local level. (ICMA/Urban Institute/Association of Polish Cities (Lublin, Gdynia, Warsaw, Poznan, Krakow, Council of Ministers)
- Monitor and evaluate impact of training for municipalities in terms of its institutionalization and changes that have been brought about through training. (Urban Institute)

- Monitor development of a pilot land valuation system for property tax assessment in Krakow (ICMA).

Medium term - 1-2 years

- Implement Action Plan in at least two cities and at national level focusing on land, infrastructure, municipal finance and housing.
- Refinement and adoption of prototype property tax assessment system by Ministry of Finance for use nationwide.
- At least two cities develop a comprehensive housing strategy that deals with land and infrastructure development for new construction management, rehabilitation, privatization of communal stock, and rationalizes public/private sector roles in real estate development.
- Rationalization of central/local roles.

4. Private Development

Short term - 6 months

- Work with developers in preparation of projects for HG financing, assist banks in selecting pipeline of financially and technically feasible projects (PADCO, NAHB).
- Work with coops in Zory and Bialystok to secure loans for construction for early spring start-up (CHF).
- Develop training courses for developers through APHBI. (NAHB)

Medium term - 1-2 years

- At least 500 units under construction within one year of HG program start.
- Coop projects in Bialystok and Zory (100 units) completed and model replicated by other coops.
- Polish and American developers using resources provided by APHBI, linkages to US technology, techniques and technical know-how well established.

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POLAND

Visit by EE Housing Finance Delegation
March 5, 1993

Background Notes

The housing and urban development program in Poland has been structured to provide assistance in three main areas:

- Housing Finance/Policy. Policy advice to rationalize housing sector finance and production, and introduction of a market-based housing finance system including workable mortgage instrument at the national level in order to stimulate housing production and mobilize resources for housing.
- Local Government and Housing Privatization. Assistance to local governments in the implementation of their housing/urban development responsibilities and strengthening local government capacity to assume newly acquired responsibilities in housing, land, infrastructure, and municipal finance.
- Private Sector Development. Development of private sector builder/developer capacity.

Since AID assistance in housing and urban development began in 1991, accomplishments have been achieved in the following areas:

1. Housing Finance/Policy

- In collaboration with the World Bank developed a $400 million housing finance program, (including the design, negotiation, and initiation of a $25 million HG) program to support GOP policy to establish a market-based housing finance system which will establish institutional capabilities in housing finance, demonstrate feasibility of market-rate housing finance mechanisms and provide resources to construction/mortgage sector for construction/mortgage finance.
- Developed mortgage/construction underwriting, servicing and loan origination guides and procedures to be used by a variety of financial institutions.

2. Local Government

- Trained municipal officials for new responsibilities in land appraisal, housing management, land use planning and revenue generation.
- Continued development of a prototype property tax system for GOP, now in final stages which has received preliminary approval by relevant ministries.

3. Private Sector

- Establishment of the American-Polish Home Builders Institute in Gdansk, whose aim is to organize private sector builder/developer associations and produce market studies on the Polish housing sector and provide support services to Polish and U.S. builders.
- Assistance provided to developers to help them prepare "feasible" projects for financing by HG, World Bank, and EBRD funds.

Future housing assistance to Poland includes the following elements:

1. Housing Finance/Policy

- Provide hands-on assistance and training to on-lending institutions and participating banks in adopting sound underwriting, loan origination and servicing procedures, and then expand housing finance program beyond the PKO (State Savings Bank) and integrate housing finance reform with overall financial sector reform.
- Provide policy advice to Ministry of Construction in area of cooperatives reform, housing allowances, privatization of housing stock, rental policies, etc.

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2. Local Government

- Assist national level in introduction of appropriate instruments for mobilization of resources for capital investment and establishment of appropriate framework for local government revenue generation.
- Assist local governments to mobilize financial resources and to implement systems of cost recovery for housing related services and infrastructure.
- Implement technical assistance programs to already identified municipalities in areas such as housing privatization, redevelopment, land, infrastructure, and municipal finance.

3. Private Sector

- Continue work with developers in preparation of projects for HG financing.
- Continue work with coops in Zory and Bialystock to secure loans for spring construction, and develop training courses for developer/builders through APHBI.
- Provide technical assistance to the Ministry of Construction in restructuring cooperatives on a market basis.

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HOUSING AND URBAN DEVELOPMENT PROGRAM
HUNGARY
OVERVIEW AND STRATEGY
September, 1992

CONTEXT. The Hungarian housing sector has been characterized by:

- Lack of a national housing policy.
- Low priority given to the establishment of a workable housing finance system.
- Shifting and uncertain Ministerial responsibility for the sector.
- Delegation of responsibility for housing to local government without national support or guidance.

The housing situation in Hungary reflects:

- A large dilapidated public housing stock, especially in Budapest, which constitutes a drain on the public budget.
- Lack of experience and strategies at the local level to manage the housing stock effectively.
- A depressed construction industry ill prepared to work with local authorities in a market economy and bring to bear its needs at the national level.
- Lack of local planning and revenue needed to provide land and infrastructure needed for efficient housing production.

OBJECTIVES

- Establish construction and mortgage finance system based on market principles, reduced and better targeted subsidies and appropriate regulatory/legal framework.
- Implement and disseminate local urban development planning processes and housing strategies based on project activities in Budapest and other selected cities.
- Begin to address municipal finance issues, in the areas of infrastructure, intra-government relations and property taxes.
- Promote private developer/builder industry organizations and influence upon planning and financial system. Assist in preparing industry to address priority opportunities in such areas as rehabilitation of housing stock.
- Expand relationships with the private sector in the real estate industries (e.g. Hungarian Real Estate Federation and Homeowners Association) to encourage organized private systems in the sector.

CLIENTS

Housing policy and housing finance:

National level: Ministry of Finance, Ministry of Social Welfare, Ministry of the Interior and OTP (formerly the State mortgage bank, Ministry of the Environment.

Local level: City of Budapest, Budapest District II and District VII, Szolnok, FUTI (training institution).

Local Government:

Kecskemet, Szolnok, City of Budapest, District II and District VII, Szekesfehervar (potential). ? Lakymanyos.

Private Development:

Ministry of Industry and Trade (MIT), Hungarian National Real Estate Federation, Homeowners Association, Kecskemet (potential).

ACCOMPLISHMENTS.

1. **Housing Policy and Finance:**
   - Focused GOH attention at the key Ministry of Finance on the need to transform the housing finance system. This was accomplished by (i) pursuing analytic work on the mortgage system and advising on a housing finance system, and (ii) pressing for a response to our HG proposal.
   - Influenced the Government to adopt the concept of housing allowance systems in its housing legislation. This will target subsidies to those in need and permit rationalization of rental rates and privatization prices.

2. **Local Government:**
   - Promoted and helped to carry out new approaches in addressing the fundamental basis for urban planning at the local level through goal setting and public participation in Kecskemet.
   - Gained the acceptance by selected municipalities (Szolnok and District VII) of the need to develop an effective housing strategy at the local level, including housing allowance systems, privatization of management and improved asset management and sales pricing.
   - Enabled a private Hungarian training institution to develop and offer a successful training program for local government officials on market oriented housing strategies.

3. **Private Development:**
   - Reoriented focus of Ministry of Industry and Trade toward encouragement of small scale builders and the market system instead of state managed restructuring of SOEs.
   - Involved private homeowners association in the preparing a program of advisory services and training in condominium organization and management and private ownership responsibilities to support privatization of housing stock.
   - Established relationships with private Real Estate Federation to support dissemination of information through a multiple listing service to promote the evolution of an open and effective private real estate market.

STRATEGY

1. **Housing Policy and finance**

   Short term - 6 months
   - Provide technical assistance directly to the Ministry of Finance and the OTP and possibly other banks in developing a sustainable housing finance system through which HG funds, World Bank funds could and local resources can be funneled to the housing sector. Key issues expected to be on the national agenda include rent, privatization and eviction regulations in

the Rental Housing Act housing allowances in the Social Policy Law, local taxation powers (including the property tax) in a revision of Local Taxation Laws, and the National Building Law.

- Track housing legislation process and support sectoral reform through analytic work, concept papers, workshops as targets of opportunity present.
- Develop rehabilitation guaranty fund in District VII as soon as authorized by Council.

Medium Term - 1-2 years

- Reach agreement with GOH on housing finance system to be supported by HG and World Bank lending.
- Sign HG agreement and agree with Hungarian institutions on a long term institutional technical assistance and training program to implement the housing finance system.
- Seek to develop housing legislative strategy with selected key officials and institutions.

2. Local Government

Short term - 6 months

- Kecskemet City council action on consultant's recommendations for urban planning and development. Prepare follow up plans for implementation and dissemination of information regarding this project.
- Szolnok city council approval of and start of implementation process housing allowance system and privatization of management process.
- District VII approval of privatization and rehab program and start of program implementation.
- Development of workplan to expand local government network through associations and training/demonstration programs in the fields of municipal finance, land and infrastructure.
- Develop technical assistance plan for City of Budapest.
- Develop relationships with one or two more local governments to provide technical assistance in areas such as land use or infrastructure finance (this would include, e. g. Szekesfehervar).

Medium Term - 1-2 years

- Implementation of approved recommendation in Kecskemet. Housing allowance and privatization of management in place in Szolnok and privatization and rehab program underway in District VII, quantitative targets having been set as part of implementation process.
- Series of training manuals and courses and demonstration projects carried out in municipal finance, land and infrastructure through selected municipal associations.
- Implementation of Budapest program for rehabilitation, economic strategy for urban development and a pilot application of this strategy.

3. **Private Development**

Short term - 6 months

- Builder/developer training courses prepared with MIT and trade associations for pilot presentations.
- Development of private contractor organization to engage with District VII in implementing rehab and with City of Budapest in urban development planning.
- Develop legislative/regulatory agenda in support of private developer/builder with MIT and trade associations.
- Identification of demonstration projects in which to provide on-going technical assistance.
- Hold conferences and initial training for newly formed condominium associations.
- Multiple listing service established in the Hungarian Real Estate Federation and in use for data, research and business purposes.

Medium term - 1-2 years

- Creation of private builder/developer association with offering courses,research and representational resources for the industry.
- Develop plan for working with universities and technical institutions to include private real estate market training in the curriculum.
- Functioning condominium association established with assistance of the Homeowners Association, targets to be established during the preparation and delivery of courses.
- Urban development plans for Budapest prepared, covering topics selected during scoping mission, and submitted to local officials for approval and implementation.

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HUNGARY

Visit by EE Housing Finance Delegation
March 5, 1993

BACKGROUND NOTES

OBJECTIVES

Housing Finance: Support development of a market based system of construction and mortgage finance system with reduced, well-targeted subsidies
Housing Policy: Provide legislative and policy advice at national and local levels to develop coherent, rational, policy based on market principles
Local Government: Assist selected cities in assuming and implementing their responsibilities in housing and urban development
Private Sector Development: Promote and strengthen the real estate and construction/development industries

ACCOMPLISHMENTS

Housing Policy

- Focused the GOH on the need to transform the system, rationalize rentals and target subsidies
- Advised Ministries of Social Welfare and Interior during development of the Housing Act
- Work on the broad design and financing systems of Housing Allowances has been widely read with considerable interest generated particularly in the Szolnok pilot project. The new Social Law, passed in late 1992, requires local governments to provide housing allowances and directly relates to AID work in progress

Housing Finance

- AID is developing a Housing Guaranty Program (HG) to support introduction of appropriate mortgage instruments with TA to MOF to restructure the housing finance system and develop a coherent strategy for this sector.
- MOF with AID assistance is ready to revise current subsidy system and introduce measures to increase competitiveness and alternative mortgage instruments that are not dependent on budgetary support.
- Renovation loan program has been designed offering ways for newly privatized condominiums to finance much needed rehabilitation.
- Analyzed issues relating to Budapest public finance and housing reform, i.e. increasing rents to market levels, rapid privatization, voucher schemes (jointly with the World Bank)
- Established the feasibility of creating a private mortgage institution

Local Government

- Provided TA to demonstrate new approaches to housing management, privatization, rents determination and housing allowances in selected cities.
- Courses prepared for local officials on formulating strategies, housing finance, housing development and rental sector.
- **Budapest**
  - Beginning TA to plan and implement areas of master plan including work on establishing public-private partnerships for land development and infrastructure finance options.
  - In District 7, developed privatization strategy and recommended terms of sales for publicly owned housing units
  - designed renovation loan program for newly privatized condos, now awaiting council approval
- **Szolnok:** Developed a Local Housing Strategy and Rental Policy which has led to:
  - Increases in rental rates for municipal housing to become effective May 1.
  - Establishment of a Housing Allowance Program, self supporting, to begin full operation May 1 and,
  - Housing Management Reform through a pilot program for competitively contracting with private management and maintenance firms to serve municipally managed housing.

Private Construction and Real Estate

- Ministry of Industry and Trade has formed review committees to deal with issues on privatization of state-owned enterprises, assistance to small developers and rehabilitation.
- Designed an MLS system with the Hungarian Real Estate Federation to be operational this summer. The system will increase the competitiveness of brokers and improve information flow on real estate sales.
- Surveyed the construction sector to identify TA and training needs for industry particularly in the area of rehabilitation.
- Developed program for training in condominium management.

FUTURE ACTIVITIES

Housing Policy & Finance

- HG Program preparation to support development of market based system of housing finance to proceed this Spring
- Introduction of Renovation loan through pilot project for Budapest Inner City Revitalization

Local Government

- Dissemination of experience gained in Szolnok and Budapest. With the introduction of new laws, AID pilot programs in these cities are of immense interest other cities.
- Development of strategy for introducing topics in the areas of municipal finance, infrastructure, project development and taxation.

Private Real Estate and Construction

Assist the Ministry of Industry and Trade to:

- develop a program for small private developers,
- review potential for the introduction of warranty systems,
- develop procedures for rehabilitation, and
- evaluate privatization efforts and financial management of new formed private development corporations.

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HOUSING AND URBAN DEVELOPMENT PROGRAM
CZECH REPUBLIC
OVERVIEW AND STRATEGY
January, 1993

CONTEXT. Urban/shelter characteristics of the Czech Republic, include:
* Local governments are the recent owners of most land and communal (public) housing and are now responsible for managing the urban development process, requiring that land, housing and infrastructure development be addressed jointly at the local level.
* Market systems for financing housing and infrastructure in infancy despite positive environment.
* Serious disrepair in existing housing stock and infrastructure due to age and deferred maintenance.
* Large operating deficits (rents+fees cover only half of current O&M expenditures).
* Restitution process has increased private ownership but continued rent control and strong tenant rights seriously hampers trend.
* Inequity in distribution of the communal housing where high and middle income tenants are highly subsized in comparison to poor tenants and cooperative residents.
* Serious continued declines in housing production (1975: 145,000 units completed; 1990: 69,000).
* Private housing production slow to emerge given lack of finance, legal impediments and restricted access to materials/labor.

OBJECTIVES.
* Strengthen **local governments as change agents** in creating a financially and institutionally self-sustaining system for the delivery and management of land, shelter and related environmental infrastructure.

* Assist in the creation of a **legislative and policy framework** that will enable and facilitate market oriented urban development and housing; and support market oriented **housing and infrastructure finance** systems.

* Help develop skills and capacity of **private housing development** sector to effectively respond to market opportunities in localities supported by the local government agenda and through appropriate training institutions.

CLIENTS. The overall work program is coordinated with the Ministry of the Economy. Clients within each of the three strategy areas include:

Housing and Infrastructure Policy and Finance: Ministry of Finance, Ministry of the Economy, Czech Savings Bank, Czech-Moravian Guaranty Bank.
Local Government and Housing Privatization: Association of Towns and Communities, City of Liberec, Prague Districts.

Private Sector: Guild of Contractors, Chamber of Appraisers

MAJOR ACCOMPLISHMENTS IN FIRST YEAR

1. Housing Policy

* Drafted first condominium law, now under consideration.
* Designed housing allowance system, also under consideration, which results in a net reduction in shelter subsidies.

2. Local Government and Housing Privatization

* 6000 units brought under private management in Prague District 2; model now spreading to other municipalities.
* Hands-on guidance on streamlining zoning and development approvals processing offered to Prague Chief Architect and Prague District 6--concepts re new approach to master planning and economic development tools.

3. Private Development of Housing

* Guild of Contractors greatly improved outreach mechanisms to membership.

STRATEGY

1. Housing Policy and Finance

* Support design of laws and implementing procedures clarifying financial and other responsibilities and authorities of local governments, designed to facilitate market oriented development process: a) localities enabled to tap buoyant local revenue sources; b) intergovernmental grants system with appropriate incentives enacted; c) process of master planning and development controls streamlined and decentralized; d) responsibility for infrastructure clarified with provision for appropriate cost recovery.
* Design and assist in establishing an initial system to support municipal borrowing (using HG financing), leading to a fully competitive private market system for financing local infrastructure.
* Support design of basic property laws and implementing procedures to establish market-oriented housing system: a) establishment of phased rent increases [hopefully ending rent control] with housing allowance system; b) provide for sale on condominium basis; c) rationalize tenant rights (speedier eviction and foreclosure, elimination of inheritability).

2. Local Government as Change Agents

* Assist 2-3 demonstration cities to prepare a market-oriented land management and development strategy.
* Inventory government owned land and develop disposition plans and schedules in all demonstration cities.
* Privatize housing and transform housing management through hands-on assistance in 2 demonstration cities/districts.
* Transform infrastructure finance management and development strategies in 2 demonstration cities.
* Expand indigenous TA/Training capacity based on AID approach established and in operation.

3. Strengthen Private Housing Development Sector

* Strengthen capacity of Associations of private contractors, developers and realtors to provide services to members.
* Establish curriculum and indigenous training capacity for market-based property appraisal profession.
* Develop system for technical assistance for private building industry in relationship to the local government agenda and other possible training vehicles such as universities and associations.

HOUSING AND URBAN DEVELOPMENT PROGRAM
SLOVAK REPUBLIC
OVERVIEW AND STRATEGY
January, 1993

CONTEXT. Urban/shelter characteristics of the Slovak Republic, include:

* Local governments are the recent owners of most land and communal (public) housing and are now responsible for managing the urban development process, requiring that land, housing and infrastructure development be addressed jointly at the local level.
* Market systems for financing housing and infrastructure in infancy despite positive environment.
* Serious disrepair in existing housing stock and infrastructure due to age and deferred maintenance.
* Large operating deficits (rents+fees cover only half of current O&M expenditures).
* Restitution process has increased private ownership but continued rent control and strong tenant rights seriously hampers trend.
* Inequity in distribution of the communal housing where high and middle income tenants are highly subsized in comparison to poor tenants and cooperative residents.
* Serious continued declines in housing production.
* Private housing production slow to emerge given lack of finance, legal impediments and restricted access to materials/labor.

OBJECTIVES.

* Strengthen **local governments as change agents** in creating a financially and institutionally self-sustaining system for the delivery and management of land, shelter and related environmental infrastructure.

* Assist in the creation of a **legislative and policy framework** that will enable and facilitate market oriented urban development and housing; and support market oriented **housing and infrastructure finance** systems.

* Help develop skills and capacity of **private housing development** sector to effectively respond to market opportunities.

CLIENTS. The overall work program is coordinated with the Ministry of Finance. Clients within each of the three strategy areas include:

Housing and Infrastructure Policy and Finance: Ministry of Finance, Ministry of Construction, Slovak Savings Bank, Communal Bank.
Local Government and Housing Privatization: Association of Towns and Communities, Cities of Trencin and Banska Bystrica.
Private Sector: Association of Entrepreneurs, Chamber of Appraisers.

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MAJOR ACCOMPLISHMENTS IN FIRST YEAR

1. Housing Policy

* Drafted first condominium law, now under consideration.
* Designed housing allowance system, also under consideration, which results in a net reduction in shelter subsidies.

2. Private Development of Housing

* Association of Entrepreneurs greatly improved outreach mechanisms to membership.

STRATEGY

1. Housing Policy and Finance

* Support design of laws and implementing procedures clarifying financial and other responsibilities and authorities of local governments, designed to facilitate market oriented development process: a) localities enabled to tap buoyant local revenue sources; b) intergovernmental grants system with appropriate incentives enacted; c) process of master planning and development controls streamlined and decentralized; d) responsibility for infrastructure clarified with provision for appropriate cost recovery.
* Design and assist in establishing an initial system to support municipal borrowing (using HG financing), leading to a fully competitive private market system for financing local infrastructure.
* Support design of basic property laws and implementing procedures to establish market-oriented housing system: a) establishment of phased rent increases [hopefully ending rent control] with housing allowance system; b) provide for sale on condominium basis; c) rationalize tenant rights (speedier eviction and foreclosure, elimination of inheritability).

2. Local Government as Change Agents

* Assist 2-3 demonstration cities to prepare a market-oriented land management and development strategy.
* Inventory government owned land and develop disposition plans and schedules in all demonstration cities.
* Privatize housing and transform housing management through hands-on assistance in 2 demonstration cities/districts.
* Transform infrastructure finance management and development strategies in 2 demonstration cities.
* Expand indigenous TA/Training capacity based on AID approach established and in operation.

3. Strengthen Private Housing Development Sector

* Strengthen capacity of Associations of private contractors, developers and realtors to provide services to members.
* Establish curriculum and indigenous training capacity for market-based property appraisal profession.
* Design 1-2 housing projects which demonstrate more cost effective unit design, more rapid project completion and tight project financial management. Disseminate results widely.
* Develop system for technical assistance outreach for private building industry.

HOUSING AND URBAN DEVELOPMENT PROGRAM
BULGARIA
OVERVIEW AND STRATEGY
September, 1992

CONTEXT. The Bulgarian housing sector has three important characteristics, identified in early 1991, that have guided USAID activities in the sector.

- reasonably strong property rights, high level of private ownership (over 90% in 1991) but lack of a functioning real estate market.
- virtual collapse of housing finance and halt in production.
- poor use of existing housing stock including excessive numbers of vacant units, insufficient numbers of rental units, and little maintenance or repair.

Each factor has been addressed through technical assistance intended to:

- facilitate the housing market and production,
- develop housing finance,
- improving the use of existing housing.

OBJECTIVES

1. **Housing Policy:** Assist the MOC to formulate a coherent strategy/policy for the housing sector and local government administration and to define the MOC's role in an increasingly private sector oriented housing market; strategy will include expanding baseline data and continued monitoring of the Bulgarian real property market.
2. **Housing Finance:** Establish base for purchase, construction and rehabilitation lending.
3. **Private Development:** Establish a market based real estate sector, build capacity of private management/maintenance firms, strengthen role of private construction/rehabilitation sector
4. **Local Government:** Assist local public administrations to define their role in fostering and facilitating construction and development by the private sector.

CLIENTS. The overall work program is coordinated and approved by the Ministry of Regional Development, Housing Policy and Construction (MOC). Advice and assistance to other clients is also provided in four functional areas.
Housing Policy: Ministry of Development, Housing Policy and Construction
Housing Finance: Bulgarian National Bank (Central Bank), the State Savings Bank (mortgage lender), Ministry of Finance
Local Government: Sofia (Triaditza), Blagoèvgrad, Plovdiv
Private Development: Association of Maintenance Firms, Association of Private Contractors in Sofia and other cities, Bulgarian Association of Real Estate Brokers and Appraisers (SPONS)

ACCOMPLISHMENTS

1. Housing Policy

- developed institutional base for delivering technical assistance
- began reform of development permitting procedures.
- completed analysis of legal and regulatory constraints on real estate development, sales, and private rental market.

2. Housing Finance

- Completed first phase work on underwriting/servicing guidelines in conjunction with the two largest banks, the BNB and SSB over a series of visits to the U.S. and Bulgaria.
- Designed an indexed mortgage instrument adjusted to inflation under consideration for implementation by the SSB. This shall be the first instrument to be made available to Bulgarian homebuyers since the process of macroeconomic reform began.

3. Private Development

- Through two training courses 120 Bulgarian brokers/appraisers were licensed in 1991. Over 30 new brokerage firms were established since January 1992 and are now operating in Sofia.

4. Local Governments

- Completed technical reconnaissance of the physical conditions of state produced flats and their maintenance needs in Sofia.
- Developed new procedures for allocating rental housing based on income and need, now ready for adoption by the city of Blagoevgrad.
- recommend local regulations to encourage new construction by the private sector which are now under consideration for adoption by the Blagoevgrad city council.

STRATEGY

1. Housing Policy

Short term - 3-6 months

- In conjunction with the National Statistics Institute, develop a questionnaire (based on work in Blagoevgrad and elsewhere) which will be used for a National Housing Survey to be conducted by the GOB in 1993. (UI)
- Develop a set of indicators to monitor growth of housing markets and measure progress resulting from AID programs in the sector.
- As requested, target assistance to selected program areas identified in MOC's strategy and action plan.

Medium term - 1-2 years

- Complete two major tasks within Action Plan.
- Continue to respond to MOC requests for comments and draft legislation (UI)

2. **Housing Finance** (UI, FNMA)
   Short term - 3-6 months
   - Develop housing finance strategy which identifies means for increasing competition;
   - Complete formulation of guidelines and begin training in mortgage servicing and underwriting;
   - Assess interest and need for construction and home improvement lending.

   Medium term - 1-2 years
   - Establish departments of credit, underwriting and loan servicing within SSB and/or other banks.
   - Implement of new housing finance instrument by SSB and review for potential implementation by other financial institutions
   - If appropriate, design and begin TA program to establish construction and home improvement lending.

3. **Private Development**
   Short term - 3-6 months
   - Develop strategy for providing TA in private sector rehabilitation, maintenance and management of deteriorating housing, with technical, financial and social components. (PADCO)
   - Develop a work program for assisting development of professional organizations and private firms in the real estate and construction industries. (PADCO)

   Medium term - 1-2 years
   - Design a demonstration project to show the feasibility of the rehabilitation strategy. (PADCO)
   - Develop an institutionalized system for delivery of training and other assistance to the real estate and building professions.
   - Monitor the emergence and development of the private real estate and building industries.

4. **Local Government**
   Short term - 3-6 months
   - Develop a local housing strategy for Blagoevgrad and one other city delineating options for addressing housing issues and facilitating private housing development. Included would be a feasibility study for housing allowance program to address the needs of low income families in private rental housing and the identification of TA and training needs for municipal councils and maintenance firms desiring to privatize (if workable, for eventual implementation at national level). (ICMA)
   - Prepare Local Government Strategy supported by national and local governments, which will serve as a framework for TA in the sector. (ICMA)

Medium term - 1-2 years

- Assist (MOC) to refine proposed legislation of local government powers and administrative divisions. (ICMA)
- Begin implementation of TA/training identified in local housing strategies.
- Begin assistance on land, infrastructure and municipal finance components of urban development strategy.

c:\wp51\docs\bulgaria\strategy

BULGARIA
Visit by EE Housing Finance Delegation
March 5, 1993

BACKGROUND NOTES

OBJECTIVES

Housing Policy: Assist the MOC to formulate a coherent strategy/policy for the housing sector and local government administration and to define the MOC's role in an increasingly private sector oriented housing market.

Housing Finance: Establish base for purchase, construction and rehabilitation lending.

Private Development: Establish a market based real estate sector, build capacity of private management/maintenance firms, strengthen role of private construction/rehabilitation sector

Local Government: Assist local public administrations to define their role in fostering and facilitating construction and development by the private sector and in carrying out newly responsibilities relating to publicly owned housing.

ACCOMPLISHMENTS

Housing Policy

- Developed institutional base for delivering technical assistance at the national level
- Began reform of development permitting procedures.
- Completed analysis of legal and regulatory constraints on real estate development, sales, and private rental market.
- With the National Statistics Institute, developed a questionnaire for a National Housing Survey to be conducted by the GOB in 1993.

Housing Finance

- Developed underwriting/servicing guidelines in conjunction with the two largest banks, the Bulgarian National Bank (BNB), State Savings Bank (SSB) and most recently the Bulgarian Post Bank (BPB) which has decided to develop mortgage and constructing financing programs.
- Designed an indexed mortgage instrument (BICC) adjusted to inflation scheduled to begin implementation by the SSB during Summer, 1993. It will be the first instrument to be made available to Bulgarian homebuyers since the process of macroeconomic reform began.
- Developed and installing software for computerizing loan servicing functions in SSB for use with the new BICC mortgage

Private Development

- Through two training courses 120 Bulgarian brokers/appraisers were licensed in 1991. Over 30 new brokerage firms were established since January 1992 and are now operating in Sofia.
- Reached agreement to undertake a program of TA and training with the Bulgarian Building Construction Chamber to be operationalized through its 6 regional offices.
- Evaluated impact of regulatory systems on private housing production.

Local Government

Sofia: Completed technical reconnaissance of the physical conditions of state produced flats and their maintenance needs.

Blagoevgrad

- Developed new procedures for allocating rental housing based on income and need, now ready for adoption by the city of Blagoevgrad.
- Recommended local regulations to encourage new construction by the private sector, now being considered for adoption by the city council
- Completed feasibility study for housing allowance system

- Formulating local housing strategy including recommendations for allocating rental flats based on criteria which include income and establishing a database inventorying municipally owned housing.

Stara Zagora

- assisted city to analyze alternative lending terms for its recently created local development fund

FUTURE ACTIVITIES

Housing Policy

- Continue responding to MOC requests for comments and draft legislation

Housing Finance

- Begin training in mortgage servicing and underwriting at SSB and BPB
- Assist SSB and BPB to develop program for construction and home improvement lending.
- Fully establish departments of credit, underwriting and loan servicing within SSB and other banks.
- Implement new housing finance instrument by SSB and review for potential implementation by other financial institutions, initially on a pilot basis.
- As appropriate, design and begin TA program to establish construction and home improvement lending.

Local Government

- Prepare Local Government Strategy supported by national and local governments, to serve as a framework for TA in the sector, coordinating with the World Bank as it develops a program to assist in establishing a legal framework for decentralizing responsibility and municipal finance.
- Initiate discussions with national and municipal officials to define a program for facilitating private land development.
- Assist cities to make land accessible for private development. Initial efforts will focus on developing current information on location, ownership, use and availability of services on land parcels available for development in the cities of Blagoevgrad and Stara Zagora.

  Blagoevgrad

  - Assist in implementing the housing allowance system, if the city decides to raise rents.
  - Begin implementation of TA/training identified in local housing strategies.
  - Begin assistance on land, infrastructure and municipal finance components of urban development strategy.

Private Development

- Introduce the concept of construction lending to the private construction and development industry and to the banking sector through a Construction Lending Workshop being developed in conjunction with the Bulgarian Building and Construction Chamber (BBCC).
- Expand and refine the program for TA and training to the real estate and construction industries, to be carried out through the BBCC.
- Monitor the emergence and development of the private real estate and building industries.

a: bulgtalk

ANNEX 3

Interviews Conducted

Interim Evaluation of Eastern European Housing and Urban Development Programs

Abt Team Interviews. March 1 to April 16

Office of Housing
- Peter Kimm
- Mike Lippe
- Steven Giddings
- Sonia Hammam
- Rebecca Black
- David Olinger
- Barry Veret

East Europe Bureau
- John Morgan, Office of Project Development
- Susan Kosinski, Democratic Pluralism and Participation
- Ross Anthony, Office of Development Resources
- Alexi Panehal, Environment
- Frank Almaguar, DDA

The Urban Institute
- Tom Kingsley
- Michael Hoffman
- Katie Mark
- Jeff Telgarsky
- Peter Tatian
- T. Baar, consultant (Budpapest)

PADCO
- Duane Kissick
- Hank Henward
- Jim Lynch
- P.D. Jones, consultant

ICMA
- Charles Hanson
- Renata Frenzen
- Bob Dubinsky
- Peter Feiden
- Jan Winters, ICMA long term consultant to Krakow
- Chuck Andersen

FNMA
- Beth Marcus
- Ruth Sando

World Bank
- Giancarlo Guarda
- Margaret Thalwitz

EERPF
- Al Van Huyck
- Martha Sickles

CHF
- Judith Hermannson
- CHF Long term advisor from Bialystok (Lublin, Poland)
- Krysztof Raciborski (Zory, Poland)

Home Builders Institute/American Polish Home Builders Institute
- Michael McIntyre
- Steven Lewis
- Zbignew Kudas
- Jerry Vecchione, Eurotech International (Gdansk, Poland)
- Ewa Oziewicz, Training Manager (Gdansk, Poland)
- Eli Koniarek (Gdansk, Poland)
- Juliota Pawtowska (Gdansk)
- Kristoff Pasparovich

Harvard University
- Professor James Canestaro, consultant (Gdansk, Poland)

Urban Research
- Peter Tajcman (Prague, CR)
- Jaroslava Zapletalova (Bratislava, SR)

MRI
- Jozsef Hegedus (Budapest)
- Ivan Tosics (Budapest)
- K. Zambovski

MTK Konsult
- Maya Koleva (Sofia)

U.S. A.I D.
- Poland
  - Bill Joslin
  - Agata Litonska,
  - Jan Koslowski

Hungary

David Cowles, AID rep
Mary Likar, Program Officer
James Watson

Czech Republic

Lee Roussel, AID Rep, Czech Republic
Jim Bednar, AID Deputy Director, Czech Republic
Leos Jirasek

Slovak Republic

Patricia Lerner
Arthur Lesen
Roman Snajdr

Bulgaria

Jerry Zarr
Bozhil Kostov

POLAND

Ministry of Spacial Economy and Construction
- Irena Herbst, Vice Minister Secretary of State
- Najnanger, Vice Minister Secretary of State
- Andrzej Pogorzelski, Department of International Relations

Ministry of Adminstrative Reform
- Prof. Michal Kulesca

Housing Finance Project Office
- Irena Stocka, Director
- Kazimierz Kirejczyk, Architect, Technical Specialist

Bud Bank
- Elzbieta Kudowska-Budwarska, Director

PKO
- Elzbieta Dubczyk

Krakow Mortgage Bank

City of Lublin
- Deputy Mayor Lublin

City of Krakow
- Jan Brzeski, Deputy Mayor
- p. Swiderski, Krakow City Manager
- K. Pakonski, Krakow Vice President
- Z. Pijanowska, Krakow Geodetic
- R. Nikiel, Krakow Legal Advisor
- Bogdan Polomski, Environment Division (Krakow Voivod)

City of Gdynia
- Deputy Mayor Maciej Brzeski

City of Gdansk
- Robert Lach, Representative to Eurocities, GIS department
- Katarzyna Rutkowska, Granary Island Development Project
- Deputy Mayor Marian Szajna

City of Zory
Zygmunt Lukaszczyk, President of Miasta
Janusz Koper, Vice President of Miasta
M. Majescka, district representative
Andrzej Tymoszyk, Radom (coop builder)

Foundation for Support of Local Democracy, Warsaw
Arkadiusz Majsztyk, AID Coordinator
Aldona Rudnicka (former FSLD liason for ICMA)

Malopski Instytut Samorzadu Teryt. i Admin. (FSLD Cracow)
Prof A. Bohma, Polish lecturer for Land Management Seminar
Director of MISTA
Kamila Matuk, Coordinator for Krakow seminars

Technical University of Gdansk
Dr. Andrzej T. Baranowski, Technical University of Gdansk

Private Contractor, Founder of Gdansk Homebuilders Association
Sergiusz Gniadecki, General Director,AllCon Building Company

Site Visits in Gdansk/Gdynia
120 acre planned unit development
30 acre single family subdivision near airport, Allcon
60 unit low density development by Coastal Development

Private Developer (Krakow)
P. Rafal Chylinski, geothermal investments

Roman Rewald, Lawyer with Weil Gotch, Warsaw (HFPO consultant)
Patricia McCormick, United Nations Volunteer (Lodz, Warsaw)

CZECH REPUBLIC

Ministry of Economy
Jan Wagner (Housing Policy)
Monika Kolderova
Jiri Mejstrik

Ministry of Labor and Social Welfare
Jiri Dlouhy

Ministry of Finance
Vera Kamenickova

Commercial Bank
Roger Kodat, Long term advisor from Treasury

Dr. Vojtech Cepl, Vice Dean of Law School

Prague 6
Peter Bocek, Deputy Mayor
Bohumil Mach, Director of Asset Management
Dr. Kosacki, Economic Director

Association of Cities and Towns/Phare Foundation
Miroslav Cernik

Construction Guild of Private Entrepreneurs
J. Hruby, Executive Director
J. Vesely, Staff

Building Information Institute
Marie Bacova, Director

L.E. Holdings, SPOL. S.R.O.
William Lobkowicz
Tanya Wojtowych
Susan G. Hunt

SLOVAK REPUBLIC

VUB Bank (Previously Slovak counterpart to Commercial Bank)
Langdon Bell, Long term Advisor from Treasury

Chief Justice of Slovak Supreme Court
Karel Plank

Association of Entrepreneurs
Peter Lispuch, Compex
Jozef Ruzansky, Consult
Igor Masarovic, Elam
I. Koniar

Ministry of Finance

City of Banska Bystrica
Mr. Ivan Hano, Vice-Mayor,
M. Puchovsksy, city manager (lawyer)
Mr. Badinsky, director of city's housing authority

Mr. Karol Sedlar, Director of Dept. of Entrepreneurial activity
Ing. Belaz, Department of Infrastructure
Mr. Snopko, Director of Capital Investments
Mr. Dobrota, head of regional sewerage and water supply (state)
Ms. Pricova, head of budget division of city's financial dept
Ms. Sonia Capkova, Banska Bistrica University, econ dept. (Affiliated with urban research)

City of Trencin
Stefan Rehak, Mayor of Trencin
Karol Durenec, City Architect

HUNGARY

Ministry of Social Welfare
Jozsef Csomos, Head of Housing Department

Ministry of Finance
Pal Cseh, Senior Ministerial Counselor

Ministry of Interior
Mrs. Vargha

Hungarian National Bank
Laszlo Nadrai, Sr Deputy General Manager

OTP (State Savings Bank):
Agnes Balazs, Head of Department
Balasz Horvath
Vera Tomori, Deputy to Managing Director

City of Budapest
Angela Pataky, Department of Development
Dr. Zoltan Csorba, Assistant to Deputy Mayor Schneller

Budapest District VII, Housing Privatization:
Zsolt Szabo, Head of Housing Committee

Omega Kiadoi es Oktatast (previously FUTI)
Kalman Netkovszky

City of Szolnok
Jozsef Keri, Deputy Mayor
Fereno Probald, Head of Housing Department

City of Kesckemet
Mayor Jozsef Merasz

ALFOLD Institute, Center for Regional Studies
Balint Csatari

Hungarian Real Estate Federation
Zoltan Szabo,
Janos Sagat
Dr. Korompay Peterne

BULGARIA

Ministry of Construction
Leviev, Deputy Minister
Ilia Radev, Deputy Minister
Hubanov, Head of Housing Policy Department
Giurova, Expert in Housing Policy Department

State Savings Bank
Assen Drumev, President

Bulgarian Post Bank
Radeva, Head of Housing Finance Department
Tzerovska, Senior Officer in the Housing Finance Department
Giurov, Former Vice-President of Post Bank

City of Blagoevgrad
Popov, Secretary of Blagoevgrad Municipality
Krivatchka, Lawyer of Blagoevgrad Municipality

SPONS
Zdavka Kalaydjieva, Lawyer, lecturer
Prof. Zlatev, University of World Economy

Bulgarian Building Construction Chamber
Dimo D. Gugutschkov, President
Eduard Ivanyi, General Secretary

Private Brokerage Firm, Terratrans
Miletichov, President, attended SPONS course

Private Brokerage Firm, Real Estate Exchange

ANNEX 4

Mid-Term Evaluation of the Eastern Europe Housing and Urban Program
Scope of Work

Mid-Term Evaluation
of the
Eastern Europe Housing and Urban Program

SCOPE OF WORK

Background

The purpose of the Eastern Europe Housing and Urban Program is to help develop a private housing and real estate sector and to increase the supply of housing. The housing sectors of Central and Eastern European countries have been characterized by chronic shortages, lack of choice, poor quality of construction and massive public subsidies. In result, public budgets are drained, labor mobility is impaired by lack of alternative housing, and citizens experience a lower quality of life. The objectives of the Housing Program are therefore tied integrally into the overall Eastern Europe strategy: promoting economic restructuring; supporting stable democracies; and improving the quality of life.

The purpose of this project is to provide technical assistance and training and fund demonstration projects in support of 1) the development of housing finance systems, 2) increased housing production by private developers and builders, 3) strengthened capacity of municipalities and local institutions to support the provision of adequate shelter and urban services, and 4) privatization of existing housing and reduction of housing subsidies and budget deficits.

The program was officially authorized in March 1991, following a period of short term planning and development TDYs. The program is divided into three broad areas of work: Housing Policy and Finance; Local Government in support of shelter; and Private Sector Housing Development. A core contract provides technical assistance resources in each area; these were signed in March 1992 and therefore have been available only for the past six months. Additional resources are or will be provided through institutional contracts for long and short term advisors to selected national and municipal departments and grant agreements/cooperative agreements for training, research, pilot capital projects or other activities supporting shelter. While a few of these resources have been in place for longer, the major contracts and cooperative agreements have been signed within the last 8 months.

While the project is in large part still in its initial phase, an early assessment of overall direction is being undertaken to provide insight to help refine its future course. An assessment at this juncture may be particularly valuable because of the rapid start of the project, the context of a "transforming" rather "developing" economies (where AID has had its experience), and the rapidity of change in the region itself. It is anticipated that given the timing of the evaluation, the analysis will be primarily qualitative rather than quantitative, and focused on refining the direction of the remainder of the program.

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DETAILED SCOPE OF WORK

ACTIVITY TO BE EVALUATED

Project #180-0034: Eastern Europe Housing and Urban Development Program

PURPOSE OF EVALUATION

1. Measure by country the impact of program actions on the real estate sector

2. Measure, where possible, progress that has been made to date in meeting program objectives

2. Review the overall direction of the program relative to its stated objectives and the AID Eastern Europe program objectives as a whole; assess the continued viability of program objectives

3. Make proposals for improving or refining the project and its implementation

Intended users of the results of the evaluation include:

1. AID Implementers
   --Project Managers
   --Contractors/advisors

2. AID Management
   --Europe Bureau and Regional Mission for Europe
   --PRE/H
   --AID Field Representatives

3. Host country clients

STATEMENT OF WORK

The evaluation team will be composed of three specialists, one of whom will function as team leader: Housing Finance/Policy Specialist, Local Government Specialist, and Private Housing Construction and Development Specialist. One assistant/researcher may supplement the team in data collection. The team will work closely with AID staff in the field, Warsaw, and Washington, D.C.

The following issues shall be addressed on a country specific level, for each of Poland, Bulgaria, Hungary, and the Czech and Slovak Republics. The team will also be expected to draw conclusions for the regional program as a whole from the country by country reviews.

Task A. Changes in Context affecting Program Implementation

Review significant changes in the overall project setting that may have an impact on the original assumptions underlying the project design, and which should be addressed in future implementation. The review can include but not be limited to the following questions:

1. Have there been unpredicted economic changes, including rates of inflation, growth or decline of national economy, changes in the region as a whole that affect individual countries, and which have impact on the direction of the project?

2. Have there been unpredicted major policy and governmental shifts that affect the project?

3. Are there existing factors not known at the time of project start-up that have impact on project implementation?

4. Are there issues related to changes in the structure of the project's management that affect its implementation?

5. Has privatization in other sectors of the economy (or lack thereof) affected in a positive, or negative, way housing privatization efforts?

Task B. Evaluate Progress Made in Achieving Objectives

Assess and evaluate AID technical assistance, training, and demonstration program progress in meeting program objectives. This requires both an assessment of what progress has been made and what role the AID program played in achieving that progress. The evaluation should include both qualitative and quantitative--where possible--review, and review program progress relative to stated objectives. Where appropriate, quantifiable measures of progress should be identified.

Basic themes:

I. Housing policy and finance: what changes have occured as a result of the project in housing and local government policy reform at national level, especially the areas of banking and housing sector lending; legal reform related to land and property ownership and transfer?

2. Local Government: What results have been achieved from project activities in local government assistance. The evaluation shall focus on t.a. and training in privatization of public housing ownership/management, housing allowances, and urban planning and development.

3. Private Housing and Construction: What progress has been made in strengthening the capacity of the private sector, including that of private builders and developers, real estate professionals, and professional associations of private entrepreneurs?

Additional Questions:

1. What has been the overall experience with housing privatization efforts? Where it has worked and why? Are there critical issues relating to privatization of the real estate sector that should be addressed through the program?

2. What is the experience with the type of training that have been conducted? How widely dispersed have been the benefits? Has the subject area been pertinent to priority needs of clients?

3. How well have EUR/H's activities been coordinated with other donors and AID programs, especially in local government assistance? What seems to be EUR/H's comparative advantage?

4. Has sequencing of reforms in the three areas affected the pace or progress of implementation?

Task C. Provide Recommendations for Future Project Implementation

Review Country Strategies in light of the above analysis and provide recommendations, as appropriate, for revisions in direction, strategy, and/or method of implementation that would enhance project success in meeting Housing Project objectives, Europe Program objectives, and needs of Eastern Europe countries. This review may include examination of priorities, timelines, methods, project management structure, and sequencing of issues being addressed, as well as overall direction and approach on a country by country basis.

REPORTS

The team shall prepare a draft report in English which summarizes the findings under the above tasks. A separate annex to the report shall include a summary of the results of the interviews and compilation of secondary data in written and tabular form. The report shall include the analysis of changes in the program setting, the evaluation of how or how not the program is achieving its goals; an inventory of results; and, provide recommendations as appropriate on implementation of the remainder of the program. The report shall address each country separately, but also include an overall regional evaluation and set of recommendations. A final report whall be due after discussion with A.I.D., which shall include an Executive Summary of not more than two pages and an Abstract of no more than 300 words.

ANNEX 5

Training

I. Summary of Training in East Europe

More than 30 seminars, workshops, have conferences, have been organized and delivered in East Europe as part of the Housing and Urban Development Programs. The individual training activities are briefly described below. It should be noted that the list is not comprehensive and additional training activities were requested on an ad hoc basis as part of different technical assistance programs (i.e., lectures at the University of Gdansk by the U.S. consultant working on a technical assistance project in developing the curriculum). Key recommendations for future training include:

Developed training materials should be made readily available to universities and training institutions in the country as well as other countries.

The majority of the training materials is not readily available to institutions which might develop courses based on the material. There were no specific plans for further dissemination of the training materials after the seminars.

New courses should build upon the knowledge gained regionwide.
Often seminars were prepared separately by different contractors in different countries without collaboration or building on the course materials or experience from other countries or contractors (ie Land Use Planning, Land Valuation, Asset Management, and Housing Development). More recently there has been some effort to apply course material developed in one country to training in another. For example, there are plans to utilize the material developed on condominium management for Hungary to seminars in the Czech Republic.

More emphasis needs to be placed on institutionalizing the training.

Most of the training sessions were not accompanied by institutional development of the organizations to ensure replicability. Particularly in the ICMA training of trainers seminars in Poland, little or no technical assistance was provided to the FSLD regional training centers to ensure that there was effective demand for the training. The costs of repeating the seminar are unaffordable to the local participants. The assumption that associations will be solvent training centers needs to be reconsidered. Even in the U.S. most associations do not make money from training, rather they provide it as a service to their members.

Training should be part of a longer term technical assistance program, preceded and followed with technical assistance.

Many of the training activities did not adequately present the market oriented reform concepts in a way to be understandable and applicable to local situations. Comments on training ranged from too theoretical to insultingly simple. Training should be based on in country technical assistance projects and activities and experience of long term advisors. More recently, training is being prepared based upon longer term work in the country as in the case of Hungary housing allowance and asset management seminars and the Czech Republic asset management seminar.

Training should facilitate peer to peer solutions through interactive sessions.

One of the unintended benefits of the FSLD ICMA seminars was the opportunity for local government officials to exchange their experiences in local government reforms. Training sessions should combine the introduction of new concepts with participant discussion about implementation steps. Both the director of the FSLD training center in Crakow and the director of training at APHBI in Gdansk emphasized the need for more assistance in methodology of training to include participation by the attendees.

II. Brief description of training in each country.

Training in Hungary.

The five seminars and training sessions in Hungary targeted primarily local government officials. No training yet has been developed in housing finance. Training in aspects of private development were included in one part of the three day course for local government officials given in December 1991, but again the members of the audience were local government officials, not contractors or developers.

The training programs in Hungary were based on work with the municipality and emphasized the use of local trainers. More effort in the future needs to be placed on dissemination to other regions and institutional development for the provision of these courses.

The following training sessions were organized for local government officials:

1. Housing Policy and Housing Development. Training for local government officials was organized by The Urban Institute and FUTI, a local training institution. The three day course focused on housing strategies, particularly the rental sector, housing finance and private development. The course, developed in the spring of 1991 was timed to immediately follow the passage of the Housing Act which requires the development of local housing strategies. The Housing Act however was delayed and in December 1991, UI decided to deliver the course even though the Housing Act still had not been passed.

The materials were developed by bringing the trainers to the United States. The local training institution, FUTI commented particularly on the contribution from the U.S. in methodology of teaching, including the use of computer models and emphasis on attendee participation. The course has not yet been repeated.

2. Training for condominium associations. The CHF, UI and The National Association of Home Owners, a local organization developed training in condominium management. Two audiences were targeted: the property management firms and the condominium associations contracting the property management firms. The project proceeded in phases:

Phase I: Development of course materials and training of trainers. The materials which were developed benefitted from the one and a half years experience UI had in working with

Hungarian municipalities. UI, CHF and The Homeowners Association developed materials in the Fall of 1992 and in November of 1992, trained five trainers.

Phase II: Training of management companies and condominium associations. The first two one day courses in January 1993 were taught by given by both the U.S. and local lecturers. The demand was so high that the course was repeated in April 1993 by only the local lecturers. As an unintended result, most of the attendees in the April 1993 session were employees of the state management company who were interested in starting private management firms .

Phase III. Institutionalization and replication. Efforts should be focused on replication; more lecturers in several institutions (in different regions) should be given the prepared information and assisted in implementing the training. The contractors are modifying the training materials for use in other countries.

3. **Asset Management Training.** Based on several months intense work with the local government, UI developed a 15 hour course in Asset Management. The course was conducted in Szolnok over a time period of one week in October 1992 and included attendees from city management, city council, and property management company. Due to the demand for particular technical expertise, this course did not include a local lecturer. In the future, the Urban Institute plans to focus in building local capacity in providing this course as they have in other courses.

4. **Housing Policy and Housing Allowances.** Based on one years work in developing a housing strategy and housing allowance implementation plan with the city of Szolnok, UI/MRI and the Ministry of Social Welfare gave a course for municipal officials explaining the Szolnok case study. The course offered in April 1993, was oversubscribed and will be repeated.

5. **Local government strategies.** The interactive goal setting workshops in Kescemet were given in conjunction by U.S. consultants and a local training institute. Like the Asset management, condominium management, and Szolnok housing strategy workshop, this workshop was based on work with the municipality. Three workshops were delivered in early 1992. Although well received by the municipality, particularly the opportunity for interaction among the many interest groups, future workshops should be amended to include a link between the strategy and the financial resources of the community. As with the other workshops, emphasis needs to be placed on assisting local institutions to implement the workshops in other towns.

Training in Bulgaria

1. **Developing a Housing Policy.** The Urban Institute prepared a 20 hour course, delivered over the period of one week for housing policy professionals at the National Center for Regional and Urban Development, a research arm of the Ministry of Construction. The course provided a base for thinking about a national housing strategy but was not repeated since its delivery in summer of 1991.

2. Appraisal and Brokerage. The Urban Institute developed a course in conjunction with SPONS, an association of real estate professionals. The 76 hour course was developed in conjunction with local trainers. One quarter of the course was delivered by a U.S. real estate professional, the remainder by local professionals. The responsibility of organization of the second two week course was left to the local organization. Approximately 100 people attended the two courses. The organization later disintegrated in part due to the lack of professional interest in real estate brokerage of the board members. The course was delivered in September 1991, at a time when real estate brokerage industry was only beginning. Regardless of the disintegration of the SPONS organization, there was high praise for the two week course. The participants and lecturer which were interviewed did not think the course was premature, in fact it was cited as an excellent base for someone starting in the brokerage business, a business which has developed rapidly in the last year. One lecturer compared the course to other subsequent courses organized by the Germans, and stated the SPONS course was more comprehensive and at a higher professional level. There was interest from a brokerage company in repeating a shorter course with an emphasis on the practical aspects of running a brokerage company.

3. Training for Bank staff. As part of the technical assistance in developing a mortgage system, several informal workshops were prepared for the bank staff. The courses developed awareness of the different issues in developing a finance instrument and built skills analysis of options. Follow up and dissemination of materials is needed to expand the information beyond the five to ten bank staff which were trained.

Training in the Czech Republic

1. Conference on housing policy/condominium law This conference was organized by The Urban Institute in May 1991. The participants (approximately 40) of the one day conference represented various interest groups in housing policy including legislators, city representatives, home owners association, renters association etc. The panel included Chief Justices of Czech and Slovak Supreme Courts, government officials, and housing policy and legal specialists from The Urban Institute. This conference was effective in bringing the issues of housing policy to the forefront in legislators minds and it set the stage for future work by The Urban Institute in housing allowances and the condominium law.

2. Housing and Infrastructure Finance Conference. The Urban Institute and Urban Research sponsored a two day conference in May 1992 on Housing and Infrastructure Finance. As with the condominium/housing policy conference, this conference focused on introducing important reform issues to key policy makers. The first day was opened by the Minister of Economy, and Ambassador Black. Presentations included both local as well as western perspectives including the President of the Commercial Bank and Housing Policy directors from both the Czech and Slovak Republics, the director of the federal Housing Allowance program, and a housing Policy expert from Poland and U.S. housing finance and municipal finance experts from the Urban Institute and Fannie Mae.

The second day started with two working group sessions in housing finance and municipal finance with presentations both by U.S experts as well as local practitioners; and ended in a

panel discussion. The audience, (approximately 100) was comprised of both federal, republic and local government officials from both the Czech and Slovak Republics, bankers, housing finance professionals and representatives of various interest groups.

This conference was well received by attendees. Particularly local government officials, faced with the day to day decisions of how to finance infrastructure were keen on the opportunity to present their constraints to republic and federal legislators. The attendees also recommended that hand out materials are prepared as part of the conference, especially when presenting technical issues such as finance. This conference was the start of the work in infrastructure finance for both republics. A program in housing finance was not developed.

3. Conference on rent control and housing policy. The Urban Institute, Urban Research in conjunction with Ekonom magazine sponsored a one day conference on rent control and housing policy in Prague and Bratislava in November 1992.

4. Briefing to Ministry of Social Welfare on Housing Allowances. During their work with the Ministry of Social Welfare, the Urban Institute held several round table discussions and briefings for ministry staff (approximately 15 in each republic. These briefings helped explain the housing allowance model the Urban Institute was preparing as well as issues in implementing the housing allowance system.

5. Asset Management Seminars. The Urban Institute and OKM held a series of seminars on property management June to December 1991 in Prague. These seminars included 1) two one day seminars for Prague district officials and 2) several focused seminars for Prague 6 on technical aspects of property management and data collection. OKM is still in the process of creating training materials which can be used by local institutions for delivering similar seminars. A one day seminar was also held in Slovakia.

6. Workshop on Land Development Strategies -- Pubic/Private Development. In June 1992 the Urban Institute delivered a half day seminar on land development strategies including risks involved in the various options of financing development related costs through public private partnerships. The attendees (approximately 15) were municipal officials from Prague. The interactive session was well received by the municipal officials however, since June of 1992 there has been no follow up in this area.

7. Financial Management of Construction Firms. As a base to develop seminars requested by The Guild of Contractors reflective of the local conditions, in February 1991 the Urban Institute held a workshop/focus group with contractors (approximately 6) in Tabor. The workshop was also held in Bratislava (see below). The workshop focused on financial management of construction firms and utilized a computer model which was used in courses for small business training in the U.S. The computer model is intended as a tool for testing different scenarios and eliciting discussion among the attendees regarding risk management for construction firms.

8. Housing Technology Seminar. Seminar at the Brno trade fair on housing technologies. As part of the Brno construction trade fair in September, PADCO and Steven Winter Associates participated in a one day seminar on U.S. industry. It included presentations both by various

industry representatives as well as U.S. government sponsored programs for targeted for Eastern Europe. PADCO/SWA presented prefabricated housing technologies. Attendees (approximately 40) indicated that a more useful method of transferring technology is to have direct contact with foreign companies and to visit trade fairs in the west.

9. Construction and Project Management. PADCO organized a one day workshop in conjunction with the Guild of Contractors in the Czech Republic on Construction and Project Management in November 1992. (a similar workshop was delivered in Bratislava). Presentations included both U.S. and local lecturers and had a focus of presenting strategies and options of construction management used in the west. The attendees (approximately 20) had an opportunity to ask questions regarding current problems during the workshop. The attendees had the opportunity to schedule individual sessions with the PADCO consultants for the week following the workshop. Feedback from the participants was positive. They felt the workshop addressed relevant issues and the translated material was useful for their better understanding of the issues. Recommendations that future workshops include more practical examples which apply the principles of construction and project management and that future seminars are held outside of Prague.

10. Market Based Real Estate Appraisal. As part of an initial assessment in developing a program in the Czech Republic in legislation and training in market based appraisal, the PADCO consultants presented a lecture to approximately 80 members of the Association of Real Estate Appraisers on U.S. methodology of appraisal in October 1992.

Training in the Slovak Republic

1. Briefing to Ministry of Social Welfare on Housing Allowances. Briefings for the Ministry of Social Welfare were presented by the Urban Institute as part of their ongoing technical assistance in the 1991 and the beginning of 1992. See Czech Republic above.

2. Property Management. The Urban Institute and OKM presented a one day seminar for local government officials from Bratislava districts in September 1991. Follow up technical assistance continued only in Prague, not Bratislava.

3. Financial Management of Construction Firms. As a base to develop seminars requested by the Association of Slovak Entrepreneurs reflective of the local conditions, in February 1991 the Urban Institute held a workshop/focus group with contractors (approximately 6) in Bratislava. The workshop focused on financial management of construction firms and utilized a computer model which was used in courses for small business training in the U.S. The computer model is intended as a tool for testing different scenarios and eliciting discussion among the attendees regarding risk management for construction firms.

4. Construction and Project Management. PADCO organized a one day workshop in conjunction with the Association of Slovak Entrepreneurs on Construction and Project Management in November 1992. (a similar workshop was delivered in Prague). Presentations

included both U.S. and local lecturers and had a focus of presenting strategies and options of construction management used in the west. The ASE included presentations on current government plans for financing construction and public procurement proposals. The attendees (approximately 45) included both contractors as well as educators from the University. Follow on technical assistance was available to the firms to address company specific issues following the workshop. Feedback from the participants was positive. They felt the workshop addressed relevant issues and recommended that future workshops include more practical examples which apply the principles discussed.

5. Conference on rent control and housing policy. The Urban Institute, Urban Research in conjunction with Ekonom magazine sponsored a one day conference on rent control and housing policy in Prague and Bratislava in November 1992.

Training in Poland -- Housing Policy and Housing Finance

1. Urban Economics for City Managers and Planners: Property Valuation. ICMA in conjunction with the Foundation in Support of Local Democracy's Crakow branch office (Malopolski Instytut Samorzadu Tertorialnego i Administracji) developed a five day seminar targeted at training trainers would then provide seminars for local officials. The course material was prepared as a collaborative effort between the U.S. consultants and local professionals. The U.S. consultants worked in Crakow for two weeks and the local professionals worked in the U.S. for three weeks in developing the course materials. The course was delivered in February 1992. The main topics covered by the seminar include 1) discussion of real estate market economy, 2) the factors affecting real estate value in a market economy and 3) the valuation of individual projects.

The participants, 28, were split between local government officials and university faculty. More emphasis would need to be placed on training of trainers and attendee selection to achieve the objective of training trainers. Also more emphasis should be placed in the future to ensure the institutional development of the association targeted to deliver the training. Although the same group of participants met subsequent to the seminar and workshops based on the material prepared were delivered in May and Fall of 1992 with only local lecturers, the costs of providing the seminars are prohibitive for local government officials.

2. Land Use Planning in a Market Economy. Like the above mentioned course in Land Valuation , this course was prepared jointly by ICMA and FSLD. It was delivered in June 1992 in Crakow. During the preparation period, the local participants redesigned the seminar to include more material on local finance, to reflect the current needs of local officials. The main topics covered by the seminar included 1) physical planning in a market economy, 2) land use controls and area planning, 3) planning and financing infrastructure, 4) citizen participation in planning and 5) development of strategic plans.

The 24 participants were from various regions in Poland and again were primarily local government officials and University faculty. The same group of participants met in December of 1992 to develop a course with current examples of land use strategies for a course for local

government officials. Although like the other ICMA training of trainers seminars, few if any trainers were trained, the course did have unintended benefits of informal exchange between the local government officials. Furthermore, the institute has applied the training experiences gained from he ICMA collaboration to workshops for local government in Lithuania.

3. Management of Communal Housing. ICMA prepared the course in communal housing conjunction with the FSLD regional training center in Lodz. The course was delivered in July 1992 and included the following topics: 1) the theory and analysis of housing systems, 2) a select set of U.S. institutions, instruments, and laws potentially relevant to the management and finance of Polish communal housing, 3) the changing role of local governments in the management and privatization of communal housing, 4) a case study analyzing the communal housing system in a model situation, 5) communal housing management technology and costs and 6) the relative advantages of public and private organizational structures.

4. Local Revenue Sources for Housing and Related Infrastructure Seminar. As the Management of Communal Housing Seminar, this seminar was prepared by ICMA and the FSLD regional training center in Lodz. The five day seminar was delivered in October 1992 and covered topics including: 1) alternative tax and nontax sources for financing housing and related infrastructure; 2) the most appropriate mix of taxes and service charges for funding such improvements; 3) strategies for controlling the cost of collecting and enforcing revenue laws; 4) preparing governmental and operating budgets and 5) capital improvement planning and debt management.

5. Training in six cities in developing housing. PADCO and Abt developed a course in housing development targeted for contractors. The team of two U.S. professionals spent one week in six regions of Poland in June of 1991 delivering these seminars and technical assistance. The U.S. professionals encouraged the local participants to bring their projects to be discussed as part of the training.

6. Housing Development and Marketing This two day course, developed and presented in the fall of 1991 by NAR, MIT Center for Real Estate and UNCHS, introduced the process of real estate development in a market economy. An assessment of this seminar by AID (Ersenkal 1992) concluded the participants could obtain no more than a very cursory understanding of the development process, and that although participants were exposed to new concepts through such presentations, it is impractical to expect the transfer of practical, applicable techniques. Recommendations included more emphasis on developing appropriate local case studies, follow up hands on technical assistance, and further dissemination through courses at a University or organizations such as the Krakow Real Estate Institute.

7. Land Valuation for Purpose of Taxation. ICMA sponsored a seminar in Land Valuation in cooperation with the Krakow Institute of Real Estate in the fall of 1992. This seminar built upon the course materials developed in Crakow in conjunction with FSLD.

8. Marketing and Merchandising. The American Polish Home Builders Institute organized a course in Marketing and Merchandising Housing. The course was first delivered at the Gdansk home builders show in the fall of 1992 and later repeated in other cities. The seminar

was well received by the participants and certain marketing techniques were adopted by the sales staff in the housing projects the evaluation team visited.

9. Negotiating The APHBI organized a short course for contractors and housing developers in negotiating.

10. Land Use Planning. The APHBI organized a course on land use planning drawing on the expertise of the Home Builders Institute in Washington D.C. The one day course, attended by 25 professionals including university faculty, contractors, developers, and local government officials was divided into two parts. The first half of the day was a lecture on land use planning by a U.S. professional followed by a focus group to help in the preparation of further seminars and programs organized by APHBI. Feedback from the land use seminar indicated that future seminars should be targeted at practical applications and should utilize more diverse methodology of presentation.