

**THE HUNGARY PROGRAM:  
Accomplishments and Prospects  
in USAID Assistance to the  
Housing and Urban Sectors  
1990 - 1995**

Prepared by

Katharine Mark

The Urban Institute  
2100 M Street, NW  
Washington, DC 20037

Urban Institute Project No. 06283-093  
July 1995

Prepared for  
East European Regional Housing Project  
Housing Finance Component  
Project 180-0034  
U.S. Agency for International Development, ENI/EEUD/UDH  
Contract #EUR-0034-C-00-2034-00, RFS No. 93

**USAID Office of Housing and Urban Programs**  
**THE HUNGARY PROGRAM**  
**DEVELOPMENTS AND PROSPECTS, MARCH 1994**

This report describes the background, status, and prospects for each project undertaken by the USAID Office of Housing since the middle of 1990, and lists all reports produced. The first section of this report lists the projects by category; the second section describes the projects and lists all reports. An annex identifies the contract and task under which the work was done.

**SUMMARY OF PROJECTS**

Projects have been grouped into five categories which sometimes overlap. In this section projects are listed in all relevant categories; where projects are listed only for cross-reference purposes, they appear in italics and the category in which the project is fully described is identified in parentheses.

**I. Housing Finance**

On-Going Projects:

- The Housing Guaranty Loan Program
- Technical Assistance to the National Savings Bank (OTP)
- Technical Assistance to Budapest Bank

Completed Projects:

- Technical Assistance in Housing Finance
- Joint World Bank/AID Budapest Project
- Private Mortgage Bank Feasibility Assessment
- Mortgage Finance
- *District VII: Financing Renovation (III)*
- *Privatization Strategies (II)*

**II. Strengthening Local Governments**

A. Housing Policy and Urban Development

On-Going Projects:

- Szolnok: Developing a Local Housing Strategy and Rental Policy
- *Szolnok: Demonstration Program on the Private Development of Housing (IV)*

Completed Projects:

- Budapest: Urban Development and Rehabilitation
- Kecskemét: Strengthening the Local Government Role in Development
- Local Housing Strategy Training Course

- Privatization Strategies for Budapest Inner City Districts
- *District II: Housing Management (III)*
- *Budapest Rental Sector Panel Survey (V)*

#### B. Municipal Finance

##### On-going Projects:

- Toward a National Assistance Plan for Municipal Infrastructure Financing
- Reforming the Municipal Budget Process
- Szeged: Advice on the Proposed Water/Sewage Joint Venture

##### Completed Projects:

- Background Paper on Municipal Lending
- Municipal Credit Conference
- District XVII and XVIII: Infrastructure Finance
- Assessing Needs for Local Technical Assistance in Infrastructure Finance

#### **III. Housing Management and Renovation**

##### On-Going Projects:

- Asset Management Training Course
- Rehabilitation in Budapest Inner City Districts
- Condominium Association Training Course

##### Completed Projects:

- Szolnok: Developing the Asset Management Function
- District VII: Financing Renovation of Newly-Privatized Housing
- District II: Introducing Competition into Housing Management
- Survey of Cooperative Housing in Hungary
- *Budapest Rental Sector Panel Survey (V)*

#### **IV. The Housing Construction Sector and Real Estate Industry**

##### On-Going Projects:

- Study of Residential Development in Hungary
- East European Real Property Foundation
- Szolnok: Demonstration Program on the Private Development of Housing
- Introduction of a Multiple Listing Service

##### Completed Projects:

- Construction Bonding and Warranty

- Construction Sector Study
- *Budapest: Urban Development (II)*
- *Kecskemét: Strengthening Development (II)*

**V. Policy Advice and Analytic Support to National Government**

- On-Going Policy and Legal Support
- Central-Eastern European Regional Housing Indicators
- Housing Indicators/Budapest Rental Sector Panel Survey
- Budapest Conference of the European Network for Housing Research
- Housing Allowance Seminar for Local Governments

## DESCRIPTION OF PROJECTS

### *I. Housing Finance*

Hungary has been grappling with its serious home mortgage debt problem and looking for alternative means of financing home ownership. During the previous regime, most housing loans were made at highly subsidized rates either through the National Savings Bank (OTP) or the savings cooperatives. When the prices of financial instruments were freed, the full extent of the subsidy became more evident. In 1989 the governmental expenditures for mortgage support equalled 3 percent of GDP. Since then the government has taken steps to move mortgage rates to market levels and has begun to restructure OTP, the largest financial institution in the country. The great majority of loans are still made by OTP and despite reductions, they still benefit from significant government subsidies (in 1994 the housing loan subsidy came to an estimated fifteen billion in 1994 or one percent of the national budget). However, underwriting is no longer perfunctory and recovery efforts are serious, even if eventually stymied by the lack of serious efforts to enforce foreclosure laws or eviction.

In 1993 the Government of Hungary took several significant steps in reforming the housing finance sector, supported by USAID technical assistance and the preparation of a Housing Guaranty Loan. They issued a housing policy resolution in May (an outgrowth of the long-awaited Housing Concept), a new Rental Housing Act in July, and in September a decree reforming housing subsidies, notably changing the repayment subsidy into a (much smaller) interest subsidy. The Government also began to examine legal reforms that would facilitate foreclosure and eviction, and to study the foundations necessary for the establishment of a mortgage insurance institution and for the introduction of mortgage bonds. Laws in these critical areas were passed in mid-1994.

Since May 1990 the OTP had been discussing the introduction of a new mortgage instrument which would work better in an inflationary environment; it had undertaken analysis of potential instruments - first the Dual Index Mortgage (DIM) as proposed by the World Bank and subsequently the Deferred Payment Mortgage (DPM) designed by the USAID team. Encouraged by the changes in the subsidy system which greatly reduce loan affordability, the OTP decided to introduce the DPM, which was made available in February of 1994. By mid-1995 almost 2500 DPMs had been issued, with an average loan size of well over twice that of non-DPM housing loans.

The Housing Guaranty Loan Program (HG) for Hungary was negotiated in late January, and was signed in May, 1994. The loan supports the rationalization of subsidies and the introduction of the DPM along with other housing finance reforms, and will be accompanied by extensive technical assistance to both the Ministry of Finance and the implementing banks. An important part of the program in this area has been to encourage competition from other lenders, and several banks other than the OTP have expressed an interest in entering the housing market conditions required by the HG agreement have already been fulfilled: the targeting and

reduction of housing subsidies and the improvement of legal procedures for foreclosure and eviction.

#### **ONGOING PROJECTS**

##### **The Housing Guaranty Loan Program**

In 1993, a USAID team prepared the proposals for housing finance sector reform that form the basis for the Housing Guaranty Loan Program. The policy components of the program include subsidy reform, the design of a consistent government housing policy, and efforts to improve the legal framework with respect to foreclosure and eviction. These conditions have all been substantially met. In conjunction with the development by USAID of the Deferred Payment Mortgage to sustain affordability, the government introduced a new reduced loan subsidy (buying down 4, 3, and one percent of the loan balance in consecutive five year blocks) at the start of 1994 and in early 1995 imposed strict restrictions on the size and value of units eligible for the housing construction grant (the former social policy allowance). The changes in foreclosure procedures in 1994 were an important step towards perfecting loan security. The law's primary effect is to make it possible to avoid lengthy legal proceedings previously required for foreclosure if a contract is carefully structured.

The money will be lent by the government to participating institutions for loans for purchase, construction, renovation of homes, or for infrastructure investments undertaken by local governments. The program agreement was signed in May 1994. The Government of Hungary has finalized most of the necessary terms and arrangements and borrowing is expected to take place in late 1995. The USAID team has developed Program Indicators and has begun to gather baseline data for 1993.

\*<sup>1</sup> Douglas B. Diamond, H. Beth Marcus, Elaine B. Weis, József Hegedüs, and Katharine Mark. *Housing Guaranty HG-001. Housing Finance Restructuring Program. Program Description Paper.* May 1993.

\_\_\_\_\_. *Program Review of the Hungary HG-001.* July 1993.

\* Law on Changes in Housing Subsidies, December 1993.

\* "Program Agreement Between the Government of Hungary and the United States of America for Housing Finance Sector Reform." January 1994.

Douglas B. Diamond. "Status Report on the HG Policy Action Plan." January 1994.

\_\_\_\_\_. "Hungary: The Status of the HG-I Policy Component." August 1994.

<sup>1</sup> Starred reports are also available in Hungarian.

\_\_\_\_\_. "New Directions for Housing Subsidy Policy in Hungary."  
August 1994.

\_\_\_\_\_. "Memorandum of Understanding with Respect to the End of  
Project Indicators." August 1994.

\_\_\_\_\_. "Next Steps on Developing Success Indicators for HG-I."  
December 1994.

\_\_\_\_\_. "Key Policy Issues in the Housing Sector in Hungary."  
December 1994.

#### **Technical Assistance to the National Savings Bank (OTP)**

USAID advisors worked with OTP to develop the Deferred Payment Mortgage (DPM), a loan instrument designed to increase affordability in high inflation environments. Further assistance in accounting, servicing, and marketing was also provided to support the implementation of the instrument. By the end of June 1995, 2500 DPMs had been issued, with an average loan size exceeding twice the amount of the average non-DPM housing loan. USAID assistance was provided in early 1995 to develop and carry out intensive training on the DPM and sales techniques for branch managers, and loan officers. Training will be offered to about 800 loan officers and branch managers and is expected to be completed in September.

Ruth A. Sando, William Maloney, and H. Beth Marcus. "Technical Assistance to the OTP." November 1993.

William Maloney. "Notes on Servicing Issues Associated with the Introduction of the DPM." April 1994.

Elizabeth Millstein. "Training Proposal for the OTP. DPM Mortgage Product." August 1994.

William Maloney. "Technical Assistance to the OTP. Servicing Issues" August 1994.

Christine Ekkebus and Judy Tourtellot. "RFS 55: Training Program on the DPM. OTP Bank. Budapest, Hungary." April 1995.

*Trainer's Manual. Customer Oriented Housing Loans.* USAID: Christine Ekkebus, Judy Tourtellot. OTP: Péter Bíró, Balázs Horváth, Agnes Huszár, Gábor Segesváry. April 1995.

#### **Technical Assistance to Budapest Bank**

In early 1994 advisors on product development and credit management worked with the Budapest Bank strategy team and other staff on preparing

the bank to begin housing lending operations. Additional assistance was provided in 1995 in product development, and mortgage origination, servicing, and funding. If Budapest Bank decides to move forward with its housing lending program in the fall of 1995, a pricing advisor would also be provided to assist them.

Dennis Godfrey and Catherine Re. *Report on Technical Assistance to Budapest Bank.* April 1994.

Catherine Re, Dennis Godfrey and Linda Weinstein. *Report on Technical Assistance to Budapest Bank from the Mortgage Advisor, Product Development Specialist, and the Servicing Advisor.* August 1994.

Catherine Re, Linda Weinstein, and Gordon Crawford. *Technical Assistance to Budapest Bank.* March 1995.

#### **COMPLETED PROJECTS**

##### **Technical Assistance in Housing Finance**

The Hungarian Ministry of Finance requested assistance in developing an unsubsidized system of housing loans. The project also provided an analytical basis for developing a Housing Guarantee (HG) Loan program in Hungary. The major focus of the first phase of work was on the development of an alternative mortgage instrument that improves the ability of Hungarians to borrow for the construction or purchase of a home, while permitting the government to reduce or re-direct its current subsidies in this area. The team also reviewed current OTP operations in order to determine whether the bank would be able to service the new instruments and what sort of assistance they would require. The team's report addressed several other obstacles in the path of developing a market-oriented housing finance system, including legal issues, and the difficulties in verifying income data, and appraising market values. The report proposed that the deferred payment mortgage (DPM) be introduced, accompanied by technical assistance to both lenders and regulators.

The Ministry of Finance and OTP subsequently undertook several tasks specified by the USAID team which were prerequisites for the HG project identification mission. These tasks included examining ways to strengthen OTP's recoveries, addressing liquidity issues, and developing systems to evaluate housing subsidies.

##### Reports

\* Douglas Diamond, Pamela Lamoreaux, Marisol Ravicz. "Project Preparation Report on Housing Finance in Hungary." October 1992.

Marisol Ravicz, József Hegedüs, and Katharine Mark. "Work Plans for Analysis to Support the Deferred Payment Mortgage." March 1993.



Balázs Horváth and Robert Kovács. "An Inquiry into the Reasons for Delinquency in the Case of Hungarian Housing Loans." September 1993.

József Hegedüs and Katharine Mark. "Restructuring the Housing Subsidy System in Hungary." September 1993.

### **Joint World Bank/AID Budapest Project**

This joint project began in the summer of 1991. Staff from the World Bank, the Urban Institute, Metropolitan Research Institute and a number of consultants worked on various papers in the areas of public finance and housing in Budapest.

One paper summarizes recent developments in housing finance in Hungary and in the real estate industry. Another advocates urgent housing reform for reforming centrally-planned economies, especially in raising rents to market levels and undertaking rapid privatization. The authors propose a housing voucher scheme as way of addressing equity concerns in a housing giveaway, and acknowledge that where ownership of housing has been transferred to local governments, incentives are quite different and need to be addressed in order to speed reform. A third paper looks at privatization in reforming socialist economies from the perspective of local governments, using Budapest as a case study and measuring its "public sector net worth" as a means of evaluating the municipality's options. In their discussion of housing, the authors conclude that especially for districts with large volumes of substandard housing, a policy of giveaway privatization is financially untenable.

The final paper argues that privatization of state-owned banks without the true reform of the housing finance system is fraught with danger. The authors advocate a first step of preventing these "zombie" banks from lending to any borrowers other than government; a second step of controlling deposit rates and competition. Reform efforts should be focused on nascent private markets not on the state-owned savings banks, which should be phased out of existence as long-term private mortgage markets emerge.

### Reports

A number of background papers were produced by American and Hungarian consultants in June, July, and August, including:

Antal Gyulavári, András Semjen, István György Tóth. "Financing the Capital: The Wider Context." June 1991.

Anna Bukva and Gábor Péteri. "The Economic Characteristics of Local Governments in Hungary." May 1991.

Raymond Struyk, József Hegedüs, Michael Heller, Katharine Mark, Iván Tosics. "The Housing Sector in Budapest: Housing Finance and the Real Estate Market." Working Paper, September 1992.

Robert M. Buckley, Patric H. Hendershott, Kevin E. Villani. "Rapid Housing Privatization: Pay the Special Dividend and Get On with It." September 1992.

James R. Alm and Robert M. Buckley. "Privatization by Local Government in Reforming Economies: A Net Worth Perspective." September 1992.

Robert M. Buckley, Patric H. Hendershott, Kevin E. Villani. "Mortgage Finance in Transitional Socialist Economies: What Should be Done with the State Savings Banks?" September 1993.

#### **Private Mortgage Bank Feasibility Assessment**

In response to a request by the International Finance Corporation, USAID consultants undertook an assessment of the commercial feasibility of establishing a private housing finance institution in Hungary. Given the absence of viable affordable housing finance system in Hungary, and the enormity of the task of restructuring OTP, it was argued that the introduction of a private *de novo* housing finance institution may be the most appropriate way to encourage the development of a fully commercial mortgage industry.

Based on meetings held with the Hungarian National Bank, OTP, the Ministry of Finance, private banks, and potential investors, the consultants' report reviewed the operations and financial risks of the mortgage banking business in the context of the Hungarian housing market.

The analysis concluded that private mortgage banking is feasible in Hungary, although there are many issues that must first be addressed. For example, many of the functions typically subcontracted in other economies would, at least initially, have to be done "in-house," which will increase costs. Funding sources and instruments would have to be developed from scratch. Most importantly, the program would have to be narrowly targeted to more affluent households in order to adequately control risk. The final report recommended the use of a LIBOR-indexed ECU denominated loan with a three-year conversion option as a mortgage instrument that would allow investors to quantify the risk of default and expect a positive real return.

#### Reports

Kevin Villani, Katharine Mark, and József Hegedüs. "Report on the Feasibility of Establishing a Private Mortgage Institution in Hungary." March 1992.

#### **Mortgage Finance**

This joint USAID-World Bank project was designed to prepare a strategy for housing finance resource mobilization in Hungary. A paper by Gwen Ball evaluated the risks and available indices as background for the possible introduction of dual indexed mortgages. Consultant Patric Hendershott wrote a report proposing a new mortgage instrument (a low-start mortgage, used in Australia, which is very similar to the DPM now available through OTP) for use in Hungary.

#### Reports

Gwendolyn Ball. "Issues for the Use of Indexed Mortgages in Hungary." Draft, April 1991.

Patric Hendershott. "Housing Finance in Hungary: A Proposal." July 1991.

Gwendolyn Ball. "Dual-Indexed Mortgages in Reforming Socialist Economies: Evaluating the Risks and Institutional Requirements." *Housing Policy Debate*, Volume 3, Issue 3, 1992.

## **II. Strengthening Local Governments**

Local governments in Hungary have been delegated enormous responsibilities and uncertain rights in the past five years. The law defining the responsibilities and powers of local governments (the Law on Local Government), passed by the Hungarian Parliament in the summer of 1990, and the subsequent Transfer of Property Act, gave wide responsibilities and transferred ownership of substantial assets - including housing and infrastructure - to local governments while insufficiently defining their rights. For example, while the laws gave local government the ownership of the state rental stock units, they left critical issues such as setting rents and determining the installment loan terms of their privatized housing unresolved until the advent of the much-delayed Housing Act. When the Rental Act was passed in mid-1993, it included a one-year moratorium on raising rents and its measures on privatization were not finalized until March of 1994. Local government taxing powers also remain severely limited, while their access to central government transfers has become more uncertain.

Local governments are in great need of assistance in moving toward a market-oriented and rational housing policy, including land use planning and infrastructure provision for new housing development. Local civil servants require assistance to formulate strategies for meeting the housing needs of their cities while effectively using the resources that have been transferred to them from the central government. The situation in Budapest is made somewhat more complex by the double layer of municipal authority of the twenty-two districts and the Budapest City Government. The roles and responsibilities of the two levels are not clearly defined and there are frequent areas of confusion and potential conflict.

To date, projects of The Office of Housing and Urban Programs have focused on providing technical assistance to local governments with the aim of demonstrating particular approaches which then can be emulated by other municipalities. A major worry of local governments has been the rental stock transferred to them in 1990 and 1991. USAID work in the areas of management, housing allowances and privatization has already been disseminated widely around the country. The Szolnok project has resulted in the introduction of income-tested housing allowances, an increase and rationalization of rent levels, and the introduction of competition into housing management. After local elections and the end of rapid privatization, many local governments will be reexamining their housing policies. A seminar for local governments on housing allowances was held in the spring of 1993 and an evaluation of the housing allowance program in Szolnok will be completed in 1995. In addition a training program on asset management is now being offered to municipal officials by Hungarian trainers in conjunction with MIOK, a Hungarian training institute.

Other USAID work with local governments has included work with districts in inner city Budapest to develop more sensible privatization strategy and sales terms; the design of a renovation loan program for newly privatized condominiums; assistance to Budapest in undertaking an industrial rehabilitation project; and extended technical assistance to the city of Kecskemét in the area of planning procedures and to the city of Szolnok in developing a housing strategy. In addition, USAID has developed a course for local government officials on developing local strategies, housing finance, housing development, and the rental sector.

In 1993, USAID assistance to local governments began to address infrastructure finance in addition to housing policy. A first study provided an overview of the new responsibilities of municipalities in infrastructure development and operation, and the assistance needed in municipal finance, capital planning, local tax policy, and infrastructure finance. A report on lending to municipalities shows that cities still have unmet credit needs. A conference on municipal credit held in June, 1994 provided some useful ideas for addressing this need. Specific technical assistance projects that included work on budgeting and utility user charges were started in Budapest Districts XVII and XVIII, Szeged, and Szolnok. An ambitious budget reform process is underway in Szolnok and is now beginning in several other local governments.

#### A. Housing Policy

Local housing policy in Hungary has been in a state of confusion for several years, but in the last year a number of unaddressed national policy issues have been settled. In mid-1993 Hungarian Parliament passed the much awaited Rental Housing Act, which contained a number of important measures.

One established definitively that local governments have the right to set rents for municipally owned flats, but decreed a moratorium on rent rises until the end of June 1994. Another affirmed the right of private landlords to evict tenants under new leases without requiring them to provide alternative accommodation. This provision applies in a number of circumstances such as violations of the lease by the tenant; it is also

possible to terminate tenure for no reason, if three months' notice is given.

A revised Act (1994) also established the tenants' right to buy their units for a one-year period with a five year "protection period" in which the unit cannot be sold to a third party. Pensioners are protected for the rest of their lives. The only reasons which exempt the local government from being forced to sell are the existence of a detailed rehabilitation plan or plans to demolish the building.

The original Act's ceiling sales price of 50 percent of market price is replaced by ambiguous language that "the local government must take into account the fact that the flat is occupied." (Historically, with the strong tenant rights that have existed, courts have interpreted the value of an occupied flat to be about 50 percent of an empty flat.) The new act also requires that loans must be given for at least 25 years, with equal installment payments, and a maximum 10 percent down payment required. If a tenant decides not to buy, he or she retains the right of first refusal; commercial tenants are not given the right to buy, but they do have a right of first refusal. Most local governments offer very preferential sales prices. Throughout Hungary privatization has accordingly been taking place rapidly over the past year. By November of 1995 - the end point of the mandated right-to-buy policy - municipal rental stock will be much smaller and of lower quality, and local housing policy will need to change dramatically.

#### **ONGOING PROJECTS**

##### **Szolnok: Developing a Local Housing Strategy and Rental Policy**

On May 1, 1993, Szolnok introduced an income-tested housing allowance system in conjunction with new higher rents for its municipal stock, becoming the first Hungarian local government in both these steps. These results, achieved with the technical assistance the city has been receiving from USAID since April, were part of a larger effort to develop a housing strategy for privatization, develop a more efficient housing market, and obtain more effective management services for the remaining social housing stock. As part of this process, the city conducted a survey of housing units and occupants to provide accurate data for structuring and estimating the cost of establishing a housing allowance to protect low-income households from the full effect of the planned rent increases. A housing management specialist worked with the city Housing Office to establish more effective oversight of the IKV and develop a competitive contracting system for management in the future (this component is described in section III).

This program demonstrates the strategic approach to resolving issues that are currently worrying most Hungarian local governments. It illustrates the effectiveness of the strategy development process on building consensus and reducing the public's uncertainty. Most important, it showed that a Hungarian local government can introduce income-tested subsidies and raise rents, both policies which were largely viewed as

impossible. At the highest point more than a thousand households in Szolnok were receiving housing allowances.

An evaluation report of the housing allowance system is being prepared. Further advances on the housing strategy have been impeded by the uncertain legislative environment of the past years, especially because of the required privatization (under changing national requirements) and the moratorium on rent increases. Now that the national law has been settled and once the right-to-buy period expires, it is hoped that the ambitious reform project will continue.

#### Reports

Katharine Mark and Jeffrey P. Telgarsky. "Trip Report." April 1992.

\* Toni S. Baar, Katharine Mark, Jeffrey P. Telgarsky, Iván Tosics, Katalin Zsámboki. *Proposals for the New Housing Strategy of Szolnok: Executive Summary and Background Papers*. August 1992.

\* Toni S. Baar, Charles Hanson, Katharine Mark, Jeffrey Telgarsky, Iván Tosics, Katalin Zsámboki. "Draft Documents on the Implementation of Rent Increases and Housing Allowances in the City of Szolnok." November 1992.

- Decree and Justification for Adjusting Rents and Introducing Housing Allowances
- Administration of the Housing and Utility Allowance Program
- Implementation Plan

\* Decree N. 44/1992 (XII.15) KR. of the Municipality of Szolnok county town concerning housing allowances, rents, and the sale of municipality-owned rental flats. December 15, 1992.

\* Information booklet on housing and utility allowances, with application form. February 1993.

Katharine Mark. "Implementation Report, Phase I." March 1993.

\* Amendments to Decree N. 44/1992 (XII.15), August 1993 and February 1994.

Carol Rabenhorst and Katharine Mark. "Issues to Consider in Preparing a Local Decree on Housing Privatization." March 1994.

Katharine Mark. "Status Report on Technical Assistance to Szolnok: Implementation of the Housing Allowance Program." May 1994.

Katharine Mark and Iván Tosics, with Sándor Erdösi. "Evaluation of the Szolnok Housing Allowance Program." Forthcoming.

#### **COMPLETED PROJECTS**

**Budapest: Urban Development and Rehabilitation**

Early work with Budapest's Office of Rehabilitation examined the ways in which the Office could make a positive contribution in the present institutional structure. With the Districts now the new owners of the housing stock and the decrease in both control and transfers from central government, the role of the Office of Rehabilitation is changing from its former tasks of direction and allocation of investment resources to a more cooperative and managerial function in which it can advise and support the Districts in their investment decisions. The Department, like the City, will need to examine ways to foster a cooperative relationship between the City and the Districts. Since the local elections held in late 1994, the newly elected Free Democrat-Socialist coalition is reexamining the municipal role in housing.

At the request of the Mayor of Budapest, USAID began to provide the City of Budapest with assistance in planning and urban development, both at the project level and through strengthening the City's capabilities in economic analysis, strategic planning and capital budgeting. Priority projects identified by the Mayor's Office include rehabilitation of industrial zones such as the Lágymányos area in District XI, infrastructure finance in the eastern Pest districts (see Section IIB), and inner city revitalization (section III). The City Government has also requested assistance in developing a long term economic strategy for urban development.

During the initial mission, the scope of discussions was wide-ranging focusing on industrial and residential rehabilitation, transportation and public works development, project budgeting and financing methods and the system of City-level and District-level approaches to master planning, urban design and development control.

Based on these discussions, the team recommended a program of technical assistance to:

- 1) develop a strategy for the urban economic revitalization and restructuring of the city's industrial, commercial and residential areas;
- 2) facilitate the development and self-financing of infrastructure systems;
- 3) introduce new methods of public-private real estate development; and
- 4) promote new methods for strengthening citizen and inter-governmental participation and cooperation as it relates to urban economic development planning and policy-making.

As the first component of USAID's assistance, a team visited Budapest in late 1993 to assess the Lágymányos project. Principal recommendations focused on assistance in establishing a public-private development corporation to manage the project, expert review of the proposed development, and training to build institutional capacity. For various institutional reasons, the municipality decided not to continue this project.

Reports

Katharine Mark and Jeffrey P. Telgarsky. "Trip Report." April 1992.

\* Jeffrey P. Telgarsky. "City of Budapest Department of Rehabilitation. Urban Renewal Program - Strategy Options." April 1992.

\* David Dowall, Katharine Mark, Iván Tosics. *Assistance in Urban Planning and Development: Report of Field Mission to Budapest.* October 1992.

\* Michael Beyard and Alexis Victors. "Assistance to the City of Budapest to Redevelop the Lágymányos Industrial Area: Report of Field Mission to Budapest." March 1993.

**Kecskemét: Strengthening the Local Government Role in Development**

USAID consultants worked with the City of Kecskemét between 1991 and 1993 to address the local government's role in the urban planning and housing process and the development of strategic skills in the city government. In addition to working closely with the Mayor and municipal staff to develop a number of recommendations concerning improvements of the planning process and the promotion of public participation, the consultants organized goal-setting workshops which were attended by elected officials, government staff, and members of the public. Their final recommendations were outlined in an Urban Development Concept. These include the establishment of an independent asset management agency, a specialized organization to function as the city's "master developer", and an in-house planning studio; undertaking improvements to the water and sewage disposal system; improving environmental protection through the planning and permit process; and encouraging more active citizen participation.

Parallel to this work a USAID consultant has prepared a paper on land use policy in Hungary. The report describes current planning procedures and the relevant legal framework, and makes suggestions for improvements. This work has been carried out in close cooperation with the Ministry of Environment which was preparing new legislation (the Building Law) affecting the planning procedures of local governments.

Reports

\* Adam Krivatsy and Walter Monasch. *Phase One Progress Report: Technical Assistance to Local Self-Governments for Facilitating Private Housing Development.* September 1991.

\* \_\_\_\_\_. *Phase Two Progress Report.* January 1992.

\* \_\_\_\_\_. *Final Report.* May 1992.

\* Kenneth Baar. "Hungarian Land Use Policy in the Transition to a Market Economy with Democratic Controls." September 1992.



\* Krivatsy and Monasch, with József Merász. "What Can We Do for the Future of Kecskemét? An Urban Development Concept." November 1992.

Csilla Keresztes Nagy. "Summary Report of USAID Technical Assistance in Urban Development to the City of Kecskemét, Hungary." October 1993.

### **Local Housing Strategy Training Course**

Hungarian and American consultants collaborated to develop a curriculum for a course for local government officials. Topics included the rental sector, housing finance, housing development, and the development of a local housing strategy. The pilot course took place in December of 1991, and although it was well received, the delay in passage of the Housing Act had a strong dampening effect on all Hungarian local governments in their desire to develop new housing strategies.

#### Products

\* Robert Dubinsky, Katharine Mark, Iván Tosics. *Curriculum for Training Course on Local Housing Strategies in Hungary*. June 1991. This includes both printed materials and computer software for housing finance, development, housing needs assessments and privatization.

### **Privatization Strategies for Inner City Districts**

After the Transfer of Property Act - effective September of 1991 - made them owners of the public rental stock, most Budapest District Councils decided to sell a substantial share of the State-owned rental units transferred to them. Given this decision the central question became the terms on which the unit should be offered for sale. In October of 1991, a USAID team worked with the Inner City Districts to examine the options. Their work included simulations of different financial packages (combinations of different types of mortgages and different levels of discount), a discussion of alternative arrangements for originating and servicing these loans - the district, through IKV or another company, acting as its own banker or purchasing these services from the OTP (the National Savings Bank, the traditional mortgage lender) or other banks - ; and a description of salient issues involved in the districts preparing the sales contract and loan agreement.

The team presented its conclusions to officials from five inner city districts. They recommended that the districts give full consideration to the adoption of the Price-Level Adjusted Mortgage (PLAM), which is relatively straightforward to administer as well as offering effective protection to the lender at high levels of inflation without exceeding an acceptable share of the borrower's income. In addition the team recommended a flat rate discount over proportional discounts. The team also had recommendations with regard to appraisal methods and the fee structure for loan origination and servicing, and specific advice about changing the sales contracts currently in use by the districts.

Reports

\* Struyk, Heller, and Mark, "Financing Sales of Budapest Districts' Rental Housing", October 1991.

\* József Hegedüs, Michael Heller, Katharine Mark, Raymond Struyk, and Iván Tosics. "Privatization Strategy for the Rental Apartments Owned by the Self-Governments in the Budapest Inner City Districts." January 1992.

B. Municipal Finance

Large among the increasing responsibilities of local governments is the development and operation of much of the country's infrastructure, which - as in other Eastern European countries - is currently in far below adequate condition. The local governments are facing this new task in a fluctuating environment, with both their financial and institutional structures undergoing rapid change. While local governments have been given greater decision-making power, central subsidies for infrastructure development have declined. At the same time operating charges for public utilities which were heavily subsidized by the central governments are now being liberalized, so that users are having to devote much larger shares of their income to heat, water, and power. In early 1995, energy prices rose by an additional sixty percent for consumers.

A broad range of areas for assistance was identified by USAID and work has begun on several topics. On the financial side, areas in which municipal skills could be strengthened include capital budgeting, project preparation, cost recovery, and local tax base estimation. Help for the new institutional framework should include collections and delinquency management, pricing, and the regulation of utilities. The Mayor of Budapest has requested assistance with the enormous utilities arrears problem in the capital. Assistance provided recently has included a budget reform project in Szolnok and assistance to Szeged in assessing a loan for sewage investment. USAID has just completed a reconnaissance of the municipal infrastructure finance at the national level and is now beginning a major study of central subsidies for infrastructure, which will include recommendations for reform.

**Toward A National Assistance Plan for Municipal Infrastructure Financing**

A reconnaissance was conducted of the current status of municipal infrastructure finance. Three reports were produced. The first report looks at the infrastructure component of the Housing Guaranty Loan Program and recommends that AID concentrate its efforts on mortgage and housing finance and use HG capital funds to support local infrastructure investment only as part of a housing finance program. The report also recommends a work plan to support municipal infrastructure development. The second product is a draft work plan for the work requested by the Ministry of Finance to undertake an analysis of the Hungarian system of local infrastructure finance and proposed reforms in this system. The third is a

background report describing infrastructure investments within the context of municipal budgets, the needs of each sector and sources of financing. Particular attention is given to the system of central grants.

#### Reports

George Peterson. "Recommendations for Infrastructure Portion of Housing Guaranty Loan and Proposed Work Plan." June 1995.

George Peterson. "Analysis of the Hungarian System of Local Infrastructure Finance. Proposed Work Plan." June 1995.

Juliana Pigey. "Toward a National Assistance Plan for Municipal Infrastructure Financing in Hungary. Phase I. Background Report." April 1995.

#### **Reforming The Municipal Budget Process**

A USAID advisor worked with the Szolnok municipal staff to review the annual budgeting process and to develop a work plan for budget reform program. At present the budget emphasizes line item detail with little to assure understanding of city programs or services, nor does the budget distinguish between capital and budget expenditures. There is no multi-year forecasting, cost analysis and budget monitoring or analysis. Szolnok's effort to reform their budgeting process could be a valuable demonstration to many other local governments.

USAID is continuing to support municipal officials in Szolnok on their budget reform project and is designing an extension of the project to involve other cities. A seminar on program budgeting and budget reform given in Pécs in the summer of 1995 was attended by fifteen participants representing six Hungarian cities, and all cities expressed their interest in further activities related to this subject.

Both the Ministries of Finance and of the Interior are being kept informed of the project and USAID was asked to prepare a short article on the subject for publication in the Ministry of Interior's newsletter which is distributed to all Hungarian municipalities.

#### Reports

Philip Rosenberg. "Proposed Work Plan for Reform of the Szolnok Budgeting Process." November 1994.

Philip Rosenberg. "Notes on the Local Budget Preparation Process in Hungary." March 1995.

Philip Rosenberg. "Budget Reform in Szolnok." July 1995.

Philip Rosenberg. "Work Plans for the Municipal Budgeting Project." July 1995.

- Memorandum of Understanding. Szolnok Program Budgeting Work Plan
- Proposed USAID Work Plan for the Expansion of the Municipal Budgeting Project in Hungary
- Proposed Budget Training Outline

#### **Szeged: Advice on the Proposed Water/Sewage Joint Venture**

As part of the World Bank's planned project in the water and sewage sector, USAID is providing funding for technical assistance to Szeged in reviewing a proposed water and sewerage joint venture with a French-Dutch enterprise (Compagnie Générale des Eaux and Kruger). Based on a first visit in June of 1993, consultants prepared a report outlining key issues the city would need to consider in making an informed decision about the CGE/Kruger proposal, including a recommendation that the city undertake further analysis. They also developed a capital planning model and began to train city staff.

In the autumn, the city assembly voted to refuse the CGE proposal; an amended proposal was to be voted on in late February of 1994. USAID contractors submitted comments on that proposal as well. In late 1994 a USAID administrator visited Szeged to help the city prepare the financial projections necessary in the pre-appraisal phase for a World Bank loan for sewage improvement. In 1995 USAID provided training to city staff — in Budapest and Szolnok as well as Szeged — in the capital planning model, and is preparing a case study on the city's experience with the privatization of the water and sewage company.

#### Reports

\* Benjamin Darche and James M. Kelly. *Financial Advisory Report to the City of Szeged, Hungary, for the Privatization of the Water and Sewer System.* August 1993.

Ron Perry. "Financial Projections and Assessment for the World Bank Project Feasibility Questionnaire." December 1994.

Benjamin Darche and James M. Kelly. "The City of Szeged Water and Sewer System Privatization; A Case Study." Forthcoming.

#### **COMPLETED PROJECTS**

##### **Background Paper on Municipal Lending**

As background for technical assistance being provided to various local governments and for the Housing Guaranty Loan Program which includes a component for infrastructure lending to local governments, a report was prepared on municipal lending in Hungary. The National Savings Bank (OTP) dominates the market with over 90 percent of municipal loans and 96 percent of local government bank accounts. There has been a low level of municipal investment borrowing and consistently high short-term cash-flow borrowing.

In addition several local governments began to issue bonds in 1993 which may be a growing trend. A number of banks expressed interest in entering the market to challenge OTP's monopoly, although they will have many obstacles to overcome, including the shortage of long-term funds and a considerable investment in institutional development.

Report

József Hegedüs, Katharine Mark, and Juliana Pigey. "Municipal Lending in Hungary: Background Paper." March 1994.

**Municipal Credit Conference**

A regional conference on municipal credit systems was held in Hungary in June, 1994. Seventy representatives of local government and central government, and private sector lenders from Poland, Hungary, the Czech Republic and Slovakia, together with international experts and representatives from USAID and from other donors participated in the seminar.

Reports

Juliana Pigey and George Peterson. "Municipal Lending in Eastern Europe: A Background Paper." June 1994.

George Peterson and Juliana Pigey. "East European Municipal Credit Seminar. Conference Proceedings and Analysis." July 1994.

**District XVII and XVIII: Infrastructure Finance**

In December of 1993 a USAID team began work with Budapest Districts XVII and XVIII, which have the least sewerage coverage in the capital city.

The team assessed the available means for local governments to finance their needed investments, and preparing a specific agenda of technical assistance which can strengthen the skills of municipal staff in considering alternative financing techniques and in capital planning and budgeting.

Report

Philip Rosenberg, Katharine Mark and Juliana Pigey. "Municipal Strategies for Infrastructure Finance: Planned Sewage Projects in Two Budapest Districts." March 1994.

**Assessing Needs for Local Technical Assistance in Infrastructure Finance**

In the spring of 1993 a team of USAID consultants visited a number of Hungarian local governments in order to assess the types of technical assistance that might be most beneficial to strengthen staff skills to

finance investments. With both the financial and the institutional structure of local governments in a state of transition, a wide range of areas for assistance was identified. On the financial side, skill-building should include capital budgeting, project preparation, cost recovery, developing strategic capabilities, local tax base estimation, and linking investments to economic development strategies; in the institutional arena, streamlining the organization structure, collections and delinquency management, the regulation of utilities, and efficient property management.

At the central level it was recommended that work be done on new financing mechanisms, looking at matching grants and off-budget funds. Potential sites to begin assistance included Szolnok, Szeged, and Budapest Districts XVII and XVIII.

#### Report

David Dowall, József Hegedüs, Katharine Mark, and Iván Tosics. *Establishing a Framework for Municipal Technical Assistance in Infrastructure Finance*. October 1993.

### **III. Housing Management and Renovation**

In 1990, approximately 50 percent of the housing in Budapest, and 20 percent nationwide, was state-owned; much of it in bad repair after decades of neglect. Only a small fraction of management costs is covered by the low rents (approximately 4.5 percent of income) set by the national government in January of 1990. Few local governments in Hungary have raised rents since then. (A notable exception, the city of Szolnok, which raised its rents with USAID assistance in May of 1993, is discussed in section II.) The rental stock has been traditionally managed by the state-owned management company, the IKV, widely reputed to be extremely inefficient. Reviews of IKVs in several localities found that they perform only emergency repairs and almost no routine maintenance, despite extreme overstaffing. Some IKVs in Hungary have attempted a variety of reforms, including contracting out repair and renovation work, and subdivision into autonomous units of their different functions, but the general view that they are not performing adequate maintenance persists. Although some private management firms exist, they are almost entirely confined to Budapest, and they are not the rule, even for long-time condominiums.

Newly privatized buildings (estimated at present to be at least half of the 1990 public stock) have special problems. In addition to inheriting buildings with enormous deferred maintenance, the new owners often are unprepared for either the responsibility or the financial demands of ownership. Because of the new Rental Housing Act, it is expected that by March 1995 that many additional tenants will have purchased their flats, and that many of the new owners will have relatively low incomes.

On the one hand USAID has worked to offer management alternatives to local governments through developing asset management skills and through introducing competition into the management of the rental stock. After some initial work in Budapest's District II, the asset management program in Szolnok advanced quickly in these two areas, and other cities have

expressed interest in the asset management training course developed as an outgrowth of the Szolnok project. The competitive process for selecting a management company which proved highly successful in Szolnok will also be a valuable demonstration for other cities. A separate effort focuses on privately-owned buildings. To that end a training course for condominium associations has been developed and will be made widely available by mid-1995.

The financing of rehabilitation remains an intractable problem, especially in inner city Budapest. Although well-received by leaders both in District VII and other districts, the USAID renovation loan design has not yet been implemented for political reasons. This is an issue that should be addressed further, and from several angles, especially now that the national Rental Act has been finalized and local governments will put their own privatization regulations in place. A new assistance effort is planned for Budapest which will include work with the local government and pilot projects with individual condominiums. The renovation loan guarantee program designed for District VII in 1992 should prove to be a useful vehicle for the many local governments trying to assist new condominiums. In addition, the condominium management training course will include a special module on rehabilitation.

## **ONGOING PROJECTS**

### **Asset Management Training Course**

Based on the experience in Szolnok (described below), a training has been prepared which can be offered to local governments to help municipal staff establish a viable asset management function. It includes components on the role of the owner, financial management, maintenance and security, as well as a description of the process for holding a competition for property management services, and structuring a good management contract.

Four Hungarian trainers have been trained, and pilot training sessions were held in early 1995.

### Reports

\* Toni S. Baar. "Manual for Asset and Property Management Seminar." December 1993.

Toni S. Baar. "Asset and Property Management Training Program in Hungary: Project Status Report." June 1994.

\* Antonia Sanders. "An Introduction to the Principles of Asset and Property Management. A Training Manual for Hungarian Local Governments." Revised and updated by Katharine Mark and Dale Millbauer. April 1995.

### **Rehabilitation in Budapest Inner City Districts**

In the spring of 1993 a report was prepared summarizing current rehabilitation efforts in inner city districts in Budapest. While the lack of funds is clearly a major problem for districts in undertaking rehabilitation, their efforts also suffer from insufficient focus on financial aspects (partially due to the lack of staff expertise), no comprehensive planning, no coordination with the city or each other, not enough realism in project design, and ineffective partnerships with the private sector.

Csilla Sárkány. "Budapest Inner City District Rehabilitation." October 1993.

### **Condominium Association Training Course**

As an outgrowth of work with inner city Budapest districts on privatization and rehabilitation, consultants from UI and CHF worked with five Hungarian advisors to develop materials for a training course to be given to board members, managers and unit owners in newly privatized condominiums. Two pilot courses were given by the Hungarian advisors in 1993, and were extremely well received by capacity attendance.

The Hungarian advisors included experts affiliated with the Ministry of Interior and the IKV of District V, and a leading authority on condominiums who was formerly associated with the Ministry of Environment where he drafted housing legislation currently in effect. The training materials focus on the rights and obligations of condominium ownership and common organizational and operational issues. They have been developed in conjunction with three model condominiums in Budapest.

In early 1994 work began to institutionalize the course. USAID contractors have selected Magyar Ipáriszövetség Oktatási Központ (MIOK) as a partner institution, have identified twelve Hungarian trainers, and have begun work on refinement of the curriculum and marketing the course. The five training modules will cover legal, financial, organizational issues, maintenance and rehabilitation. Pilot sessions were held in April of 1995, and the course is expected to be offered widely on a self-financing basis by the end of the year.

### Reports

\* Carol S. Rabenhorst. "Condominium Operations and Management in Budapest: Status and Implications for the Future of the Privatized Housing Market." September 1992.

Carol S. Rabenhorst. *Condominium Operations and Management Training Manual*. February 1993.

\* Carol S. Rabenhorst, Richard T. Owens, Béla Csabai, Ildikó Kakuk, Agnes Karlovich, József Pál, and Edit Szántó. *Condominium Operations and Management Training Manual*. (Hungarian version.) January 1993.



Abigail Calkins. "Hungary Trip Reports." March and July 1994.

\* *Condominium Association Training Manual*. Prepared by Carol Rabenhorst et al. (including Hungarian training advisors.) January 1995.

### **COMPLETED PROJECTS**

#### **Szolnok: Developing the Asset Management Function**

Management of the municipal housing stock has undergone dramatic reform in Szolnok. A property management expert started working with the Housing Office's new asset management staff in the autumn of 1992 to set up procedures for contracting out and monitoring management of the rental stock. In mid-October, an asset management training program was conducted for municipal staff members. A detailed analysis of the IKV's current operating costs was prepared, highlighting the ineffectiveness of current financial reporting and the importance of establishing accountability. In preparation for a competitive bidding process, city staff and the USAID team conducted a survey of the selected flats, and developed management criteria, new budget formats, and selection criteria. A request for bids for the management of 158 units was issued in January, 1993.

On April 1, 1993, the winning contractor, a private firm (Tiszaber), took over management of the pilot units. Over the next few months, the management specialist worked with city staff to perfect monitoring techniques and to review performance by both the private firm and the IKV which itself underwent a transformation when it became a joint stock company named Szollak, signed a new contract with the city (based on their contract with the private firm), and began to comply with the new financial reporting requirements. The city expects to hold competitions for additional blocks of flats in 1994.

Final reports include a summary of the implementation of asset management training and the introduction of competition into property management, and an evaluation of the pilot project itself. The evaluation is comprised of a careful analysis of financial reports, a tenant survey, and interviews with the private management firm and the city housing office. Results include the important finding that management overhead costs charged back to the buildings are much lower under Tiszaber's management than was the case when IKV managed the units. This means that a much larger percentage of the buildings' rental income is now going toward maintenance and operating expenses than was the case under prior management.

#### Reports

\* Toni S. Baar. *An Introduction to the Principles of Asset and Property Management*. October 1992.

\* Toni S. Baar. "Operating Cost Subsidy: An Analysis of the Costs Associated with the Management of Municipally-Owned Rental Housing in Szolnok." December 1992.

Toni S. Baar and Katharine Mark. "Final Report on the Szolnok Pilot Asset and Property Management Program." October 1993.

\* Toni S. Baar. "Evaluation of the Szolnok Housing Management Pilot Project." March 1994.

### **District VII: Financing Renovation of Newly Privatized Housing**

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

The principal features of the proposed program are as follows:

1) The District will ensure that a renovation fund is established for each building with OTP at the required time during the privatization process. This is necessary so that the owners in the privatized buildings are eligible to participate in the program of government subsidized loans now available for the renovation of common areas.

2) For buildings that participate in the government-subsidized loan program, the District will make the payments on loans to qualifying pensioners and low-income owners. These repayments will be due to be reimbursed to the District at the time of sale of the unit or the death of the owner.

3) The District will guarantee repayment to OTP of loans made to a condominium association to cover the share of renovation costs of those owners who choose not to participate in the regular OTP program.

4) The District will set up an Office of Condominium Affairs that will be responsible for assisting condominium associations with respect to operating their buildings and for managing the District's property in mixed-use buildings.

These steps by the District would permit the new owners in privatized buildings to remedy most major maintenance problems and to deal with owners who are unable or unwilling to participate. The program is designed to

complement the existing subsidized program, but it can be modified to replace that program if the subsidies are eliminated.

#### Report

\* Douglas Diamond and Carol Rabenhorst. "Renovation Loan Program for Privatized Buildings. A Proposal to District VII, Budapest." May 1992.

#### **District II: Introducing Competition into Housing Management**

Consultants conducted a detailed review of housing management in District II and over the course of eight months worked with the district to outline possible reforms to the government's housing department and prepare for the contracting out of management to private firms. However, the District moved extremely slowly at each phase and finally decided that it did not intend to handle management of the rental stock outside the IKV. There is nevertheless evidence that some USAID recommendations produced under this project are being used and implemented in the District, particularly with regard to reorganization of municipal staff handling the rental stock.

#### Reports

\* Raymond Struyk, Katharine Mark, and Jeffrey P. Telgarsky. "Private Management for Eastern Europe's State Rental Housing." *Journal of Housing Economics*, I, 90-109 (1991).

Robert Dubinsky. "Development of a Housing Strategy for District II, Budapest." May 1991.

Howard B. Henward. "Private Sector Management of the Public Rental Housing Stock: An Initial Assessment of District II, Budapest." May 1991.

Louis A. Riccio. "Social Rental Housing Management: Review and Recommendations for Technical Assistance." May 1991.

\* József Hegedüs and Iván Tosics. "Options for a Local Housing Policy." June 1991.

\* Howard B. Henward. Memoranda on "The Evolution of Housing Management in District II" and "The Formation of a New Housing Department in District II." August 1991.

\* Katharine Mark, Howard Henward et al. "Introducing Competition into the Management of District-Owned Rental Stock in Budapest." August 1991. Translated and distributed to other local governments throughout Hungary.

\* Howard B. Henward. "District II Housing Management Privatization." (Memorandum on steps needed to make FÜTI data operational, schedule for privatization strategy, housing department restructuring, and planning a smooth transition.) October 1991.

### **Survey of Cooperative Housing in Hungary**

A comprehensive review of cooperative housing and its supporting financial and institutional structure was undertaken, analyzing the relationship of cooperative housing to the overall housing delivery system and to present and foreseeable directions in housing policy.

#### Report

Cooperative Housing Foundation. "Cooperative Housing in Hungary: A Challenging Transition to a Market-Based System." March 1992.

### **IV. The Housing Construction Sector and Real Estate Market**

Sixty to eighty percent of the demand for housing in Hungary has in the past decades been met by private, mostly "self-help" housing construction. The remainder was built by state-owned enterprises, drastically reduced (from 21.3 percent of construction as recently as 1990 to 9.5 in 1992) by the decline in government direct investment in housing.

Private building has also declined due to falling demand. Since 1989, the number of units built decreased from 51,500 to 21,000 in 1994.

The construction industry is in a state of crisis with many of the state-owned enterprises facing deteriorating financial circumstances. Most are undergoing restructuring and privatization, but restructuring plans are often not profound enough to turn performance around, and companies are still not sufficiently market-oriented. Despite a proliferation of smaller private firms, the emerging private construction and building materials industry is threatened by many of the same external factors, primarily the lack of housing finance.

Until recently the real estate brokerage industry in Hungary has been dominated by a few large state-owned enterprises. Although many private brokers have entered the industry in the past two or three years, the efficiency of the market is still hampered by problems such as the lack of information on housing and land sales and unreliable appraisals. By providing the Hungarian Real Estate Federation with a Multiple Listing System, installed in Budapest in 1993 and expected to begin operation in 1995, USAID hopes to improve the flow of information on real estate sales and considerably improve the competitiveness of the smaller private brokers.

Another problem inhibiting healthy development is the present approach to master planning which generally is not based on market or economic considerations. Municipalities also are not experienced in participating in a development process which interacts fully with private actors. Helping cities to rethink their approach can open possibilities for builders and developers. Projects focusing on this process are expected to continue in Budapest (see section II) and in Szolnok. In addition, legislative changes are necessary, which may be forthcoming in

the new Building Law. Recommendations were provided to the drafting Ministry in the paper on land use regulation developed under the Kecskemét project (section II).

### **ONGOING PROJECTS**

#### **Study of Residential Development in Hungary**

A study of developers in Hungary was carried out in the spring of 1995. Based on interviews with various private developers, local governments, and banks, the report reviews the status of residential construction in Hungary, outlines the development process, and identifies the primary obstacles to private development as being the lack of construction finance and the inability of most of the population to afford new housing. The report recommends improvements in data collection and reporting, a further survey of local officials and developers, and an investigation of ways in which construction finance can be made more accessible to small contractors.

#### Report

Fredrik A. Hansen. "Housing Development Project — Hungary. A Description of the Housing Production System." March 1995.

#### **East European Real Property Foundation (EERPF)**

The EERPF was formed in late 1992 through a cooperative agreement between the National Association of Realtors and USAID to assist in the creation and development of private sector, market-oriented real estate professional associations and related institutions in Central Europe and selected countries in the NIS.

The Foundation's aim is to identify local partners who will participate in developing the support program to service the private sector. During the first half of 1993 EERPF conducted its sector assessment and partner identification which consisted of three visits by Foundation Directors, staff, and real estate, information services, and real estate education experts. The areas of brokerage, appraisal, and real estate training and education were assessed. During these visits, seminars on real estate practice and an analysis of the MLS system provided to IKIBE were conducted.

In initial stages, The Hungarian Chamber of Dealers in Real Estate (Chamber) and the Hungarian Real Estate Federation (IKIBE) were identified as potential partners. A protocol agreement for cooperation was signed with the Chamber (IKIBE is a member of the Chamber). EERPF provided technical assistance to the Chamber for the creation of a business plan which forms the basis for future technical and financial support from EERPF.

EERPF provided technical and financial support for the European Network for Housing Research Conference held in Budapest in 1993, and is providing research grants to research projects identified during the conference. In November 1993, representatives from the Chamber and IKIBE participated in a professional training program on association management in the United States attended by representatives of the EERPF's seven targeted countries. This meeting sparked the interest of the participants in developing a regional network. The first regional meeting was held in Prague in 1994. In addition, the Foundation sent a starter library to the Chamber and continues to support the Chamber in developing real estate forms, public education brochures, and other activities.

A seminar on "International Marketing of Real Estate" was held in late March, 1994, in Budapest. Other activities in 1994 included an assessment visit on property management and workshops on business planning, brokerage office management, and residential sales management. The Foundation plans to continue its relationship with the Chamber (now the Hungarian Real Estate Association), has formed a new relationship with the Association Hungaria Appraisers (EMSZ), and hopes to establish protocol agreements with other real property associations such as IKIBE and the newly formed Hungarian Association of Real Estate Managers (HAREM). EERPF sponsored a weekend retreat for Hungary's six real estate associations to discuss their common goals, which resulted in the formation of the new League of Real Estate Associations.

#### Reports

Colin F. McGowan. "Report of Meetings with Data Systems, Central Vermont Board of Realtors and Central Vermont Multiple List Service." May 1993.

Colin F. McGowan. "Report on Assessment Trip to Hungary." June 1993.

Kenneth Baar. "Creation of Non-Profit Real Estate Education Institute in Hungary." July 1993.

Lloyd D. Hanford, Jr. and Tan Tek Lum. "Property Management in Hungary." June 1994.

#### **Szolnok: Demonstration Program on the Private Development of Housing**

In Szolnok there seems to be interest on the part of homeowners to purchase new alternative types of housing, but only a small percentage can now afford what is being offered, which appears to be limited in range and number. Potential first time buyers do not appear to have any new housing opportunities. Thus stimulation of private housing development should address both demand and supply side factors. Measures the city could undertake include a rationalization of the process to acquire land, streamlining of zoning and building regulations.

USAID has worked with the city through direct consultations and a series of workshops aimed at educating private developers and municipal officials about structuring joint-venture housing development projects.

The workshops precede distinct phases of the development process and are intended to help the municipality in each one: identifying municipal sites for development; establishing land values; packaging sites for sale or lease to private developers; preparing RFPs, reviewing proposals, and preparing developer selection criteria. Workshops for private developers would focus on the techniques of market analysis, land valuation, financial feasibility analysis and project management.

Szolnok selected a site downtown near the Tisza River and issued an RFQ and an RFP in the autumn of 1994. The winning bidder, Keviterv Acqua, was selected and negotiations are underway; the contract will be finalized in September 1995 and demolition of the old building has already begun. USAID hopes to introduce a similar process in other cities.

#### Report

\* Howard B. Henward. "Concept Paper on Housing Development Demonstration Program, Szolnok, Hungary." February 1994.

\* William Claggett and John Clawson. "Trip Memorandum: Housing Development Demonstration Project - April 1994."

\* William Claggett. "Trip Memorandum: Housing Development Demonstration Project - June 15-18, 1994."

William Claggett. "Completion of the Reconnaissance Element, Phase I, of the Housing Development Demonstration Program in Hungary." February 1995.

#### **Introduction of a Multiple Listing Service**

Based on discussions with the Hungarian Real Estate Federation, and on concerns about the inefficiencies in the real estate market due to the unavailability of sales data, USAID agreed to provide the Federation with a Multiple Listing System. USAID provided a central computer and the software necessary along with technical assistance with the installation of the MLS in Budapest. A request for bids was issued in October of 1992 and a contract was signed with the winning applicant in early 1993. During the summer of 1993, the new MLS was delivered to the Federation and training began. After delays due to the long waiting period for the system, a change of management at the Federation, and the complexities associated with installing such a new system in Hungary, it is expected that with some further advisory assistance from USAID, the MLS will become operational in 1995.

#### Reports

József Hegedüs and Iván Tosics. "Analysis of Establishing a Service for Providing Up-to-Date Information on Housing Sales Prices in Hungary." March 1991.

Richard Anastasia. "MLS Feasibility Analysis for Hungary." May 1991.

Katharine Mark and Raymond Struyk. "USAID Assistance in Establishing a MLS in Budapest, Hungary: Design Paper." July 1991.

Charles L. Pilzer. "USAID Assistance in Establishing a MLS in Budapest, Hungary: Options Paper." October 1991.

William Strong. "Assessment of MLS Project in Hungary." October 1994.

\* William D. North. "Memorandum on the MLS Project of Hungarian Federation of Real Estate Brokers." November 1994.

### **COMPLETED PROJECTS**

#### **Construction Bonding and Warranty**

In response to a request from the Ministry of Industry and Trade, USAID consultants undertook a comparative analysis of the law and practice regarding construction security and construction warranty liability in Hungary, Europe, and the United States. Their observations and recommendations will assist the Hungarian government in drafting contracting regulations applicable to public procurement. Their recommendations include the following:

- (1) Consideration should be given to promoting issuance of construction security of all types by companies other than banks.
- (2) Training should be furnished to the institutions issuing construction security.
- (3) In public contracting the institution of a very low tender security requirement should be considered, with the flexibility to increase the amount of the security when appropriate to safeguard the public interest.
- (4) Delivery of performance security by contractors should be encouraged, but only made compulsory in residential housing projects, not in commercial construction projects.
- (5) Consideration should be given to instituting a fund, through compulsory contributions by construction contractors and suppliers of construction materials, that would be used to meet the claims of residential home developers and owners when contractors or suppliers are unable to meet their obligations under warranty.

#### Report

\* Adam H. Dickstein, Miklós Francsics, Jeffrey B. Newman, and Olga Réti. *Construction Bonding and Warranty Report*. December 1993.



### **Construction Sector Study**

In late 1991 a team of consultants undertook a broad survey of the construction sector. The report included recommendations regarding training and technical assistance for private developers, a study of the impact of privatization in the construction industry, an assessment of the industry's warranty and bonding requirements, and development of a strategy to encourage private contractors and developers to undertake rehabilitation projects.

#### Report

Howard Henward et al. *Hungary: Housing Construction Subsector Assessment* . April 1992.

### **V. Policy Advice and Analytic Support to National Government**

At the national level USAID's housing policy efforts have supported the development of legislation and new programs over the past five years. In support of the Housing Act, which was originally scheduled to be passed in January of 1991 and repeatedly postponed, USAID provided assistance to the government in many forms between 1990 and 1993. This included work with staff of the Ministry of Social Welfare and the production of numerous option papers such as a paper describing the use of block grants and a detailed report on the design and cost of housing allowances which has been widely read and cited by Hungarian policy-makers. Policy development has been complicated by the number of ministries with responsibilities in the housing sector which eventually contributed to a split in the legislation. The Ministry of Interior took the lead in drafting the Rental Housing Act which was finally passed in July of 1993, and after a review by the constitutional court was passed in its final form in March of 1994.

In 1992, the head of the Housing Department at the Ministry of Social Welfare was given the sole responsibility for writing a "Housing Concept" to cover housing issues not directly addressed in the Housing Act now in the hands of Parliament. The Concept, negotiated primarily between the Ministries of Social Welfare and Finance, but finalized by the Ministry of Industry and Trade, was issued in May of 1993 as a Government Resolution mandating twenty measures to be undertaken to reform housing policy. These included several topics strongly supported by USAID (primarily through the housing finance sector programs described in section I), such as rationalization of the subsidy system, a review of legal revisions needed to improve foreclosure and eviction procedures, and the establishment of an interministerial housing policy committee. A third part of this package is the Social Law, drafted by the Ministry of Social Welfare and passed in the last days of 1992. The Social Law includes a requirement that local governments must provide housing allowances.

Analysis supported by USAID has been used by policy makers in Hungary on a number of topics. For example, at the request of a member of parliament, data from the Budapest Rental Sector Panel Survey were used to develop simulations for a nationwide rental housing allowance program and

for the completion of the Social Law (at the Ministry of Social Welfare). For the municipal government of Budapest, survey results were used in studies on the municipal finance problems of the capital and for the rehabilitation section of the master plan, among other work. Fieldwork for a second phase of the panel survey was carried out early in 1995. In 1994 policy work included review of a number of new efforts to reform subsidy policy, proposed support to the new government in its consideration of a brand new look at housing policy, revenue estimates on property taxes and cost estimates for a nationwide means-tested utility allowance. Recently, USAID has supported reviews of proposed legislation on contract savings and the national government's Three Year Program.

### **Ongoing Policy and Legal Support**

On a regular basis, USAID contractors follow legislation summarizing important developments in memoranda, and obtaining and translating selected new laws. Staff and consultants continue to provide short-term legal and policy advice, and produce and distribute policy concept papers. In addition to work with the Ministries of Social Welfare, Interior, and Finance on the Rental Housing Act, the Housing Concept, and the Social Act, USAID has provided support to Justice and Environment in designing and reviewing legislation. In 1994 USAID consultants also provided reviews of Hungarian housing subsidy generally and of specific proposals for the social policy allowance to families buying new housing and for utility allowances. At the request of the Ministry of Finance, a USAID team reviewed the Hungarian Government's proposal for a mortgage insurance institution.

### Reports

- \* Raymond Struyk, József Hegedüs, Katharine Mark, Iván Tosics. "Relations Between the State and Local Governments in the Housing Sector." January 1991.
- \* Jill Khadduri. "The Potential Role and Organizational Structure of the Housing Office." October 1990.
- \* Jill Khadduri. "Relationship Between Central Government and Local Governments in Administering Hungarian Housing Programs and Policies." October 1990.
- \* Katharine Mark and Raymond Struyk. "Housing Block Grants in Hungary." March 1991.
- \* József Hegedüs, Raymond Struyk, Iván Tosics. "Integrating State Rental Housing with the Private Market: Designing Housing Allowances for Hungary." March 1991.
- \* Raymond Struyk, Katharine Mark, Jeffrey Telgarsky. "Private Management for Eastern Europe's State Rental Housing."

\* Kenneth Baar. "Residential Landlord Tenant Law for Privately-Owned Flats." Expected January 1993.

\* Jeffrey P. Telgarsky and Katharine Mark. "Alternative Mortgage Instruments in High-Inflation Economies." *Housing Finance International*. Vol. 6, No. 1. September 1991. (Hungarian translation)

\* Douglas Diamond. "New Directions for Housing Subsidy Policy in Hungary." August 1994.

Douglas Diamond. "Key Policy Issues in the Housing Sector in Hungary." December 1994.

\* H. Beth Marcus and Michael Smilow. "Comments on the Hungary Guarantee Proposal for Housing Loans." March 1994.

\* József Hegedüs and Iván Tosics. "Expert Opinion on the Proposal of the Ministry of Finance to the Government entitled 'The Situation of Housing Construction and the Definition of Ways to Subsidize Private Housing Construction.'" October 1995.

Katharine Mark. "Proposal for a National Utility Allowance Program." November 1994.

\*József Hegedüs, Robert Kovács, and Iván Tosics. "Establishing the Energy Normative. A Report Submitted to the Ministry of Social Welfare." November 1994.

József Hegedüs and Iván Tosics. "Comments on the Contract Savings Bill." July 1995.

### **Central-Eastern European Regional Housing Indicators**

This project is based on several years' effort to conceptualize the common elements of the housing system of East-Central European countries in order to create a sound basis for the analysis of the period of transition from centrally planned to market economy. Quantitative and qualitative indicators were worked out and refined in a series of workshop meetings held in Budapest in early 1995 with the participation of experts of the region (12 Central European countries) and Western scholars.

The practical aim of the regional indicator system is connected to the fact that country monographs with important treatment of the housing sector are to be prepared by countries for Habitat II by the end of 1995. The country monographs are to include housing indicators and related analysis as either an integral part or in an annex. The regional indicators project aims to offer an outline for a common structure of this section of these monographs for East-Central European countries, with two major objectives:

a) to demonstrate the usefulness of a housing indicator system adapted to the special situation in East-Central Europe for policy analysis at the national level

b) to obtain comparable information for a regional monograph which will seek to define the critical bottlenecks to housing development in East-Central Europe.

Both quantitative and qualitative indicators (questions requiring descriptive answers) are described in a volume with the title numbers, percentages or ratios. Date and aggregation level are mentioned for all indicators. The basic idea is to have in most cases the indicator value for the national level as well as for the local level (the latter should be the capital city of the given country).

The twelve participating countries are expected to prepare both the quantitative and the qualitative indicators by autumn of 1995. Subsequently USAID analysts will prepare, based on the information received, a Regional Monograph on the housing situation and housing policy in Central-East Europe. The aim is to have this paper as a key document of Habitat II and serve as basis for a Regional Forum on the situation of the region.

#### Reports

József Hegedüs and Iván Tosics. "The Transition of the Central-East European Housing Systems. Outline for the Housing Indicators-Based Sections of the Country Monographs for Habitat II." July 1995.

Metropolitan Research Institute. "Central-East European Regional Housing Indicators Workbook." July 1995.

#### **Housing Indicators/Budapest Rental Sector Panel Survey**

There are two distinct parts to this project: one is an extensive survey, which was conducted in both Hungary and the Philippines as part of the World Bank housing indicators project. The other included an intensive survey of the rental sector in Budapest, which will follow 1,000 units over five years. The units will be visited at regular intervals and changes in occupancy and tenure are to be investigated.

This was one of the first empirical surveys in Eastern Europe about the consequences of privatization. It was carried out in Budapest in January of 1992 on a sample of households living in public sector units in January of 1990. The analysis provides an overview of the transformation of the state rental sector into a mixed stock of state rentals, private rentals, and owner-occupied housing, highlighting issues of housing finance, maintenance, windfall gains through resale of privatized units, and attitudes toward and social consequences of current housing policy.

#### *The Public Stock in Budapest*

The total number of public housing units in Budapest in January of 1990 was 400,000, with a value of 625 billion HUF (at 1992 prices); this was about 40 percent of the total foreign debt of the Hungarian Government.

In 1991, public housing stock was transferred to the Local Governments (districts) by the Property Transfer Act. This "asset", however, has a negative value for its owners due to low rent levels set by national law, bringing in annual rent revenues of less than 5 billion HUF which in 1990 was about 40 percent of what was being spent on operating and renovating state rental housing. Moreover, maintenance has been far from adequate with extensive deferred maintenance estimated at almost 100 billion HUF.

Current rent subsidies, defined as "fair market rent" minus controlled rent, were estimated to be 21 billion HUF. The ratio of rent to income was very low, at about 6 percent (probably lower now since rents have not risen). Including utilities, however, raises the total housing cost to income ratio to 26 percent, which makes a rent increase difficult.

According to the survey data, if rents were increased by 100 percent, 32 percent of tenants would face a difficult situation, and for 13 percent of tenants there would be no other solution than some kind of housing benefit program, that is, they would turn to the local government for help or be unable to pay their rent. With a 200 percent rent increase, these two categories both increase to 36 percent, meaning that over 70 percent would need help.

#### *Results of the Privatization of 1990 -1991*

The privatization of public housing in Hungary became legally possible as early as 1969, but little happened until the end of the 1980s.

Less than 2 percent of the Budapest rental stock had been sold by January 1, 1990, so that at that time approximately half of the housing in Budapest was still publicly owned.

The 1992 survey results show a dramatic increase in privatization since 1990, largely as a consequence of policies under the previous government. By January 1992, 20 percent of the state-owned housing stock had been sold to tenants with another 5 to 7 percent of the stock in the process of being sold. Other tenants, about 20 percent, expressed with certainty their intention to buy. Only 30 percent did not want to purchase their unit.

Survey results indicate that the main motivations for buying are financial and security considerations. Among the groups surveyed, 38 to 44 percent cite financial considerations, that is, the large value gap - a measure of the windfall gain that accrues to a privatizing tenant - as their main motive. Others, between 36 and 47 percent, chose to purchase in order to ensure the security of their tenure. Uncertainty about the future of rents and tenant rights strongly influences the decision to buy.

Quality and location of the unit also influence tenants' decisions to buy. Not surprisingly, better quality units with less deferred maintenance and those in better locations have already been sold.

Analysis of two subsidies, the rental subsidy and the value gap, showed that privatization favors upper income groups. Before 1992 a larger share, 32 percent, of the rent subsidy went to the upper income quartile although the share decreases as privatization progresses and upper income households leave the rental sector. By 1992, the value gap was distributed more unevenly than the rent subsidy, with upper income groups receiving 40 percent of the value gap while lower income groups receive 17 percent.

In one report, the financial impact of privatization upon local budgets was examined. The paper found that while political expediency favors giveaway privatization (such as the deeply discounted system that has been largely used in Hungary), this has serious detrimental financial and social effects. Giveaway privatization is not only inequitable, but leaves local governments responsible for the poorest quality housing and the lowest income tenants, without adequate financial resources. Specifically, using survey data from two Hungarian cities and considering a rental sector balance sheet of rental revenues minus maintenance costs and housing allowances (for low income tenants), the paper estimated a deficit of HUF 745 million for Budapest and HUF 2 million in Szolnok with giveaway privatization; simulations of market price privatization yielded surpluses of HUF 404 million and 27 million for the two cities.

#### *Housing Management*

A separate report used survey results to explore the current state of tenant satisfaction with housing management, and the extent to which tenants express a willingness to increase their housing expenditure to obtain improved housing management. It was found that there are significant differences between renters and owners. Seventy three percent of renters expressed dissatisfaction with management while only 32 percent of owners were dissatisfied. A larger percentage of owners are somewhat or fully satisfied—31 percent as opposed to only 10 percent of renters. One explanation of the differences in management satisfaction is that 75 percent of owners live in buildings with private management compared to 3 percent of renters.

Among renters, willingness to pay more for housing management was, not surprisingly, positively associated with income and negatively associated with the share of income currently spent on rent. These results indicate that rents could be increased if households were convinced that the increases would result in improved management and maintenance services.

Those unwilling to pay more are likely to be the least able to pay more and could be targeted by a housing allowance to ease the increased rent burden.

These data - the most up-to-date and accurate information on these topics - have been useful in developing many policies. For example, at the request of Hungarian Parliament they were used to develop cost estimates for a possible housing allowance program in the City of Budapest; results of this analysis were used to illustrate a proposed amendment to the Housing Act under discussion in Parliament. For Budapest, data were used for a study on the municipal finance problems of the capital, for the

rehabilitation section of the master plan, and for simulations of a proposed housing subsidy system; further, the new city development program relies strongly on scenarios based on the survey data. For District VII the survey data were used to design their housing strategy. In addition, data from a survey based on the Budapest model were instrumental in Szolnok in designing their housing allowance and rental sector reforms.

Fieldwork for Phase II of the survey was carried out in early 1995, near the end of the intensive privatization now under way. Coming at a time when the housing sector is undergoing dramatic flux, this information will prove invaluable to shape policies on rehabilitation, housing allowances, the private rental sector, and assistance to new owners, among other areas. Analysis of results is now underway.

### Reports

\* József Hegedüs, Katharine Mark, Raymond Struyk, Iván Tosics. "The Privatization Dilemma in Budapest's Public Rental Housing Sector." March 1992. Appeared in Hungarian as "Privatizáció, dilemma a Budapesti bérlakásszektorban," in *Szociológia*, 1993 Vol 2.

\_\_\_\_\_. "Transforming Housing Management and Tenant Satisfaction in Budapest." October 1992. *Housing Studies*, Vol.9, Number 3, July 1993.

\_\_\_\_\_. "Local Options for Transforming the Public Rental Sector: Empirical Results from Two Cities in Hungary." *Cities*. August 1993.

József Hegedüs, Iván Tosics *et al.* *Housing Indicators in Hungary. Final Report.* December 1993.

*Questionnaire for the Budapest Rental Housing Sector Panel Survey Two* . January 1995.

### **Budapest Conference of the European Network for Housing Research**

In September 1993, USAID sponsored the attendance of about thirty-five Eastern European housing experts at the annual conference of the European Network for Housing Research in Budapest, entitled "Transformation in the East, Transference from the West." Almost three hundred participants attended the four-day conference, which consisted of three days of workshops and keynote debates on topics such as "What Kind of Market should Operate in the Housing Sector - Social, Subsidized, or free Market?" and "Housing Finance Reform in Eastern Europe"; the fourth day was dedicated to technical assistance in housing in Eastern Europe.

### Report

Katharine Mark. "European Network for Housing Research. The 1993 Conference in Budapest. Report to USAID on the Participation of Eastern European Specialists." October 1993.

#### **Housing Allowance Seminar for Local Governments**

In April and May of 1993, USAID and the Ministry of Social Welfare co-sponsored a seminar for local government officials on the housing allowance program introduced in Szolnok and on the requirements of the newly-passed Social Law. Over a hundred officials from thirty-seven local governments attended the two seminars. The agenda included a description of the policy context and the Szolnok project, a chronological account of the implementation of the housing allowance program, and a question and answer session on requirements under the new Social Law. Presenters were members of the USAID assistance team to Szolnok, municipal staff from Szolnok, and representatives from the Ministry of Social Welfare and the Central Statistical Office.

#### Report

Katharine Mark. "Housing Allowance Seminar for Local Governments in Hungary." October 1993.



## **ANNEX**

This annex identifies the contract and task order ("Request for Service") under which the work for each project was done. The RFS number follows each project title, identified by contract - Housing Finance (HF), Local Government (LG), Private Sector Development (PSD) or Worldwide (WW).

### **I. Housing Finance**

#### On-Going Projects:

The Housing Guaranty Loan Program (HF-34, HF-53, HF-56)  
Technical Assistance to the National Savings Bank (HF-41, HF-55)  
Technical Assistance to Budapest Bank (HF-44)

#### Completed Projects:

Technical Assistance in Housing Finance (HF-20)  
Joint World Bank/AID Budapest Project (WW-67)  
Private Mortgage Bank Feasibility Assessment (WW-121)  
Mortgage Finance (WW-27)

### **II. Strengthening Local Governments**

#### A. Housing Policy and Urban Development

##### On-Going Projects:

Szolnok: Housing Strategy/Rental Policy (HF-1, 10; LG-19, LG-65)

##### Completed Projects:

Kecskemét: Local Government Role in Development (WW-72; ICMA)  
Local Housing Strategy Training (WW-35)  
Privatization Strategies for Budapest Inner Districts (WW-102)  
Budapest: Urban Development/Rehabilitation (HF-1, LG-8, LG-17)

#### B. Municipal Finance

##### On-Going Projects:

Toward a National Assistance Plan for Municipal Infrastructure Financing (LG-120)  
Reforming the Municipal Budget Process (HF-52)  
Szeged: Advice on Proposed Water/Sewage Joint Venture (LG-45, 105)

Completed Projects:

Background Paper on Municipal Lending (LG-69)  
Municipal Credit Conference (LG-83)  
District XVII and XVIII: Infrastructure Finance (LG-69)  
Infrastructure Finance Technical Assistance Assessment (LG-34)

**III. Housing Management and Renovation**

On-Going Projects:

Asset Management Training Course (LG-67)  
Rehabilitation in Budapest Inner City Districts (LG-36)  
Condominium Association Training Course (HF-11, HF-23, HF-43)

Completed Projects:

Szolnok: Developing Asset Management (HF-10, LG-19, 65)  
District VII: Financing Renovation (HF-1, HF-11)  
District II: Housing Management (WW-52)  
Survey of Cooperative Housing in Hungary (CHF)

**IV. The Housing Construction Sector and Real Estate Industry**

On-Going Projects:

Study of Residential Development in Hungary (PSD-44, 65)  
East European Real Property Foundation (Grant)  
Szolnok: Private Development of Housing (LG-87; PSD-44)  
Introduction of a Multiple Listing Service (WW-29, 40, 43, 140)

Completed Projects:

Construction Bonding and Warranty (PSD-23)  
Construction Sector Study (PADCO)

**V. Policy Advice and Analytic Support to National Government**

On-Going Policy and Legal Support (WW-40, WW-139; HF-1, HF-54, LG-15, LG-93)  
Central-Eastern European Regional Housing Indicators (HF-57, 60)  
Budapest Rental Sector Panel Survey (WW-138; Grant to World Bank, LG-89)  
European Network for Housing Research Conference (HF-39; EERPF)  
Housing Allowance Seminar (LG-35)

G:\net1v1\iac\reports\6283-93\sta95:0895