USAID ASSISTANCE PROGRAM TO POLAND IN LOCAL GOVERNMENT AND HOUSING SECTOR REFORM

A HISTORY AND ASSESSMENT FROM 1990 – 2000

USAID/Poland

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# Table of Contents

**EXECUTIVE SUMMARY** ............................................................................................................. i
**INTRODUCTION** .......................................................................................................................... 1
  - Purpose of the Study ................................................................................................................... 1
  - The Study Team .......................................................................................................................... 1
  - Methodology ............................................................................................................................... 2
  - Appreciation ................................................................................................................................ 2
  - Organization of this Study .......................................................................................................... 2
    1. Background ..................................................................................................................... 3
    2. Highlights of USAID Accomplishments In Local Government and Housing In Poland .. 3
    3. USAID Assistance Program In Local Government And Housing................................. 3
    4. Lessons Learned.............................................................................................................. 3
  - Conclusions ................................................................................................................................. 3
**Annexes....................................................................................................................................... 3
**BACKGROUND ............................................................................................................................ 4
  - The Communist Era .................................................................................................................... 5
    1. Unitary Form of Government ......................................................................................... 5
    2. Local Government During the Communist Regime ....................................................... 5
    3. Housing Under the Communist Regime ......................................................................... 6
  - The New System of Reform ....................................................................................................... 6
    1. The Cooperation Form of Government........................................................................... 7
    2. The Anti-Debt Culture and Emerging Bank Sector ........................................................ 7
    3. Local Government in the Transition ............................................................................... 8
    4. Housing in the Transition.............................................................................................. 10
    5. Institutionalization of Associations............................................................................... 12
  - The U.S. Government Response to Local Government and Housing Transition ..................... 12
**HIGHLIGHTS OF USAID ACCOMPLISHMENTS IN LOCAL GOVERNMENT AND HOUSING IN POLAND .............................................................................................................. 16
  - Overall Assessment ................................................................................................................... 16
  - Central Government Policy Formulation Assistance.......................................................... 16
  - Local Government Assistance ................................................................................................. 17
  - Housing Sector Assistance ........................................................................................................ 17
  - Banking Sector and Capital Markets Assistance ...................................................................... 19
  - NGO and Private Sector Development to Promote Local Government and Housing Sector Reforms................................................................................................................................. 19
  - Introducing Greater Citizen Participation ................................................................................. 20
  - Coordination with Other Donors .............................................................................................. 21
**USAID ASSISTANCE PROGRAM IN LOCAL GOVERNMENT AND HOUSING ........................................................................................................................................................... 21
  - USAID Assistance Program - 1990 Through 1993 ................................................................. 22
    1. Background ................................................................................................................... 22
    2. USAID Housing Sector Assistance – 1990 Through 1993 ........................................... 23
    4. USAID NGO And Private Sector Development Assistance – 1990 Through 1993 .... 27
    1. Background ................................................................................................................... 28
CONCLUSIONS ........................................................................................................................... 41

LESSONS LEARNED .................................................................................................................. 42
Demand-Driven Technical Assistance is Most Effective ......................................................... 42
USAID Funding Should Build Gradually and Provide for Sustainability at Completion ....... 45
Long-Term Advisors and Continuity of Short-Term Advisors are Vital to Successful Assistance Efforts ......................................................................................................................... 48
Gradual Transfer of Technical Assistance Responsibilities to Local Providers Builds Institutional Capacity and Sustainability ......................................................................................... 50
U.S. Models Require Adaptation in Assisted Countries and Comparative Models from Other Nations are Valuable for Identifying the Most Appropriate Solutions for Assisted Countries 50
Macro-Economic and Political Conditions Significantly Impact the Pace of Reforms........... 51

ANNEXES

ANNEX 1 List of Major USAID Projects in Poland
ANNEX 2 List of Interviews
ANNEX 3 References
USAID ASSISTANCE PROGRAM TO POLAND
IN LOCAL GOVERNMENT AND HOUSING SECTOR REFORM –
A HISTORY AND ASSESSMENT FROM 1990 – 2000

EXECUTIVE SUMMARY

The United States Agency for International Development (USAID) Mission in Poland closes in 2000. The USAID ten-year assistance program in local government and housing sector reform was extensive and made substantial contributions in assisting the Poles to accomplish reforms that have propelled Poland into one of the success stories in the transition from Communism to democracy and a market-based economy. The history of USAID’s involvement in Poland is a part of that success story.

Background

The USAID assistance program is inextricably linked to the political, economic and social conditions in Poland and an appreciation for this context is necessary to comprehend how USAID conducted its program.

1. The Communist Era

Beginning after World War II, a Communist system was instituted in Poland that eliminated many long traditions of local government and a market-based economy. It was a highly centralized State, with all major decisions emanating from the Central Government. Local government became an extension of Central Government. The economy was similarly controlled by Central Government, organized around major industries and the necessity of all segments of society conforming to these economic policies. Many former market-based enterprises became mainly social programs, e.g., housing, with the State substantially subsidizing rents and becoming the major producer of housing through State industries and large State-controlled cooperatives.

2. The New System of Reform

In 1989, political and economic pressures forced the resignation of the Communist government and elections installed the new Solidarity government. The new government was committed to radical transformation of the political and economic structure as rapidly as possible, later termed, “shock therapy”. The aim was to dismantle the Communist State and install market-based economic principles and democratic institutions in a very short timeframe. For example, in one day, March 8, 1990, a Constitutional Amendment and two key pieces of legislation were adopted creating the legal basis for local government and, just three months later, local elections were held.

The imperative to dismantle the old regime and institute reforms as soon as possible affected the design and implementation of USAID assistance programs in Poland. For example, Government of Poland (GOP) requests to the World Bank, in 1990, to rapidly promote establishing a market-based housing finance system resulted in the creation of the Mortgage Fund to introduce
commercial mortgage lending in Poland and USAID’s housing program was framed to support this effort.

Local government became significantly independent of Central Government after 1989. However, reform continued substantial local government dependence on Central Government for revenues, with the State’s role being the primary resource mobilizer and local government being the decision-maker on how resources were to be expended. This resulted in local government being highly dependent on Central Government transfers. The political system was termed, “cooperation form of government”, by its principal designers, which meant that local government was structured to compel cooperation with regional and Central Government. The Unitary State remained, but with substantial decentralization and de-concentration of responsibilities to local government. The newly elected political leadership was inexperienced and required assistance in numerous areas to promote effective local governance. 2,489 local government jurisdictions were created, averaging only 15,500 in population; there were only 20 municipalities over 200,000 in population. The small size of municipalities (which is not unique to Poland and is prevalent throughout Europe), and limited local financial resources, compounded donor agency efforts to bring sophisticated management to local government. The inexperience of local government officials meant that they could only define assistance needs in broad terms, e.g., infrastructure, housing development and management improvements. It remained up to donor agencies to define specific interventions to assist.

The housing sector was perceived to have a substantial “housing gap” that would require 1.5 million new units to meet projected demand. This focused Government’s, and donors’ attention on new construction. However, significant impediments to new construction existed, e.g., a) there was a lack of experience in the private sector on the functions of a developer, b) there was a severe lack of serviced land available for housing construction, c) there were significant legal impediments that affected mortgage lending, d) the State continued to provide subsidies that were disincentives for the private sector to provide extensive mortgage finance, e) communal (State, industry and cooperative housing) rents were highly subsidized and rents were controlled by Central Government, which was a disincentive for households to purchase new housing, and f) perhaps most significantly, macro-economic conditions were grossly unfavorable for households to borrow for housing.

3. The U.S. Government’s Response To Transition

In September 1989, the Solidarity-led government came to power. In November 1989, the U.S. Congress enacted the Support for Eastern European Democracy (SEED) Act, providing $ 1 billion in assistance to the newly formed Central and Eastern European (CEE) countries. There was a political imperative to immediately implement an extensive assistance program in these countries. USAID, as the U.S. Government’s foreign assistance agency, had the primary responsibility to implement the assistance effort. Donor agencies, including USAID, did not have prior experience working in “Second World” nations in transition from Communism to democratic institutions and a market-based economy. Second World nations posed new challenges for USAID, as they have well-established traditions and greater numbers of trained persons than encountered in “Third World” nations, which had been the primary assistance receivers in the past. There was little time to assess a program and a political urgency existed to quickly establish an assistance program.
Beginning in 1990, USAID fielded consultant teams to conduct assessments and to undertake short-term projects. The strategy was to respond to “demand-driven” technical assistance requests and projects were designed around U.S. expertise and perceived needs by Polish officials. USAID’s worldwide experience in housing and the Housing Guarantee (HG) loan program made the housing sector a natural area for focus. In addition, the GOP and World Bank had already agreed upon a major housing finance project, which USAID could add to in a significant manner. U.S. expertise in local government strategic planning, capital improvements programming and financial management were also defined as areas where there was both the U.S. expertise and local demand for assistance.

Given the vast policy and practical application needs in Poland, USAID designed its program to provide both policy advice to Central and local governments and to initiate pilot projects to provide demonstrations on the applications of proposed new techniques in local government administration and housing development.

**Highlights of USAID Accomplishments in Local Government and Housing In Poland**

1. **Overall Assessment**

The totality of USAID assistance had major impact in Poland. A review of the success of transition reforms in local government and housing from 1990 to 2000 indicates that the Poles made substantial progress and the extensive USAID program made a significant contribution to that progress. Given the compressed assistance period, i.e., ten years, USAID had remarkable achievements in a short time, especially given that the complexity of a transition from Communism to a democratic, market-based system is a long-term process.

2. **Assistance To Central Government**

USAID assistance contributed extensively to Central Government policy development and understanding of options for local government and housing sector reform. Many senior officials interviewed praised the essential role of USAID in policy development. For example, USAID consultants were praised by senior Government officials as having contributed substantially to the new State Housing Policy in Poland for Years 1999 – 2003, with input into a number of the Government’s proposed policy reforms in tax policy, housing finance and subsidies. USAID is credited by senior Government officials as having been essential to new national water pricing policies and regulations for local government. Assistance to the Ministry of Finance significantly influenced Central Government policies, structures and procedures for local government, including municipal credit and local government self-revenues. Assistance to the Central Bank resulted in substantial strengthening of capital markets and banking regulations that had positive impact on municipal and housing finance. It is noteworthy that all senior Government officials interviewed for this study enthusiastically pointed out specific USAID interventions that contributed significantly to Central Government’s policies and procedures for local government and housing reforms.

3. **Assistance To Local Government**

USAID assistance had significant influence in changing perceptions in local government about improvements in public administration, project planning and budgeting, environmental
improvements, rent reform, economic development planning and implementation and debt financing. USAID can be cited, in particular, with advancements in local government financial management, capital improvements programming and municipal credit. USAID contributions effectively developed the municipal credit system, working with banks and capital markets to expand local government borrowing, e.g., the first publicly-traded municipal bond was initiated under a USAID project.

Numerous local government officials were directly trained in municipal management techniques and many additional municipalities were influenced to adopt new approaches to management through USAID projects and education programs in universities and training institutes initiated under USAID. Local government associations were significantly strengthened under USAID, with a self-sustaining local government information system being created in two major associations that contributes to local government self-analysis and political initiatives proposed on behalf of local government being more effectively promoted to Central Government. Many initiatives that were pursued over the ten-year assistance program as demonstration projects and policy analysis are becoming much more widely adopted, e.g., financial management reforms and rent reform. The legacy of USAID assistance will continue to promote local government advances long after the formal program has terminated.

USAID made significant contributions to local government planning for major capital improvements in water, wastewater, solid waste and energy conservation and paved the way for local governments to better define projects and obtain financing to undertake these environmental improvements. New planning techniques, such as Capital Improvements Programming, were successfully introduced in pilot cities and were adopted by many communities not participating in the USAID projects. Pilot projects in economic development and urban revitalization also were effective in introducing new approaches, including citizen participation, in revitalizing older neighborhoods. The City of Lublin, which was significantly assisted by USAID, received a United Nations HABITAT award for its citizen participatory urban revitalization program.

4. Assistance To The Housing Sector

USAID assistance greatly influenced the development of a market-based, competitive housing/real estate finance system and institutionalization of a modern housing/real estate lending system in the banking sector, e.g., establishing generally-accepted loan origination and servicing practices in construction and mortgage lending. The USAID assistance program also made significant contributions to national and local government housing policy reform.

The policy area, especially, yielded substantial successful interventions, with senior Government officials being effusive in their praise of USAID consultant contributions to national housing policy analysis and to formulation of a national housing policy agenda. Tax reform in the housing sector, the new Condominium Law, appropriate framework for new mortgage banks, new moderate-income rental housing, rent reform, housing and housing allowances are examples of policy areas where USAID assistance was particularly effective. Introduction of housing allowances, for example, enabled more widespread acceptance of rent reform. One USAID consultant report, in particular, “Building On Progress: The Future Of Housing Finance In Poland” and companion conference based on that report, was often cited by interviewees as engendering a national dialogue on housing finance and reform.
New approaches for improving real estate practices were introduced under USAID, such as forming four associations representing the real estate industry and introducing a new system for property valuations (appraisals). USAID can be cited for defining housing markets, the developer function (there was no Polish word for developer and now the English term has been incorporated into the Polish language), mortgages as opposed to housing loans and the construction loan as a separate lending procedure.

Although macro-economic conditions were not conducive for introducing mortgage lending under the Mortgage Fund in the early 1990s, continued USAID efforts at promoting mortgage finance has contributed, by 2000, to a diverse, stable and viable mortgage industry in Poland, with mortgage finance rapidly expanding each year. USAID assistance to the banking sector resulted in what is becoming generally-accepted standards and practices for construction and mortgage lending in Polish banks. Bank officials and Central Government/Central Bank officials interviewed indicated that the USAID-introduced construction and mortgage lending procedures had been adapted by many banks in Poland and they cited the direct training, manuals and study tours as being the basis for their establishing internal lending processes. These officials interviewed praised USAID’s contribution in establishing a modern housing mortgage system in Poland. USAID assistance also fostered expertise in private sector housing development, with one USAID contractor receiving a United Nations HABITAT award for recognition of it efforts to promote local housing development initiatives.

USAID funding established a unique financing vehicle, the Polish-American Enterprise Fund, which was capitalized in 1992 to promote market-based enterprise development. The Fund established the first commercial bank making mortgage loans in Poland, the Polish-American Mortgage Bank (PAMBank), and an affiliated housing development company. PAMBank was purchased in 1999 by GE Capital and, today, continues as a mortgage lending institution and the housing company has spun-off to become affiliated with international investors in housing development.

5. Assistance To The Development Of Capital Markets

USAID assistance to capital markets development and strengthening the banking sector in Poland led to increased access for local government to access credit through bank loans and municipal bonds and will prospectively add to a competitive housing finance sector. USAID’s focus on capital markets promoted an effective regulatory system in the Central Bank that is regarded as a model for the region and other nations request assistance from Poland in establishing their own regulatory systems. Municipal finance has emerged from financing only operating deficits to a sophisticated system of long-term finance to meet many municipal financing requirements. A credit rating agency was formed with USAID assistance that provides credit ratings for municipalities and a credit analysis system was introduced by USAID to allow local governments to institute appropriate self-analysis to access bank financing and to introduce disclosure procedures that improves transparency in local government financial management. Housing finance is emerging to access capital markets and newly-formed Mortgage Banks have recently been licensed to issue debt in domestic capital markets for housing finance.
6. Assistance To NGO And Private Sector Development To Promote Local Government And Housing Sector Reforms

USAID assistance formed and/or strengthened trade and professional associations representing local government, the banking sector and the real estate sector. Many of these associations introduced professional training and ethics under USAID assistance that improved professional capabilities and have gained access to Government decision-makers to influence national policy. In the real estate sector four associations were formed to represent homebuilders, real estate brokers, valuers (appraisers) and property managers. A local chapter of the U.S. Institute for Real Estate Management has been formed and local education programs established to continue to certify property managers. The Polish system of real estate appraisals was adopted based on USAID assistance to the valuers association. Homebuilders have an effective association to represent the industry in policy development at the Central Government level. USAID assistance extended to the Polish Banks Association to promote housing and municipal finance in the banking sector; this resulted in a Housing Finance Committee being established in the association to promote housing finance within banking institutions and to promote a housing finance policy agenda with Central Government.

USAID projects emphasized Polish professional development in consulting firms and university and NGO training centers that will leave a legacy to continue institution building, using USAID-introduced concepts and practices, long after the USAID program has concluded in Poland. USAID projects have focused on training and certifying consultants to carry-on USAID-introduced management techniques for local government and for local agencies to promote housing development. Several consulting firms have emerged out of USAID projects, e.g., one Polish firm, LEM S.C., was founded by Polish professionals working on the Local Environmental Management (LEM) project and took the name of the project as the firm’s name. This firm continues as a profitable company providing technical assistance to local governments in Poland and in other nations in the CEE region. There are consultants, trained under USAID projects, continuing to provide assistance to local governments in financial management, municipal debt, housing and strategic and capital improvements planning. Other USAID engendered consultants also provide assistance to the private sector in housing development.

USAID funds led to creation of the Polish-American Freedom Foundation (emerging out of the Polish-American Enterprise Fund), which will provide on-going support for promoting civil society in Poland, and the Polish-American-Ukraine Cooperation Initiative, to utilize the expertise gained by Polish professionals and institutions to assist the Ukraine with reforms; both agencies will continue the benefits of USAID assistance well into the future. Discussions are being held with the Foundation to continue technical assistance to local governments, based on USAID’s local government program.

7. Assistance In Introducing Greater Citizen Participation

USAID assistance introduced approaches for increased, and more effective, citizen participation in local government and public policy advocacy in a culture that had little experience with such participation. Citizen participation was introduced through support to local and national advocacy groups, local housing cooperatives and local government urban revitalization projects. Cited above, two USAID-assisted projects involving substantial citizen participation received...
awards from the United Nations HABITAT. An on-going foundation to support citizen advocacy has been established through USAID and is supported by international foundations.

8. Coordination With Other Donors

USAID assistance was coordinated to a greater extent with other donors than in many other assisted countries, e.g., with the World Bank, European Union and the British Know How Fund. Joint projects were undertaken with other donors, e.g., the Mortgage Fund with the World Bank, EBRD and the Government of Japan, and the establishment of a new Government moderate-income rental housing program was jointly assisted by the British Know How Fund and USAID.

USAID Assistance Programs – 1990 Through 2000

The discussion on USAID’s assistance program in Poland for local government and housing is divided into three periods, reflective of changing national political conditions, i.e., the election of new ruling political coalitions impacted USAID’s assistance strategies and programs.

1. USAID Assistance Program – 1990 Through 1993

The Solidarity coalition was elected to lead the Government in 1989 and introduced extensive reforms. Macro-economic conditions were very difficult, with hyper-inflation, negative GDP and wage growth and high interest rates. Local government was re-established in law.

USAID’s major thrust during this period was in the housing sector. USAID’s objectives in the housing sector can be summarized as promoting, “the emergence of a competitive, modern, market-based housing finance and production system.” There were extensive housing projects, primarily in support of the Mortgage Fund. The Mortgage Fund was founded to introduce direct mortgage lending, however, macro-economic conditions made mortgage borrowing unattractive to most households. In support of the Mortgage Fund, USAID provided assistance to the banking sector to establish a modern construction and mortgage lending system and to private developers to promote housing development. Assistance was also provided to Central Government to initiate a housing policy agenda, which resulted in several advances such as the housing allowance program to gain more widespread acceptance of rent reform and a condominium law to introduce individual household ownership of multi-family apartment units.

USAID’s second initiative with local government had objectives that can be summarized as assisting with “the transition to transparent and accountable governance through the strengthening of fiscal and managerial capabilities of local governments and local non-governmental institutions.” USAID’s program encompassed a range of municipal management techniques, housing policy, urban revitalization, economic development and capital improvements planning and financing. Assistance was provided primarily through pilot projects with selected local governments.

USAID also began assistance to NGO’s and the private sector to promote objectives in the housing sector and with local government strengthening. USAID’s principal objective for assistance to NGOs and the private sector was in supporting “development of the legal and institutional framework for the functioning of a modern, market-based real estate market, including the creation of supporting professions”. As described, above, in the Highlights section,
USAID supported the formation and/or strengthening of associations representing real estate professions, e.g., for home builders, real estate brokers, valuers and property managers, and local government. USAID also emphasized institutionalization of education/training programs in universities and NGO training centers.


In October 1993, a post-Communist coalition was elected to form the Government. Reflecting a change in USAID strategy (regionally as well as in Poland) focus shifted toward local government, NGOs and the private sector to preserve the progress of reform. Assistance to Central Government on policy development continued. Macro-economic conditions improved during this period and GDP and wage growth became positive, inflation and interest rates moderated, but remained high relative to Western Europe and the U.S. Households and municipalities were beginning to access credit. Housing completions continued to decline until 1997, when a slight improvement occurred. The 1994 – 1997 period produced the most extensive USAID assistance provided to Poland.

USAID strategy changed to make local government its assistance priority over housing during this period. USAID major projects begun in 1992 continued. Some projects were extended until 1997 and 1998 and expanded. New local government projects were begun during this period, which initially focused on capacity building for four local government associations and was later expanded to assist Central Government policy development. Assistance was also continued to local governments in project planning and financing and introduction of energy-conservation techniques. In 1996, the Pilot Local Government Partnership Program (LGPP) was implemented as a precursor for a much larger LGPP that was to be implemented in 1997 and was to build upon progress achieved under previous USAID projects as a final, large-scale effort to assist local government. However, a challenge to the successful bid postponed the LGPP implementation until 1998.

USAID introduced citizen participation components in most local government projects. In 1996, the Lublin community revitalization project (which was significantly assisted by USAID) received an award from the United Nations in recognition of its community-based planning success. The local government associations were assisted under USAID to successfully implement a data-collection system that continues to provide information for municipal self-analysis and for policy advocacy. Municipal credit strategies and technical assistance received more emphasis, including introduction of a municipal creditworthiness analysis system, which aided municipalities in securing bank loans and placing bonds with banks.

CEE regional and Polish conferences continued to be important elements in promoting USAID assistance strategies, e.g., regional and Polish conferences in 1994 launched a major USAID initiative in municipal credit assistance. Institutionalizing education and training programs expanded and some courses were now being offered on a fee-basis. Assistance to local government associations and NGOs were achieving more public advocacy. In 1997, devastating floods affected many communities in southern Poland and USAID responded with assistance through three projects.

USAID’s assistance program to the housing sector, during this period, continued to concentrate on supporting the Mortgage Fund, however, the emphasis expanded from assistance to
developers and municipalities to produce housing to encompass increased assistance to the banking sector to institute a modern lending system. Extensive training was provided to banks in construction and mortgage lending. Housing policy assistance continued and had input into significant legislative initiatives, such as the 1997 Mortgage Law, the Condominium Law and improvements to contract savings legislation.

A new housing sector project, initiated in 1996, expanded policy advice to the Central Government. The 1997 “Building On Progress” report and subsequent conference on housing contributed to much increased understanding of housing policy and market issues and received wide media dissemination. In 1996, mortgage subsidies through the State bank concluded and commercial mortgage lending began to rapidly expand. USAID established a relationship with the Polish Banks Association, which led to their formation of a Housing Finance Committee to address national housing finance issues. Three bank training institutes institutionalized mortgage training curricula during this period.

Assistance to real estate associations was progressing, and four new associations were created, the Polish Association of Home Builders, the Polish Real Estate Federation, the Polish Association of Valuers and the Association of Polish Property Managers. Associations were introducing professional standards and practices that significantly upgraded these professions.

USAID strategies and projects in local government and the housing sector received more emphasis in this period on capacity building in NGOs and the private sector. Assistance to associations and university and NGO training centers was discussed above. In addition, USAID initiated a strategy to build capacity in private sector consulting firms to be able to continue and expand assistance to local governments and the housing sector on USAID-introduced techniques and practices. USAID commenced a new project in 1994, which provided small grants and technical assistance to NGOs to increase citizen participation and public advocacy.


In October 1997, a post-Solidarity coalition was elected and returned to power. The new Government focused on continuing reforms begun in the early 1990s. USAID altered its strategy to support the new Government with expanded assistance to Central Government. Macroeconomic conditions continued to stabilize, however, interest rates remained high by comparison to Western Europe and the U.S. USAID begins close-out of its Mission in 2000 and conclusion of its assistance program in Poland.

The USAID program in local government was substantially consolidated into one major project, the Local Government Partnership Project (LGPP), which is to expand and institutionalize practices and techniques introduced to assist local government under previous USAID projects. One additional new project commenced in 1999, which provides technical assistance to Central Government on policy/legislative development in municipal credit and water standards. Other projects were extended until 2000 to provide Central Government with assistance on a range of important local government issues, such as consideration of a new local government financing system and redesign of the formulas for Central Government transfers to local government in support of elementary education. The assistance to Central Government was praised by many officials interviewed for this study.
USAID introduced the Development Credit Authority in 1999, a U.S. Government loan guarantee program, which will provide partial guarantees to lenders to finance environmental improvement projects.

The LGPP will be the only local government project continuing after 2000 and will conclude in 2001. At that point, whatever additional USAID assistance projects are initiated for local government will funded by USAID/Washington or from continuing foundations, such as the Polish-American Freedom Foundation.

USAID assistance to the housing sector continued under previous projects, all of which were substantially concluded in 1999, except for technical and final report preparation, which continued into 2000. In 1998, one USAID project received an award from the United Nations for its local housing agency project. One project contributed significantly to Central Government policy development, having substantial input into the State Housing Policy for the Years 1999 – 2003. USAID assistance under other projects designed to assist the banking sector assisted the National Bank of Poland (i.e., the Central Bank) to establish a bank regulatory framework that serves as a model for other CEE countries and Newly Independent States. Central Government officials in interviews emphatically praised the USAID assistance in policy and regulatory development.

The four real estate-related associations, organized with USAID assistance, are self-sustaining and expanding their roles, e.g., Government has institutionalized these associations on policy committees.

The mortgage industry has rapidly expanded in the 1998 – 2000 period, with thirty banks now providing commercial mortgage loans. Mortgage lending in the first half of 1999 was eight times the level of funding in all of 1996. Banks have institutionalized construction and mortgage origination procedures introduced by USAID. Capital market financing is being pursued to provide long-term resources under Mortgage Banks; the legislation for Mortgage Banks received significant input under USAID. An affordable rental housing subsidy program (TBS) was successfully launched with assistance from USAID. Tax and subsidy policies for housing are being reviewed based on analyses under USAID assistance. USAID has had substantial impact on establishing a market-based, competitive housing finance system in Poland.

USAID had promoted a policy of capacity building in private sector consulting firms, university and NGO training centers and associations under most of its local government and housing projects. These initiatives demonstrated significant sustainability to continue providing assistance in Poland after closure of the USAID Mission and program in Poland.

Lessons Learned

There are a number of lessons learned, or confirmed, from the USAID assistance program to local government and the housing sector in Poland that are applicable for USAID assistance efforts in other nations.

- Demand-Driven Technical Assistance Is Most Effective
• USAID Funding Should Build Gradually And Provide For Sustainability At Completion

• Long-Term Advisors And Continuity Of Short-Term Advisors Are Vital To Successful Assistance Efforts

• Gradual Transfer Of Technical Assistance Responsibilities To Local Providers Builds Institutional Capacity And Sustainability

• U.S. Models Require Adaptation In Assisted Countries And Comparative Models From Other Nations Are Valuable For Identifying The Most Appropriate Solutions For Assisted Countries

• Macro-Economic And Political Conditions Significantly Impact The Pace Of Reforms.

**Conclusions**

The Polish people, and their Central and local governments, have earned the credit for undertaking substantial reforms that have transformed their nation into democratic institutions and a successful market-based economy. The ten-year USAID program in local government and housing made significant contributions in assisting Poles with formulating and implementing their reforms. By 2000, it is clear that USAID has met the objectives setout by the U.S. Congress in 1989 and delivered an extensive and effective assistance program in Poland that was appreciated by many Polish public and private sector officials and will have continued positive impacts well beyond the completion of the USAID program.
INTRODUCTION

In September 2000, Poland will “graduate” from USAID assistance and the USAID/Warsaw Mission will close. In support of the rapid transition from a Communist system, which had existed since the end of World War II, to a democratic, market-based system, which suddenly burst forth in 1989, USAID commenced a substantial program of assistance to the Government of Poland and its people in 1990 that addressed a number of very important programmatic areas, including local government and housing sector reforms. The transition was considerable and Poland has emerged with a vibrant economy and democratic institutions over the past ten years. USAID made significant contributions to assisting the Poles with this transition. A history of USAID’s accomplishments is well-worth recording.

Purpose of the Study

The purpose of this study is to record and assess the history of USAID’s involvement in Poland in local government and the housing sector over the period 1990 - 2000. The study team was asked to perform the following:

• Provide an overview and assessment of USAID/Poland’s local government and housing activities in Poland over the course of its ten year history,

• Conduct interviews with relevant USAID, contractor and Polish counterpart representatives,

• Review relevant project reports and other pertinent information to assess results, and

• Describe accomplishments, impacts and lessons learned.

The study was an assessment of USAID over-all activities, not an evaluation of specific project performance. This is an important distinction. There were at least twenty-seven major projects, and numerous short-term projects, both centrally-funded and country-specific, that contributed to USAID’s local government and housing activities. The individual performance of projects was not evaluated, rather, the impact and sustainability of contributions of all projects, collectively, was analyzed in the context of Poland’s achievements in accomplishing reforms. There was insufficient time allotted to this study to accomplish more detailed project evaluations. Specific projects are noted in the analysis to describe the history and accomplishments; their attainment of project objectives was not analyzed.

The Study Team
The team consisted of a team leader, Ken Kopstein, and a Polish counterpart, Pawel Swianiewicz.

**Methodology**

The study commenced on March 8, 2000, with initial research in the United States and was continued in Poland from March 18 through April 8, with report writing continuing into May 2000. To carry out this study, the team focused on USAID strategies and achievements, rather than individual project performance. The impact of externalities on local government and housing sector reforms, such as economic and political conditions, was essential to understanding the overall impact and sustainability of the USAID program, and are discussed in this study. The research consisted of: a) reviewing available project documents, including internal USAID documents, technical reports, final reports and evaluations, and b) extensive interviews, in the United States and Poland, with USAID officials, contractors and Polish private sector and public sector counterparts. Only selective project documents and information were available and, consequently, some projects were reviewed in more detail than other projects. Over 65 persons were interviewed and over 85 documents were reviewed. Extensive footnotes are incorporated to document the many sources of information.

Due to the diversity of activities undertaken by USAID, the study team did not prepare formal hypotheses and questionnaires for interview. Rather, a common series of questions were asked to most interviewees. The team sought to encourage a free exchange of information to elicit interviewee perceptions and assessments. In this manner, interviewees were not guided into responses, and instead, they could identify what they thought were USAID contributions and limitations and their impact on reforms. Many of the interviewees were senior level private and public sector officials and often spent more time with the team than they had originally allocated, demonstrating their willingness to fully consider the issues.

With 27 major projects and numerous short-term consultancies, the team was able to review only a selected number of USAID projects. However, the overall impact of the USAID program became evident through the document reviews and interviews.

**Appreciation**

The team wishes to express its appreciation to the many people and institutions that assisted in the study. We want to thank USAID/Warsaw and former USAID Mission staff; in particular, the team received excellent support from the project officer, Scott Dobberstein, and invaluable information and insights from other USAID staff, Bill Frej, Steve Horn, Michael Lee, Nina Majer, Kyzysztof Jaszczołt, Mikołaj Lepowski, Howard Handler and Rebecca Black. Consulting firms also provided valued assessments and information, such as PADCO, Inc., Cooperative Housing Foundation, ICMA and the Urban Institute. A true debt of gratitude is owed to Edward Kozlowski, President of the Cracow Real Estate Institute, and Tony Levitas, long-term resident and consultant in Poland, who both gave freely of insights, contacts and information.

**Organization of this Study**

This study is organized into five major sections and three annexes.
1. **Background**

The USAID local government and housing sector program in Poland was substantially linked to economic and political conditions in Poland. The study team believes it is necessary for any reader to understand the economic and political context in Poland affecting the performance and impact of USAID projects. This section provides a brief assessment of conditions in Poland affecting local government and housing.

2. **Highlights of USAID Accomplishments In Local Government and Housing In Poland**

This section summarizes USAID’s major accomplishments in local government and housing that contributed to Poland’s transition to democratic governance and a market-based economy.

3. **USAID Assistance Program In Local Government And Housing**

This section depicts the evolution and conduct of USAID’s strategy and activities in local government and housing. The section is divided into three sub-sections, defined by changing national political conditions that affected USAID’s program, a) 1990 – 1993, b) 1994 – 1997 and c) 1998 – 2000. These sub-sections are further divided into major topics, a) USAID Local Government Assistance, b) USAID Housing Sector Assistance and c) USAID NGO and Private Sector Development Assistance. (Note: in the beginning period, 1990 – 1993, housing sector assistance is presented first due to this activity receiving the most emphasis in the early years.)

4. **Lessons Learned**

The USAID program in Poland resulted in several major lessons learned, or confirmed, that are applicable to USAID assistance in other nations. These lessons learned are briefly described in this section.

5. **Conclusions**

This section provides the team’s overall conclusion on the impact of USAID’s program in local government and the housing sector in Poland.

6. **Annexes**

There are three annexes: a) List of Major USAID Projects In Local Government and Housing, b) Interviews, providing a list of persons interviewed and c) References, which lists the documents used in this study.
Communism’s influence in Central and Eastern Europe disintegrated in 1989 and Poland emerged as a democratic state desiring to institute market-based reforms. USAID undertook a massive and significant program of technical assistance to Poland during the 1990 through 2000 period. Today, Poland is one of the success stories of Central Europe and the Poles can be lauded for accomplishing many difficult tasks in transforming their political and economic structure. The USAID program made substantial contributions to this Polish transition. The transition is not complete and will take many more years to fully develop, however, the past ten years have been marked with much progress. The USAID program in Poland was broad-based. This study focuses on two major components of that broader program, USAID assistance to local government and the housing sector.

BACKGROUND

It is important to understand the context of Poland to appreciate how the USAID assistance program was conducted in this nation. Poland and the other nations of the former Soviet bloc of Central and Eastern European countries (CEE) have had long histories and traditions. These nations are categorized as “Second World” nations, with well-developed institutions and more advanced domestic capabilities than what is generally regarded as “Third World” or developing nations. USAID had extensive experience in Third World nations with assistance programs, however, Second World, Transition Economies, was a new experience for all multilateral and bilateral donor agencies. In other terms, Poland and the other CEE countries represented different challenges than had previously been addressed by USAID. Added to this learning curve was the political imperative mandated by the U.S. Congress to initiate a massive assistance program in a very short timeframe to strengthen the CEE countries in their transition to market based economies and democratic governance.

This all began in Poland in 1989 with the rapid dismantling of the former Communist regime and the institution of a new democratically elected reform government. The sudden transition was also a learning curve experience for Poles to adopt to new systems of governance. The new leadership could define in general terms what they wanted to accomplish, but the inexperience of new leadership, at both the national and local governmental levels, resulted in a lack of clarity over specific technical assistance needs. In terms of the structure of local government that existed immediately prior to 1990, the following decade can be characterized as a period during which Polish society has been striving to find the right balance between the centralized state that existed under the Communist regime and the degree and structure of decentralization that is still in transition. As evident in the USAID program, technical assistance evolved over time as both donor agencies and the Poles gained experience and could better define specific agendas. The following discussion focuses on conditions in Poland that impacted the USAID technical assistance agenda.

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2 The background discussion is drawn from several documents and interviews. In particular the interviews with Michal Kulesza and Anthony Levitas. The documents used are: a) “Effectiveness, Openness, Subsidiarity – A New
The Communist Era

The legacy of the Communist era left many residual problems in Polish society and significantly influenced the nature and form of reforms that were to follow. For that reason, it is beneficial to briefly describe the Communist era to comprehend many of the conditions affecting reforms in local government and housing.

1. Unitary Form of Government

After World War II, a Communist regime was installed in Poland. By 1948, the Communist system was fully operational. It established an extreme form of Unitary government, which meant that all decisions and finances were controlled by the Central Government. It was a hierarchical system, with all elements of government and the economy operating on direction, and under supervision, of the Central Government. There was little local decision-making. The economy, the major industries, the infrastructure, physical planning, social programs – in short, most aspects of local communities were controlled by Central Government. It was ideologically based, failing to marshal the resources of its citizens. The centralized economy was organized around major industries and settlements conformed to economic policies. There was little concern for the environment, as industrial development took precedence over many environmental concerns. What was determined by mainly market conditions in the U.S. was transformed into government programs, such as public utilities and housing, without regard for profitability or even cost recovery. This form of governance over the 40 years of Communist rule proved to be inefficient in meeting the needs of society and a series of political crises ensued over the years that increasingly called for reform. The rise of the Solidarity movement in the late 1980s provided further evidence that there was increasingly less political support for the Communist regime. Opposition was growing. The economy was unraveling. Beginning in the 1970s, Government increasingly financed its costs by borrowing and became highly indebted. It was this political disquietude and economic unsustainability of the Communist highly-centralized form of government that eventually led to its demise.

2. Local Government During the Communist Regime

Poland had a tradition of local government prior to World War II. The Communist regime eliminated local decision-making and transformed local officials into implementers of Central Government policy. The “chief architect” of post-transition local government reform in Poland, Jerzy Regulski, described the Communist structure: “The ideology-oriented state required an extremely centralized system of decision-making. Any institutional network was constructed as a hierarchical pyramid of bodies…with no place for local policies. Centrally set state policies did not consider local interests, needs and priorities.” There were regional governments, established, again, as implementers of Central Government policy. The Local Government Act of 1950 eliminated local self-government, allowing local officials to represent the interests of local areas,


but only in the context of implementing national policies and directives. Mayors were appointed by the Central Government; the councils were elected but from a slate of candidates proposed, or approved, by the Communist Party. There were attempts at decentralization in the 1980s, as even Government realized the ineffectiveness of the centralized system, however, “these limited reforms did not change the doctrinal base of the centralist, Communist state and did not change the dominance of the Communist party in the local decision-making system, so they could hardly result in more democratic or effective local government.”

The local political system was non-responsive to local citizens. Municipal employees were employees of the State. State-owned industries provided many of the services for employees formerly provided by local government. “The system… ignored links with the place of residence, neighborhood, and the city or village.”

3. Housing Under the Communist Regime

Under the Communist regime, housing became primarily a government program, supplanting market-based economic enterprise. The State, through State-owned industry and large cooperatives (also controlled by the State), became the provider of much of the housing. By 1989, the State controlled about 60% of the housing stock. Individuals continued to construct homes, but from their own resources. There was no commercial mortgage finance. By the end of the Communist era, about 40% of the housing stock was privately owned, however, much of the private ownership was in rural areas. The State produced 7 million apartment units in the post-war period up to 1989. Much of the housing built by the State was in urban areas and was characterized by poor construction quality and suffered from lack of maintenance. There were central heating plants that were inefficient. Utilities were controlled by the State and operated on a non-economic basis. Housing received deep subsidies and residents became accustomed to paying much less than cost recovery for housing, far less than market value. The Communist regime produced more housing units than what was built after the transition because of the substantial subsidies provided to the sector. However, the State’s production of housing was not sufficient to supply what was later to be perceived during the transition as a substantial housing deficit or “gap” in the nation.

The New System of Reform

In 1989, political pressures had forced the Communist regime to resign and a new, partially democratic-elected Government took power in September 1989. This had resulted from long, difficult grass-roots efforts emanating from the trade union movement led by Solidarity. Lech Walesa, the leader of Solidarity, was elected President in 1990 and the first completely democratic elections were held in 1991. The mandate for reform of the entire system of governance was thus established. The Communist regime left more than an unfortunate political legacy. The economy was in shambles. Inflation in 1988 was 66% and in 1989 reached 344%. The Government was deeply in debt, hyper-inflation continued (in 1990 inflation was 718%! and there were many difficult decisions to be made to effect transition to a market-based economy and democratic political system. Decisions made in 1990 were greatly influenced by the perceived need to “dismantle the apparatus of the old (Communist) regime.”

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4 Internal project research by Pawel Swianiewicz, March 2000.
5 “Building Democracy in Poland, op. cit., page 7.
Government decided not to undertake gradual reforms, but, instead, initiate “shock therapy”, i.e., institute major reforms immediately. There were three more years of recession in Poland’s economy, but inflation did begin to abate in 1991. Convinced that a rapid transformation to a market-based economy would eventually lead to improved economic conditions, the successive new Governments (there were several Governments formed between 1989 and 1993) persisted with radical reforms.

1. The Cooperation Form of Government

The new Government is a parliamentary system. From 1989 through 1993, there were numerous political parties (up to 29 parties represented in Parliament), who formed coalitions to assume power. Since 1993, there have been only five or six major parties, with a coalition usually requiring only two to form a Government. A President is separately elected. This parliamentary system results in periodic changes in Parliamentary political power and changes in Governments, even between elections. For example, one prominent official noted that in the early 1990s, she served under five different Ministers of Finance, resulting from shifting coalitions within the ruling Government. The structure of government is still evolving, with responsibilities between Central Government and local governments being re-defined over time. The World Bank noted in a 1992 Country Report that the relationship between a central government and local government in many nations evolves over decades and even centuries.

The system of government in Poland has been typified by key architects of local government as a “cooperation form” of government, which is designed to maintain a Unitary State, but with significant decentralization of major responsibilities to local government for public services and local financial decisions. This system maintains Central Government as the key resource mobilizer to finance local government and to assure “equalization” of resources available to local government. The new local government structure conforms with the European Union’s principle of “subsidiarity”, which incorporates decentralization and de-concentration as guiding principles. As Michal Kulesza, one of the most prominent leaders in creating the form and structure of local government in Poland, defined it, “local government is independent, but part of the Unitary State; it has been granted expenditure autonomy, not revenue autonomy.” By that he means that Central Government is the resource mobilizer and local governments the decision-maker on how those resources are expended. He also indicated that the two additional tiers of government, county (powiat) and regional (voivodship), as well as Central Government, were designed to compel local governments and Central Government to “cooperate” with one another, thus the term “cooperation” form of government. This philosophical framework influences how many decisions are made regarding the structure and powers of local government.

2. The Anti-Debt Culture and Emerging Bank Sector

One of the legacies of the Communist regime was the anti-debt culture that emerged during the early years of the transition. The Communist regime had amassed substantial debt. Local governments could not legally borrow before 1990 and were adverse to incurring debt as a result of the experience with Central Government’s debt problems. The general population had little experience with debt during the Communist era. Adverse macro-economic conditions (e.g., high

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8 Interview with Irena Herbst, Vice-President, BGK, March 30, 2000
10 Interview with Michal Kulesza, March 31, 2000.
inflation and high interest rates), the economic uncertainties of transition and low incomes combined to establish a reluctance for individuals to incur debt. The banking sector, too, was in transition from large State banks to diverse, but small-sized private sector institutions. They were institutionally unprepared in the early years of transition to lend to local government or to engage in housing lending. Furthermore, the State financed local government and subsidized housing so these markets did not early on appear to be important for banks. Macro-economic conditions were also unfavorable to lending to individuals for homeownership or to local governments. Local government also lacked the technical expertise to prepare creditworthiness analyses or applications to banks for financing. Over time, the banking sector matured, foreign banks were established or merged with domestic banks, macro-economic conditions improved and donors, such as USAID, helped prepare the banking sector for instituting modern lending procedures and analyses. With those advancements, banks have become more capable of understanding local government and housing sectors as business opportunities. USAID also funded substantial technical assistance to local government and to private housing developers to enable them to undertake more sophisticated borrowing from banks.

3. Local Government in the Transition

The imperative to “dismantle” the Communist regime led to rapid re-establishment of local government in Poland. Local government was viewed as essential for democratic institution building in the new government and to mobilize local human resources to effect economic and public service advancement. In 1990, re-establishing local government became a priority of the new Government to mark the transition and resulted in a Constitutional Amendment (March 8, 1990) recognizing local government, the Local Government Act of March 8, 1990, Local Government Elections Act of March 8, 1990 and local elections on May 27, 1990. Thus, within a three-month period the legal structure of local government was created and the first municipal elections occurred. Over 146,000 candidates campaigned for 52,000 local government elected seats in over 2,400 municipalities. Democracy in local government had arrived. However, there was very limited experience within the newly elected local political leadership in managing local government independent of central directives. This inexperience brought an enthusiasm for change, but little technical know-how on ways to accomplish new approaches toward municipal management. This inexperience impacted USAID and other donor assistance to local government. USAID sought to establish a technical assistance program that was “demand-driven”, that is defined by the local governments to be assisted, however, their not having experience with options, local officials were not in a position to clearly articulate the specifics of technical assistance. Thus, general areas of assistance could be defined, such as improving infrastructure and management, but it was incumbent on USAID to define the specific applications.

There are 2,489 municipalities in Poland, with an average size of 15,500 persons. There are only 20 municipalities above 200,000 population. The small size of most municipalities compounds the difficulties of increasing sophistication in governance and financing. The small size of municipalities is not unique to Poland. Many European nations have municipalities of similar average size, but, that fact does not remove the difficulties of instituting new approaches in myriad small communities. A second tier of local government, the powiat (analogous to U.S. counties) was introduced in 1998. There are 373 powiats in Poland, with 65 of these powiats being municipalities given powiat status. The average population of powiats is only 103,000 persons. There are 16 regional governments (provinces), called voivodships, that combine
elected representation and Central Government appointed leadership. Each level of local government has distinct responsibilities. All three levels are substantially dependent on Central Government transfers for revenues.

Local government receives most of its financial resources from Central Government transfers, such as a portion of Personal Income Tax (PIT), Corporate Income Tax (CIT), general grants and specific grants for designated public services. In 1991, Central Government transfers amounted to almost 55% of local government revenues. By 1998, it represented almost 67% of local government revenues. Local government own-revenues are derived from local taxes, such as property taxes and taxes on vehicles. The formulae for local government taxation was determined by Central Government during much of the 1990s. Housing rents from communal housing and service fees charged by local government were similarly controlled by Central Government in the early 1990s. Over the 10 years since transition began, more flexibility in local government revenues is beginning to emerge. Housing rents are now established by local government and there is a move to change the property tax system from a tax based on land area to an ad valorem tax based on property values. In the early years of reform, the de-control of local revenues was resisted because of the philosophical base of the “cooperation” form of government.

Local government was given many significant responsibilities under reform. For purposes of this study, it should be noted that these responsibilities included financial management, land use planning, infrastructure planning and development (e.g., water, wastewater and solid waste), utilities (e.g., central heating plants) and communal (State) housing management, development and rehabilitation. State housing was transferred to local government. Economic development is a shared responsibility between municipalities and regional governments. These responsibilities largely framed USAID’s program of technical assistance. The poor condition, or non-existence, of proper infrastructure was a major concern of both local and Central governments. There was a severe lack of proper water, wastewater and solid waste treatment facilities. The lack of serviced land prevented more extensive housing development. Central Government established National and Regional Environmental Funds to finance infrastructure improvements, but local government often lacked the technical expertise to properly plan projects.

The Communist system also left a legacy of inefficient management practices, exacerbated by a financial management and budget reporting system that did not allow effective understanding of expenditures for particular service areas. These systems made it difficult for local officials to set agendas for capital expenditures and service planning. The Central Government still defined the local budgeting system and, with all the other issues to confront, reform of local government financial management did not receive priority. This resulted in a perpetuation of inefficient and cumbersome local government financial management systems.

In 1998, with the return to power of a post-Solidarity Government, a new round of devolution of public services proceeded, in particular new responsibilities for education. The result was more strain on local government budgets, even with an increasing level of Central Government transfers.

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11 Effectiveness, Openness, Subsidiarity – A New Poland For New Challenges, op. cit., page 68 and internal project research by Pawel Swianiewicz, March 2000.
12 Interview with Michal Kulesza, March 31, 2000.
Local government has enjoyed popular support and has been touted as receiving the highest level of public approval rating amongst all government institutions in Poland. According to surveys, local government approval ratings have improved over the past 10 years, rising from under 50% in 1992 to almost 60% in 2000.\(^\text{13}\)

4. Housing in the Transition

Housing had become a government program receiving deep subsidies during the Communist era. This legacy had major impacts on the transition. The legal structure for a market-based housing system was not in place, such as the difficulty of recording property transfers, the lack of legal capacity to evict non-paying tenants or homeowners defaulting on mortgages and a Statutory Lien law, which placed the rights of the State ahead of lenders. It also impacted on the Central Government transferring to local government responsibility for rent increases on municipality-owned communal housing and on local government’s willingness to increase rents even when authority was finally devolved. Communal housing was heavily subsidized, but as it was a relatively minor percentage of local government’s budgets, there was not the political imperative to incur the wrath of voters. As a percentage of local government budgets, it averaged only 5.6% in 1991. With rent reform and increased expenditures for education, this decreased by 1998 to averaging only 2.9% of local government budgets.\(^\text{14}\) State-owned and former State-owned enterprises were left with housing that became a liability, as they were also constrained from raising rents by Central Government policy.

There was a perception throughout Poland that there was substantial demand for additional housing, which was estimated at a need for 1.5 million new housing units.\(^\text{15}\) This perception of a substantial housing deficit formed the basic Government policy toward housing. There were also strong beliefs that the new Government had to dismantle the old regime and establish a market-based economy as fast as possible, i.e., the “shock therapy” approach, which translated into a request to the World Bank to provide a substantial loan to establish a market-based housing finance system.\(^\text{16}\) Government devoted attention to new construction, rather than rectifying the substantial deferred maintenance in the existing housing stock or removing subsidies on the existing communal housing. The heavy subsidies provided by the State and the lack of awareness of “effective demand” (that is the ability of the population to afford new housing) was not well-understood because the State had built and subsidized so much of the housing stock during the Communist regime.

Government provided significant tax incentives to encourage individuals and the private sector to build new housing. However, while Government focused on providing new tax incentives and market-rate housing mortgage finance and promoting private sector development, it continued to allow former systemic problems, adverse to establishing a market-based housing system, to exist. Thus, a dichotomy emerged between Government’s lack of focus on removing impediments and its policy agenda to establish such a market-based housing system. Impediments to a market-based housing system included: a) rent reform to bring existing communal housing to market rents (which would have made new construction more appealing to those households able to

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\(^{13}\) Internal project research by Pawel Swianiewicz, March 2000
\(^{14}\) Internal project research by Pawel Swianiewicz, March 2000.
\(^{15}\) (U) Report 1993
\(^{16}\) Interview with Wladyslaw Jan Brzeski, Advisor to the Minister of Finance for Real Estate Reforms, March 29, 2000.
afford purchase), b) removing State mortgage subsidies (available to only a relatively few households) which impeded private bank mortgage finance and continued until 1996, c) resolving legal impediments to mortgage lending, and d) facilitating local government serviced land development.

The Communist regime had produced over 7 million new housing units, with an annual production in the 1970s of over 280,000 units per year. In the early years of the transition until 1992, the State continued to subsidize the large cooperatives to build housing and production continued by cooperatives and individual households, but at lower levels; recorded completed housing units were 134,000 units in 1990 and 129,000 units in 1991. The housing construction subsidies were introduced to soften the impact of the “shock therapy” designed to dismantle the Communist legacy and rapidly transform the economy. With the reduction in subsidies to cooperatives in 1992, housing production began to decline sharply, with 94,000 units recorded as completed in 1993, 76,000 completed in 1994, 67,000 completed in 1995 and 62,000 completed in 1996. Individual household tax subsidies were introduced in 1992 and were significantly increased in 1997, which spurred a gradual increase in recorded housing completions to almost 73,000 units in 1997 and 80,000 units completed in 1998. Housing completions, however, did not relate the full picture. Housing in production (uncompleted units) was much higher than housing completions, estimated at 400,000 housing units in 1994 and over 600,000 units in production by 1999. The reason for units remaining uncompleted has been ascribed to the structure of income tax benefits provided to home construction. With the number of housing units in production, but not recorded as completed, the “housing gap” may have been over-estimated by policy makers, however, the perception of a substantial demand for housing pervaded housing policy in the 1990s. A key difference was that new construction had been transferred largely to the private sector in the transition, which gradually became the dominant producer. The lack of serviced land to build new housing, the lack of extensive mortgage financing (and purchaser resistance toward debt) and the lack of experience in developer functioning, further constrained private sector development.

Macro-economic conditions during the 1990s were not conducive for households to finance new housing through mortgages, even if there had been a more favorable attitude toward debt. Mortgage interest rates have remained high during the 1990s, reducing gradually to nearly 17% by 1999, but very high relative to Western Europe and the U.S. High interest rates, combined with increases in construction costs, still leaves new housing unaffordable to the vast majority of Polish households. In the early to mid-1990s, private banks were also unprepared to provide significant mortgage finance for a number of reasons, including: a) adverse macro-economic conditions, b) lack of long-term financing to fund mortgages (available funds were derived from short-term deposits), c) lack of experience with a modern mortgage system, d) legal impediments (such as the ability to evict and difficult property transfer procedures) and e) most significantly, continued subsidies through the State bank for mortgages until 1996. The State bank, PKO BP still is the major housing mortgage lender in Poland (even without subsidies), but it’s dominance

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17 The Transition In Housing Finance In Central Europe And Russia: 1989-1999, Urban Institute, Douglas Diamond, pages 87 and 89.
18 The Transition In Housing Finance In Central Europe And Russia: 1989-1999, op.,cit., page 91
is reducing as private banks assume ever increasing mortgage production levels. PKO BP’s market share was reduced to 55% by 2000, from nearly 100% in the early 1990s\textsuperscript{20}.

By 1998, housing mortgage finance had gained acceptance and a market emerged in the banking sector. The other impediments to housing construction were also beginning to be addressed, but are not yet fully resolved. Rent reform is becoming a priority. The private sector has gained significant experience as developer. If macro-economic conditions continue to stabilize or improve and Government continues its housing sector reforms, this portends well for expanding housing development and rehabilitation of the existing stock.

5. Institutionalization of Associations

Given the beginnings of the Solidarity government in the trade union movement, there was receptivity toward including associations in the governmental process. The transition period included emphasis on formation of associations and foundations to represent particular groups. By 1998 it was estimated that there were 5,000 foundations and some 21,000 associations in Poland\textsuperscript{21} and another observer indicated that this number is presently around 30,000.\textsuperscript{22} Jerzy Regulski, the chief architect of local government reform, noted that municipalities established and joined many diverse associations, including associations based on municipality size, functions and regional affiliations. He further indicated that reformers had considered a law making it compulsory to join a municipal union, but this was abandoned in favor of independent associations. Six major local government associations are recognized by Government and are included in policy formulation.\textsuperscript{23} So, too, with the housing sector. When representative associations emerged, they were accorded access to Government policy makers through standing committees.\textsuperscript{24} Associations are an accepted institutional structure to incorporate special interests in policy-making in Poland. USAID recognized the opportunity for associations to perform a major role and its assistance strategy incorporated support for strengthening and forming associations to represent local government and the real estate sector.

The U.S. Government Response to Local Government and Housing Transition

The sudden collapse of the Soviet bloc left the Western governments little time to prepare to assist CEE countries with their transition from Communism to a market-based economy and democracy. The Solidarity Government took power in Poland in September 1989. The U.S. Congress enacted the Support for Eastern European Democracy (SEED) Act in November 1989 and authorized $1 billion for CEE assistance. USAID, as the U.S. foreign aid agency, was given significant responsibilities to implement an assistance program immediately, in conjunction with the Department of State. There were an estimated 9 million Americans who identified their heritage as being Polish.\textsuperscript{25} This was a complex political as well as assistance effort.

Local government and housing were only two program areas for USAID. There were a number of initiatives in other sectors as well, e.g., privatization of State-owned industries, capital markets

\textsuperscript{20} Michael Lee, USAID Senior Advisor, via comments on the study, May 24, 2000, based on PKO BP’s own estimates of market share.

\textsuperscript{21} Collision and Collusion, op. cit., page 109.

\textsuperscript{22} Interview with Nina Majer, Senior Project Specialist, USAID/Warsaw, March 31, 2000.

\textsuperscript{23} Building Democracy in Poland, The State Reform of 1998, op. cit., page 15

\textsuperscript{24} Interview with Slawomir Najnigier, April 3, 2000.

\textsuperscript{25} Collision and Collusion, op. cit., page 23.
development and small business development assistance. USAID established a unit in Washington to define an assistance strategy and initiate a program. A centrally-funded project was established in 1990, the Central and Eastern Europe Program Development Project, that enabled USAID to quickly field a team of consultants to CEE countries to assess assistance requirements and strategies in local government and housing. As part of the effort to assist in the transition of local government, the team visited local governments and Government officials in Poland to identify their priorities. The strategy was to define an assistance program that was “demand-driven”, that is to respond to the Poles perceived needs for assistance. Broad areas of local government assistance, such as infrastructure development and public administration, were identified by the USAID assessment missions. The inexperience of local government officials in Poland (the first elections were just held in May 1990) led to the establishment of pilot projects to both demonstrate new techniques and to learn ways that U.S. assistance could evolve over time to be more effective. In 1991, specific counterpart local governments were identified and pilot projects defined.

In the housing sector, the World Bank was responding in 1990 to a request from the then (and current) Minister of Finance to promote a market-based housing finance system. A $200 million sector loan was negotiated from the World Bank (officially signed in December 1992), and was to be matched by Government of Poland (GOP) funds, to establish a Mortgage Fund with $ 400 million in financing. The European Bank for Reconstruction and Development (EBRD), in December 1992, participated in the Mortgage Fund, replacing some of the GOP share of the funding. USAID identified an opportunity to leverage its assistance funds for the housing sector by supporting the World Bank/GOP Mortgage Fund. The World Bank does not usually include large-scale technical assistance grants to a sector and the USAID program could then make a significant contribution in augmenting the Mortgage Fund with technical assistance in policy and sector development. Thus, the USAID housing sector strategy was defined by this major initiative. As with local government, USAID fielded consultants to identify policy issues to be addressed in the housing sector and banking/real estate/local government counterparts to assist with initiating a housing finance and development industry.

In November 1991, the Regional Housing and Urban Development Office (RHUDO) was first staffed in USAID/Warsaw. By 1992, USAID had organized local government and housing technical assistance projects and competitively bid them for implementation. A Housing Guarantee loan was negotiated for $ 25 million to be added to the Mortgage Fund in 1992. Many of the projects were regional in scope, thus consultants were simultaneously initiating projects in Poland and other CEE countries, such as Hungary, the Czech Republic and Slovakia. There was a mandate to get consultants into the field and rapidly begin technical assistance. There were multiple projects, multiple consultants and intense pressure to produce results for Congress. There were so many short-term consultants (from the U.S. and other nations) that a special term was applied to them; they were referred to as the Marriott Brigade, stemming from the many consultants who stayed at the Marriott Hotel in Warsaw. Numerous consultants came from Western Europe (e.g., Britain, Germany, France and Sweden) and other nations, such as Canada, in addition to consultants from the U.S. In addition to the many bilateral donor assistance efforts, there were assistance programs under multilateral institutions, such as the World Bank, United Nations and the European Union. The multiple efforts were, at times, more assistance than the Polish counterparts could absorb and, even with many successes, some assistance was less than optimally effective.
USAID technical assistance became more effective over time as the learning curve was overcome. Local government and housing sector techniques at first mirrored applications in the U.S., but over time were adapted in the course of pilot programs to be more consistent with Polish systems and requirements. A key example was the changing advice in housing policy. In the early 1990s, GOP officials emphasized the critical “housing gap” that required 1.5 million new housing units to satisfy. This resulted in the World Bank and USAID supporting the Mortgage Fund as the major housing initiative. Thus, USAID assistance focused on this perceived housing gap in the early years and approaches to increasing production based on market forces without Government subsidy. Over time, USAID analysis revealed that the housing gap was not as valid as previously assumed and macro-economic conditions were not favorable for housing finance. In the mid-1990s, USAID projects subsequently introduced more sophisticated analyses on effective demand, rehabilitation of the existing housing stock and an appropriate role for Government subsidies to promote housing production. The change in USAID assistance strategy also contributed to improved understanding by Polish officials of what a housing market was and ways to better assist the sector to achieve public objectives. The extensive USAID analyses, reports and conferences gained wide dissemination and demonstrated that a more balanced housing strategy was appropriate.

By the end of 1999, the writer could identify 27 major USAID projects that impacted on local government and housing sectors in Poland. Not all USAID projects affecting these sectors were administered by the RHUDO. In particular, non-RHUDO projects related to the banking sector and capital markets were to have benefits for municipal and housing finance. The contracts were often conducted by consortia, which means that there were prime contractors with a number of sub-contractors in the major projects. What was particularly important was the fact that many individual consultants, both long-term and short-term consultants, worked in these sectors for many years; often on different projects and some with different firms. The importance of this long-term involvement must be underscored. By having this consistency in technical assistance, trust and confidence were built up with Polish counterparts and made the technical assistance over time more effective. This was confirmed during interviews conducted for this report. For example, one official in the Ministry of Finance gave an extensive description of how much they appreciated the contribution of one long-term consultant assigned to their Department of Local Government Finance.26 There were a number of U.S. consultants who remained in Poland at the termination of their USAID contract work and continued to add to the professional capabilities of the nation by forming private firms or assisting other donors with projects. Martha Sickles-Grabowska is an example of a professional who worked in New York City in cooperative housing development, joined the Peace Corps and was assigned to assist the City of Gdynia in Poland with housing, continued her contribution after the Peace Corps under the PADCO project and, on conclusion of that project, formed a Polish company which is operative today, URBECON Sp. z.o.o., to provide technical assistance to municipalities on housing strategies.27

USAID assistance was conducted using several very effective techniques in addition to long-term and short-term advisors, such as:

a. conducting extensive pilot projects to demonstrate recommended practices and techniques with real world applications, not merely studies and reports;

26 Interview with Jerzy Kurowski, Vice-Manager of the Department of Local Government Finance in the Ministry of Finance, April 6, 2000.
27 Interview with Martha Sickles-Grabowska, April 7, 2000.
b. local and regional conferences (which were praised by a number of interviewees for both the content and the opportunity to exchange information with other officials/practitioners);  

c. study tours to the U.S. and other European countries were carefully focused and intensive (particularly the U.S. study tours were cited by interviewees as gaining insight into how consultant recommendations were actually conducted in U.S. practice and building on-going relationships with U.S. organizations);  

d. local capacity building through training trainers, local consultants, universities and technical institutes to carry on practices introduced by USAID; this included giving ever-increasing responsibilities to Polish professionals working on USAID projects for providing technical assistance;  

e. extensive information dissemination on USAID-introduced concepts, practices and techniques through the media, publishing manuals and reports, NGOs and the Internet; USAID placed considerable emphasis on quality control of information resources, e.g., assuring that the facts related to Poland were accurate, presentations were effective and that documents were translated into correct and fluent Polish editions;  

f. translating many technical materials into Polish, which greatly enhanced information dissemination, e.g., the Urban Institute Consortium Web site has Web pages in both Polish and English, including translations of major reports; and  

g. using comparative analyses from other nations than the U.S., and using multi-national consultants, to expose Polish counterparts to options they may draw from several different nations (which they did).  

Institutionalizing local technical capability to sustain initiatives begun by USAID was a key strategy. Most projects emphasized building local capacity through giving increasing responsibility for technical assistance to Polish professionals on staff, the creation, or expansion, of local consulting and trade association capacity and introducing curricula into university, technical school and NGO training programs in housing, local government public administration and banking. For example, the Cooperative Housing Foundation project formed a Polish foundation that evolved into the administrators of the USAID project and became an independent entity at the conclusion of the project to carry-on activities begun with USAID assistance. The Democracy Network Project accomplished a similar structure, creating a local foundation to provide grants for promoting citizen involvement and which is now supported by private foundations after conclusion of the USAID project. Several consulting firms emerged directly from professionals working on USAID projects. A number of universities, technical institutes and associations are conducting courses/certification programs on a self-sustaining basis deriving from USAID-introduced techniques and practices.

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28 For example, interview with Olgierd Dziekonski, Vice-Mayor of Warsaw and former President of the Municipal Development Authority, April 5, 2000.
USAID was the primary U.S. Government assistance agency, but there were others. The Peace Corps fielded a group of volunteers, a number working in local government and housing. In a somewhat unique process, USAID consultants and the Peace Corps worked together in many ways, with USAID consultants even providing training to volunteers.\(^29\) There were an estimated 35 U.S. Government agencies involved with assistance programs; e.g., the Department of Labor entered into a joint initiative that resulted in the formation of the Construction Training Center in Warsaw and the Treasury Department provided assistance to the Government on regulating the financial sector.\(^30\) USAID’s housing team also worked in conjunction with the U.S. Commercial Service by providing information and advice to U.S. business teams visiting Poland. The U.S. Government’s technical assistance response in Poland was massive in comparison to the usual assistance programs to Third World nations.

**HIGHLIGHTS OF USAID ACCOMPLISHMENTS IN LOCAL GOVERNMENT AND HOUSING IN POLAND**

**Overall Assessment**

Transition of a socialist system to a market-based economy and democratic state is a long-term, complex process. There was no precedent for assisting in such a radical transition of so many nations, such as those countries in the CEE, in such a short period of time. There was a learning curve for Polish Central and local government officials, for the private sector in Poland and for USAID. Over time, Polish counterparts became more experienced to better utilize USAID technical assistance and U.S. consultants learned to be more effective in tailoring assistance to fit the circumstances and traditions of Poland. There were some USAID projects that had a high degree of success. There were some USAID projects that were more effective than others. There were some elements of projects that did not fully meet objectives. However, the totality of USAID assistance proved valuable in supporting the Poles with effecting change. The Polish people, and their Central and local governments, have earned the credit for the success of Poland in transforming their nation. However, by 2000, it became evident that the nearly 10-year USAID effort in local government and housing made significant contributions in assisting the Poles with formulating and implementing their reforms.

**Central Government Policy Formulation Assistance**

USAID assistance contributed to GOP policy development and understanding of options for reform in local government and housing. In the last four years, in particular, USAID advisors had significant influence in policy development. For example, the President of the State Office For Housing and Urban Development, the primary Government agency designated for housing and urban development policy, described the valued role of U.S. consultants in that agency’s formulation of the new “State Housing Policy in Poland for Years 1999 – 2003”. He went through the summary document and pointed out the many areas where U.S. consultants had direct input into the policies proposed and discussed proposed legislation that would result from this policy. He then went to his office and produced a stack of over 20 USAID reports that were used in this process. He particularly appreciated the USAID consultants providing examples from other nations than the U.S., so policy-makers could select the best options for Poland. He

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29 Planning and Development Collaborative International (PADCO, Inc.) project descriptions.
noted that local government, real estate and bank associations assisted by USAID were integrated into the policy formulation process as part of standing committees and had a direct influence on policy considerations. Further, he produced a copy of proposed local government standards for the water supply, indicating that the proposed Act on Water Supply (now before Parliament) would not have been possible without USAID assistance. Once the Act is passed, the USAID-prepared standards and regulations will be promulgated as an Executive Order. Ministry of Finance and Central Bank of Poland officials during interviews indicated similar contributions from USAID consultants. One senior official at the Ministry of Finance encapsulated USAID’s contribution as “Assistance from USAID in the area of housing finance as seen at the Ministry of Finance has been...strongly effective...The lasting contribution can not always be measured by real tangible effects of number of built homes. To me the more important strategic impact is the change of minds both in terms of technical skills and in the area of political will and encouragement.”

Local Government Assistance

The substantial USAID technical assistance efforts to local government had significant impact in changing the perceptions of local government officials about improving local government financial administration, urban revitalization, infrastructure and housing project planning, rent reform, housing allowances administration, economic development and debt financing. Local government officials were inexperienced after the transition to local control and USAID was in the position to introduce new techniques and practices to improve local governance. The extensive USAID pilot project strategy exposed numerous local governments to more sophisticated planning, management and financing techniques (not only in the pilot municipalities, but in many additional municipalities which learned of these techniques) and the conferences, training programs and manuals produced by USAID projects achieved wide dissemination throughout Poland. Many local government techniques have been institutionalized in universities, technical schools and local consulting firms for continued application after termination of the USAID assistance program in Poland. USAID can be recognized for major contributions in developing the municipal credit market and introducing local government to debt financing.

In 1996, the City of Lublin received an award for Excellence in Improving the Living Environment at the United Nations Habitat II conference. It was one of only twelve such initiatives worldwide to receive such recognition. The award was for the municipality’s community planning process and establishment of a city / neighborhood partnership in revitalizing blighted areas of the city; the revitalization process was significantly assisted by Harvard University under the USAID PADCO project.

Housing Sector Assistance

In 1990, there was little concept of the role of a developer in housing production, as the State (through State-owned industry and cooperatives) had been the main producer of non-owner

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31 Interview with Slawomir Najnigier, President, State Office for Housing and Urban Development, April 3, 2000.
occupied housing during the Communist era. There was not even a term in Polish which described this function. Now the Poles use the English term “developer” as part of the Polish language.  

In 1992, USAID consultants conducted a conference that first introduced the concept of developer versus builder and defined the role of a developer in a market economy; this conference had significant effect in expanding understanding of the developer role in real estate production. USAID had several major projects assisting the real estate industry to promote development capacity and assisted in the formation of professional associations to represent the industry. These efforts resulted in, for example, the real estate appraisal industry being significantly influenced by USAID, with current practices based on Anglo-American standards and techniques.

USAID assistance greatly influenced the institutionalizing of a market-based, competitive housing / real estate finance system and assisted the banking sector to institutionalize a modern lending system. USAID technical assistance, under both housing and banking sectors assistance projects, resulted in banks adopting generally-accepted standards for construction and home mortgage loan origination; this transformed the banking sector’s mortgage lending industry into a modern system. There was virtually no experience with construction lending in Poland and USAID is credited with introducing construction lending methodologies. One banker, who has experience with two major mortgage lenders, indicated that these banks have based their mortgage lending procedures mainly on USAID manuals. He also stated that USAID was the only partner in Poland that promoted development of the housing sector and without USAID technical advisory services, there would not be such an advanced private mortgage system. The establishment of the Polish-American Mortgage Bank (PAMBank) in Poland was accomplished through USAID funding to the Polish-American Enterprise Fund; PAMBank, introducing market-based mortgage lending in 1993, was one of the forerunners of private sector bank mortgage lending in Poland.

One of USAID’s most significant contributions was to assist with Government policy formulation on housing, as described above in assistance to Central Government policy formulation. The same U.S. consultants also introduced housing market analysis to Poland, which expanded the perceptions of Poles on understanding market forces as they relate to housing. In addition, USAID introduced a process to prepare housing strategies in local government, which demonstrated how a coordinated approach to housing could be beneficial in resolving local housing needs.

In 1994, USAID’s housing sector program was officially commended by the GOP with the RHUDO director receiving a Polish State honor for services to housing. In 1998, the Cooperative Housing Foundation’s local housing agency development program in Poland was

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34 Interview with Marek Dabrowski, former President of the Housing Development Company (a USAID funded organization founded by PAMBank), April 5, 2000.
36 Interview with Andrzej Rudka, President, Polish Federation of Valuers, March 29, 2000.
37 Interview with Jacek Laszek, Advisor to the President of Bank Slaski and former head of mortgage lending at BISE Bank, March 23, 2000.
recognized by receiving the Dubai International Award for Best Practices presented by the United Nations and was included in the UNCHS database for best practices in development.40

Banking Sector and Capital Markets Assistance

USAID provided long-term assistance to the banking sector and in promotion of domestic capital markets. The banking sector assistance promoted a modern regulatory framework in the National Bank of Poland (NBP) that has instilled greater public confidence in the sector. Public confidence in the banking sector has resulted in rapidly escalating deposits, which currently provides the funding for both housing mortgages and municipal debt. The NBP’s regulatory system is viewed as a model for the region, with NBP receiving requests for technical assistance from other CEE and Newly Independent States in the region.41 As described above, USAID assistance to the banking sector has promoted a modern, competitive housing mortgage industry. Capital markets assistance promoted both equity and debt markets, with the promotion of debt markets including expansion of municipal debt. With USAID assistance, a credit rating agency, the Central European Credit Rating Agency, was established and strengthened; USAID assisted this agency to provide credit rating services for municipal debt. With USAID assistance, the first public offering of a municipal bond was issued. USAID assistance is now working on revisions to the Bond Law, which would permit municipalities and public corporations to issue revenue bonds.

NGO and Private Sector Development to Promote Local Government and Housing Sector Reforms

USAID assistance significantly strengthened the NGO sector to provide more effective associations representing local government, the banking sector and the real estate sector. USAID assisted four associations representing local government, providing them with assistance to build institutional capacity to represent local government interests with Central Government, introducing member education programs to promote better practices and assisted in establishing a local government information system that periodically gathers data on selected local governments for comparative analysis by local governments and to provide information for legislative / policy initiatives. The four local government associations that were assisted were: a) Association of Polish Cities (APC), b) Association of Rural Gminas (ARG), c) Union of Metropolitan Cities (UMC), and d) Union of Polish Towns (UPT).

USAID assistance to the Polish Banks Association (PBA) has resulted in the formation of its Housing Finance Committee to address banking sector interests and has institutionalized a number of training programs for the banking sector. Through USAID assistance, the PBA has established continuing relationships with U.S. associations and institutions, such as the U.S. Mortgage Bankers Association and the national and New York bank clearinghouses. Other USAID assisted associations also maintain on-going relationships with U.S. associations, such as the National Association of Realtors. A Polish Chapter of the Institute for Real Estate Management Certified Property Managers was established, with a Polish-led certification program continuing to give training to property managers on a self-sustaining basis. In the real estate sector, USAID assistance was particularly effective in forming new associations to

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41 Interview with three officials of the General Inspectorate of Banking Supervision in the NBP, April 6, 2000.
represent broad-based interests in the sector. Under USAID assistance, four new real estate associations were formed and have become self-sustaining: the Polish Association of Home Builders, the Polish Real Estate Federation, the Polish Federation of Valuers and the Association of Polish Property Managers. The real estate-related associations have also introduced professional standards that serve as a model for ethics in Poland.42

USAID assistance has institutionalized training programs in NGO training institutes, universities and technical schools that will continue to promote practices, techniques and concepts originated under the USAID program in Poland. Three banking institutes have curricula in mortgage finance and a number of universities have public administration curricula offering USAID introduced techniques and concepts. The Foundation for the Development of Local Democracies, an NGO with regional training institutes for local government throughout Poland, has two regional training centers offering programs based on USAID local government pilot programs.

USAID projects promoted local capacity building so that the Poles could carry-on with the techniques and concepts introduced by USAID. A substantial number of private consulting firms were established, or strengthened, to provide continuing technical assistance to local governments and the housing sector. LEM S.C. is an excellent example. It is a consulting firm that was established under the USAID Local Environmental Management (LEM) project and which adopted the name of the project as the firm’s name. LEM S.C. now provides continuing consulting expertise to local governments throughout Poland on water/sewerage/solid waste infrastructure development and has expanded its services to provide regional assistance to CEE countries.43

USAID assistance will be continued by Polish consulting firms and NGOs long after the formal USAID program in Poland terminates. The USAID-funded Polish-American-Ukraine Cooperation Initiative will utilize the expertise gained by Polish professionals, government agencies and NGOs to assist the Ukraine with its development programs. The Polish-American Freedom Foundation is an outgrowth of the USAID-funded Polish-American Enterprise Fund and will be endowed with an estimated $ 180 million from profits earned by the Enterprise Fund to continue to promote civil society in Poland (after returning $120 million to the U.S. Government provided by USAID for its initial capitalization).44

Introducing Greater Citizen Participation

USAID incorporated citizen participation in many of its projects and supported NGOs to increase citizen public policy advocacy. The Polish system had not evolved traditions of citizen participation. A number of local governments participating in USAID projects indicated that USAID’s introduction of citizen participation had been a very positive experience and they intend to continue this practice in the future beyond USAID’s involvement, e.g., the Economic Development Committee in Nowa Deba is planning to form itself into an association to continue its activities and in Trzcianka it was stated that NGOs have moved from being non-active and dysfunctional to meeting and cooperating with municipal authorities. Other municipalities report less success in this area, which indicates that USAID citizen participation activities have

42 Interview with Martha Sickles-Grabowska, President, URBECON Sp. zo.o., April 7, 2000.
introduced a process that will take many years of support to become widespread.[^45] Under the Democracy Network Project a number of NGO advocacy organizations were assisted to promote public interests, e.g., 60 environmental groups were assisted, 22 local groups were assisted to work on resolving development issues and the Academy for the Development of Philanthropy was established to carry-on assistance to NGOs after the USAID project.[^46]

**Coordination with Other Donors**

USAID coordinated its assistance program in Poland with other donor agencies to a greater extent than in many assisted countries. USAID’s support of the World Bank initiated Mortgage Fund was the mainstay of USAID’s early assistance efforts to the housing sector. USAID also coordinated many activities with the European Bank for Reconstruction and Development (EBRD) and the British Know How Fund (BKHF). For example, in designing an assistance program to the National Bank of the Economy (BGK) on initiating a loan program to assist in the development of non-profit affordable rental housing (known as TBS in Poland), USAID and the BKHF determined to divide up assistance responsibilities, with USAID assisting local governments and the private sector on development and the BKHF assisting the BGK with program administration.[^47] USAID and BKHF also collaborated on the local government associations’ development of a municipal survey/information system.[^48] Another example occurred in 1993 when USAID, EBRD and the World Bank collaborated with the Council of Ministers (analogous to the U.S. Cabinet), the Ministry of Finance and the Ministry of Spatial Economy and Construction (MOSEC) to design a program to promote institutional development and technical assistance to municipalities on municipal credit, resulting in the Municipal Credit Program and formation of the Municipal Development Authority.[^49]

USAID also provided assistance to the Cooperation Fund, a State agency supported by the European Union, that expanded the agency’s ability to transfer knowledge gained under donor programs to a broad number of municipalities. USAID policy is to coordinate its program with other donors and, in Poland, this policy was successfully applied.

**USAID Assistance Program in Local Government and Housing**

This history of the USAID assistance program in local government and housing has been divided into three periods, representing changes in ruling government coalitions. The period 1989 – 1993 was governed by the Solidarity coalition. The period 1994 – 1997 was governed by a post-Communist coalition. And finally, the period 1998 – 2000 is represented by the return to power of a post-Solidarity government. The political situation marked distinct changes in the USAID program and are, thereby, good dividing points to discuss the history of program. Even though USAID altered its activities over the decade (as different opportunities arose to work with new partners and as funding availability and Government interests evolved over time), the basic assistance objectives and strategies did not change significantly during this period.

[^45]: Internal research for this project by William Rich.
[^49]: USAID’s Role in Assisting in the Financing of Municipal Infrastructure in Central and Eastern Europe (draft), Urban Institute, March 1996, page 12.
USAID Assistance Program - 1990 Through 1993

With the SEED Act enacted by the U.S. Congress in November 1989, USAID was thrust into implementing a massive assistance program in Poland, as one of several countries in the CEE region to be assisted in their transition to democracy and market-based economies. The USAID strategy during this period focused on initiating a program that was demand-driven, i.e., responded to the needs expressed by Central and local government officials for assistance.

1. Background


b. Solidarity Government adopted policy of “shock therapy” to rapidly dismantle the Communist state and introduced extensive reforms to the economy and to local government. This resulted in dramatic changes to the economy and society. The guiding principle of rapid change had significant implications for the donor programs, e.g., 1) in housing, the imperative to establish a market-based housing finance system concentrated attention on establishing a commercial housing mortgage market, and 2) for local government, the sudden transformation of local government to local control led to multiple needs to support inexperienced local officials.

c. Macro-economic conditions were extremely adverse, exacerbating uncertainty amongst the population and economic hardship. These adverse economic conditions rendered market-rate mortgage lending unattractive for households and would undermine early attempts by the World Bank and USAID to establish a viable Mortgage Fund. Beginning in 1988, negative GDP growth started to occur and continued under the Solidarity government, -7% in 1991, -5% in 1992 and -1.5% in 1993. Real wages also declined substantially during this period, -24% in 1990, -1% in 1991, -3% in 1992 and -3% in 1993. Inflation in 1990 was 718%. Although moderating thereafter, inflation remained high in the 1991-1993 period, 71% in 1991, 42% in 1992 and 35% in 1993. 50

d. Added to the difficult economic environment was an anti-debt culture in Poland. Households and municipalities were not only unaccustomed to borrowing under the Communist system, but the legacy of debt left by that regime made debt financing unappealing.

e. Rapid transformation of local government to local control did not allow time for local officials to prepare for new leadership roles. On March 8, 1990, a Constitutional Amendment was adopted recognizing local self-government and, on the same day, the Local Government Act and the Local Government Elections Act were adopted. Local elections occurred on May 27, 1990. Over a period of just three months, local self-government was established in law and local elections took place. 2,489 local governments were established, most being very small in population and lacking professional resources to undertake their new responsibilities. The old Communist system did not provide a good local administrative framework for efficient planning.

50 Internal project research by Pawel Swianiewicz, March 2000.
and management, as it was an extension of the Central Government and not locally-based. The rush to establish local government was recognized as leaving significant gaps and reforms continued to be planned over the 1991-1993 period, e.g., there were plans to establish a third tier of local government (powiats), analogous to U.S. counties, to provide more regional coordination amongst the many small municipalities. This third tier of local government was to be in addition to the already established municipalities, called gminas, and provincial governments, called Voidvodships.

f. There was a rapid decline in the production of housing as the State extricated itself from the former Communist dominant role and the private sector lacked experience to fill the vacuum. From a completion rate averaging over 280,000 housing units per year under the Communist regime, recorded housing completions (there were a larger number of units in various stages of production) were only 134,000 units in 1990, reducing to 94,000 housing completions in 1993. The Solidarity government wanted to make a clear break with the Communist system and so emphasized the role of the private sector to increase production, as with other areas of the economy (privatization of State-owned enterprises, for example, was also a priority), however, the private sector was ill-prepared to assume this role, there were adverse macro-economic conditions, legal impediments to private sector development and a lack of serviced land on which to construct new housing by the private sector.

g. By 1993, there was a conservative backlash to the pressures of reform and a post-Communist government was elected in October 1993.

2. USAID Housing Sector Assistance – 1990 Through 1993

The USAID housing strategy principal objective was to promote “the emergence of a competitive, modern, market-based housing finance and production system.” The initial USAID program was administered in Washington through a centrally-funded project, Eastern Europe Program Development. USAID had extensive worldwide experience in housing assistance and the Housing Guarantee (HG) loan program to implement a substantial housing initiative. This became a natural focus area for USAID assistance. In 1990, the major initiatives concentrated on assessments and project design. For example, PADCO conducted a number of assessment missions to the CEE, including Poland, and the Cooperative Housing Foundation field assessments produced a report on Cooperative Housing In Poland: Issues and Potential, November 28, 1990.

By 1991, a number of short-term projects were initiated with multiple consultant firms and individual consultants, usually under regional CEE projects. For example, PADCO conducted a number of short-term projects beginning in 1991, e.g., a) Local Housing Construction Research Project (3.7 person months), which was an assessment of the housing construction sector, b) Residential Developer Assistance Project (14.5 person months), which sought to identify private developers and bankers for residential construction projects and to assess the feasibility of developing a private housing market, and c) Technical Assistance to the National Bank of Poland

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Project (.5 person months), which was to assist the NBP in establishing a mortgage lending facility. Many other consultants were also contracted to conduct short-term projects, e.g., Harvard University provided technical assistance to the Gdansk Technical University School of Architecture in 1991 to develop an urban planning curriculum. In November 1991, USAID fielded a director for the Regional Housing and Urban Development Office. This commenced a concentrated period to begin a number of major projects.

The World Bank had been conducting a program design in the housing sector since 1990. At the request of the then Minister of Finance, Leszek Balcerowicz, the World Bank focused on a $200 million loan (officially signed in December 1992) to help establish a market-based housing finance system. The resulting program would establish the Mortgage Fund, with an additional $200 million in matching contributions from the GOP and the EBRD, to bring the total funding to $400 million. The World Bank and GOP established the Housing Finance Project Office (HFPO) in 1990 to be the technical office supporting the proposed Mortgage Fund. USAID identified this World Bank project as an opportunity to respond to GOP defined assistance needs and to leverage its own assistance funds. In 1992, a $25 million HG loan agreement was signed and $10 million advanced in December 1993. This raised funding for the Mortgage Fund to $425 million. USAID also funded significant technical assistance to the Mortgage Fund and HFPO. The Mortgage Fund became the dominant USAID housing sector activity and framed assistance to the sector through 1993 (continuing through 1997). Projects were designed in association with the HFPO to support the Mortgage Fund initiative. Technical assistance included housing market and policy analysis, as well as on-the-ground technical assistance to the private sector for promoting housing development, to banks to prepare them for accessing the Mortgage Fund and to local governments to assist them to develop housing projects for Mortgage Fund financing. Beginning in 1991 (and continuing through 1997) numerous seminars were presented by USAID consultants throughout Poland and attended by hundreds of persons, a) in housing development for private sector and municipal representatives wanting to learn about real estate development and b) in construction and mortgage lending to banks (and their branches) participating in the Mortgage Fund.

In June 1992, a major real estate conference was held in Krakow, jointly sponsored by USAID and other sponsors, to convey an understanding of major principles of housing development in a market economy. In 1992, several major projects were designed and contracted. In the housing sector there were four major projects:

a. PADCO (projects are most often referred to by the name of the prime contractor rather than the more elaborate, unwieldy project names), which was formally under the Eastern European Regional Housing Project, had extensive housing policy and housing development components, including: i) technical support to the Mortgage Fund, ii) technical assistance to private developers and to municipalities to prepare housing projects for development, iii) technical assistance to banks for instituting a modern housing finance system.
mortgage finance system, iv) housing policy advise to Central Government and local governments, v) urban revitalization and vi) local government economic development. The PADCO project was the primary USAID housing sector project;

b. The Cooperative Housing in a Market Economy: A Replicable Model for Poland Project (conducted by the Cooperative Housing Foundation or CHF), focused on promoting establishment of local developer capacity in housing through creation of local housing agencies;

c. The Eastern European Real Property Foundation (EERPF, which was founded in 1992 by the U.S. National Association of Realtors) Project, which undertook a major project focused on developing associations representing real estate brokers, appraisers (referred to as valuers in Poland) and property managers;

d. The Home Builders Institute (an affiliate of the U.S. National Association of Home Builders) Project, which was designed to establish a home builders association in Poland; and

e. The International City/County Management Association project (designed primarily to assist local government), which included major components in housing property management and privatization of communal housing.

Major projects often had a number of sub-contractors who conducted major components of the projects, e.g., the PADCO project had Abt Associates conducting housing market and policy analysis, Harvard University undertaking local government urban revitalization projects and Research Triangle Institute undertaking economic development technical assistance to local governments. Over time, many of the individual consultants would change firms and be involved in subsequent projects under their new firms, e.g., Dr. Sally Merrill, who was the key housing policy consultant for Abt Associates (under the PADCO project), later affiliated with the Urban Institute, which continued policy analysis as a prime and sub-contractor; she was involved throughout most of the 10-year USAID assistance program in Poland under various projects.\(^56\) Projects over-lapped the time divisions presented in this report, e.g., the initial CHF project concluded in 1994 and was extended as new projects until 2000.\(^57\)

These projects focused on promoting a market-based housing system in Poland and concentrated activities in support of the Mortgage Fund, working with the private sector, local governments, the banking sector and Central Government to promote housing development. The CHF project delivered the first mortgages under the Mortgage Fund. All projects had a mandate to establish sustainability of technical capability and information dissemination mechanisms to inform a wider audience, e.g., the CHF project was designed to form local housing agencies throughout Poland which would continue housing development independent of USAID assistance.

Another milestone during this period was the establishment of the Polish-American Mortgage Bank (PAMBank) in 1992 and its affiliated company, the Housing Development Company in 1994. PAMBank was capitalized with a majority investment by the Polish-American Enterprise Fund, which was endowed by USAID, with two minority interests held by Polish entities.

\(^56\) Interview with Sally Merrill, Urban Institute, March 15, 2000.
PAMBank was the first private banking institution, in 1993, to provide mortgage financing, albeit mortgages were denominated in U.S. dollars.


In the 1990 – 1993 period, USAID housing sector assistance received the major focus, but there were significant activities directed toward assisting the new, inexperienced political leadership and municipal staffs to improve local administrative and planning practices. USAID’s principal objective for local government assistance was to assist with “the transition to transparent and accountable governance through the strengthening of fiscal and managerial capabilities of local governments and local non-governmental institutions.”

As under the housing sector assistance, USAID concentrated early activities in 1990 and 1991 on conducting assessments, concluding arrangements with potential local government partners and designing projects. Under centrally-funded projects for the CEE region, International City/County Management Association (ICMA), PADCO, Inc. and Research Triangle Institute (RTI) were the primary contractors involved with local government in Poland.

The effort resulted in three major projects to assist local government beginning in 1992. Each project focused on different areas to work with pilot municipalities to introduce new management, financing and project planning techniques and assistance with housing, infrastructure development, economic development and urban revitalization. The three major local government projects were:

a. **Local Government and Housing Privatization Project (conducted by ICMA).** ICMA promoted new budgeting techniques, which later became known as Task Based Budgeting (TBB) and ad valorem property tax systems. The ICMA project also had a housing component, focusing on privatization and property management.

b. **Continuation and expansion of the PADCO project under a centrally-funded project, which was converted to the Housing Finance Technical Assistance and Municipal Advisors Program in 1994.** PADCO focused on housing-related matters in local government (such as rent reform and housing allowances, land management, property management and housing development), strategic planning, urban revitalization, e.g., the Lublin Community Redevelopment Project, and assistance to a number of municipalities with capital improvements programming (CIP) and economic development. Under the PADCO project Central Government housing policy assistance that impacted on local government was also provided, e.g., in formulation of housing allowances as a social safety net for initiating rent reform.

c. **The Local Environmental Management Project (conducted by RTI).** RTI focused on policy development and pilot projects in local government to plan new water, sewerage and solid waste infrastructure.

All projects had a mandate to establish sustainability and information dissemination mechanisms, which resulted in formation/expansion of local consulting capabilities and university/technical school/NGO institutionalization of training programs. Projects begun during this period extended beyond 1993.

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The early stages of municipal credit finance began in 1993, with banks extending only a modest PLN 132 million in short-term loans (Polish symbol for its currency, the Zloty, is currently PLN; in 1993, the old Polish Zloty was still in effect and had the symbol PLZ, but for purposes of this study, references refer only to the new Zloty, PLN). Local governments were adverse to incurring debt to finance projects (except for concessionary loans given through donor and Government finance programs) and financed most capital projects out of current revenues. USAID understood the opportunity to assist and municipal credit became a focal point for assistance to local government. USAID, in tandem with the EBRD and World Bank, met with the Council of Ministers, the Ministry of Finance and MOSEC to design a municipal credit program. These discussions resulted in formation of the Municipal Development Authority (MDA) to assist municipalities with project development eligible to receive external debt finance and a proposal for a World Bank infrastructure finance program. USAID would later provide financial and technical support for the MDA.

Early support was given to increase local capacity to provide training for local governments in new management, financial administration and project planning techniques. For example, in 1991 and 1992, ICMA developed a series of training programs and trained trainers in two regional facilities of the Foundation in Support of Democracy (FSLD), a NGO that had a network of regional training facilities to assist local governments throughout Poland. A USAID grant to the FSLD assisted with the development and continued presentation of these training programs.

4. USAID NGO And Private Sector Development Assistance – 1990 Through 1993

The positive attitude of the Poles toward trade and professional associations led to a USAID strategy in the early years that was to support the formation of new associations to represent the emerging real estate industry and, later on, to assist in strengthening local government and bank associations. USAID’s principal objective for NGOs and the private sector was in supporting “development of the legal and institutional framework for the functioning of a modern, market-based real estate market, including the creation of supporting professions.”  

For example, in 1992, the Home Builders Institute undertook a project to form an association of home builders in Poland and the American-Polish Home Builder’s Institute (APHBI) was formed and supported through USAID. During the 1991 – 1993 period, the EERPF undertook another project that had an alternative strategy of promoting regional associations of real estate brokers and valuers that could eventually lead to national association formation and, by 1994, six regional real estate broker associations and seven regional valuer associations were formed.

USAID projects were promoting local capacity building through training and involving Polish professionals in project work. An excellent example is the Cracow Real Estate Institute (CREI), which has become a major think tank and technical assistance provider in the real estate and urban development sectors. CREI was organized in 1992 to assist with the USAID housing conference in Krakow that year. CREI’s senior professionals were well-respected in the field, e.g., its first President was the former (and present) Advisor to the Minister of Finance and first director of the HFPO. CREI went on to assist in a number of USAID and other donor projects on housing and real estate issues, e.g., CREI was the local partner with EERPF on forming regional associations of real estate brokers and valuers, produced a land management strategy under the

pilot LGPP (in 1996) and was the key Polish research affiliate assisting the Urban Institute Consortium on extensive policy analysis for Central Government from 1996 through 2000. CREI organized an extensive real estate sector library, which continues to operate after USAID support concluded. (The writer of this study benefited significantly from the materials available through CREI that were not available any other place.) CREI is the Polish think tank for housing and urban development included in the regional Transition Policy Network established by the Urban Institute to identify one think tank/research organization in each of the CEE and New Independent States that exhibit excellent capabilities. Working in association with USAID projects greatly assisted CREI to develop the expertise to become one of Poland’s major think tanks in housing and urban development.

As described above, USAID projects emphasized institutionalization of training programs in universities, technical schools and NGOs to disseminate techniques and concepts introduced by USAID. From early on, USAID provided training programs for these institutions, e.g., in 1991, PADCO provided assistance to the University of Gdansk in developing curricula in real estate and land planning and the ICMA early training programs described above.

**USAID Assistance Program – 1994 Through 1997**

By 1994, the USAID program in local government and housing began an extensive expansion and the next four years experienced substantial USAID activity in Poland. USAID objectives and strategies continued as defined in the early 1990s. There were multiple projects, including extensions of projects begun earlier and a wide range of new projects and contractors. Due to political circumstances and a changing regional strategy, USAID altered its Poland strategy during this period to focus on local government and the NGO sector.

1. **Background**
   a. Post-Communist coalition is elected to form the government in October 1993. Western governments, including the U.S., had concerns that the new government would discontinue reforms and attempt to re-centralize governmental functions. Although certain decentralization plans of the Solidarity government were halted, the new government allowed local government authority and responsibilities to remain in effect and, in some instances, expanded decentralization reform.
   
   b. Macro-economic conditions began to stabilize in 1994 and improvements in GDP occurred, with GDP growth becoming positive, growing 3% in 1994, 7% in 1995, 6% in 1996 and 6.8% in 1997. Poland was surging forward economically. Real wage growth also turned around with positive growth beginning in 1994 and continuing throughout this period. Inflation moderated, but also remained high at 31% in 1994, 27% in 1995, 19% in 1996 and 15% in 1997. Interest rates moderated, but also remained high, e.g., in 1995, mortgage interest rates by participating banks under the Mortgage Fund were over 30%, moderating to a little over 23% by 1997.
   
   c. Consumer debt started to be accepted (e.g., car loans were becoming popular) and this attitude began to increase household willingness to incur housing mortgages.

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60 E-mail from Edward Kozlowski, President, CREI, April 21, 2000 and interview with Raymond Struyk, March 29, 2000.
Municipalities also became more positive toward debt financing and began to pursue bank loans and municipal bond financing for project development.

d. Housing completions continued to decline, with only slightly over 62,000 recorded completed units in 1996, rebounding a little in 1997 to about 74,000 completed units. Units in production, but not completed, continued to increase and were projected at over 400,000 units in 1997; units remaining uncompleted are attributed to income tax incentive structure making it beneficial to keep units in construction for a protracted period.\(^{61}\) The one favorable aspect was that the private sector was becoming more evident in housing development. Housing finance was still dominated by the State bank providing subsidized mortgages, with little private sector bank mortgage production. With the end of State subsidized mortgages in 1996, private sector banks began to increase mortgage production.

e. In 1994, the second local government elections occurred. There was a marked shift toward political parties entering into local elections; a change from the first elections when politics was minimal. This politicization was to have some impacts on USAID projects, as new administrations, in some instances, were not in agreement with USAID activities begun under the prior administrations. Municipal credit was beginning to emerge during this period, with banks becoming more willing to extend credit to municipalities and municipalities learning about the advantages of debt financing. Local government was given new responsibilities for elementary education, which put additional pressures on local budgets.

f. In 1997, devastating floods occurred in southern Poland, which diverted local government attention and donor efforts to assist in restoration of affected communities.

g. In October 1997, a post-Solidarity government was elected.


USAID strategy in the housing and local government sectors, during the 1994 – 1997 period, shifted to a greater emphasis on local government, consistent with a change in USAID CEE regional strategy. By 1995, however, USAID concluded that continued assistance to Central Government was desirable to enhance reforms at the local government level and in the housing sector.

USAID projects begun in 1992 continued. The ICMA project concluded in 1997. Some projects were extended and often with new components, e.g., a) the PADCO project was transformed in 1994 into a major effort, with many additional objectives (including increasing municipal access to credit), and re-titled, Housing Finance Technical Assistance and Municipal Advisory Program for Poland; this project concluded in 1997, b) the CHF project was expanded to include substantially more local housing agency development, urban revitalization and flood relief; this project concluded in 1999 and c) a second phase of the RTI LEM project expanded to new municipalities for infrastructure development and assisted with flood relief; this project

\(^{61}\) The Transition In Housing Finance In Central Europe And Russia: 1989-1999, op.cit., page 91.
concluded in 1998. Many of the management and project planning techniques introduced in the earlier years continued to be adapted and employed as the basis for USAID assistance.

Major new projects were added to USAID’s local government assistance program during this period:

a. The Democratic Governance and Public Administration in Poland Project (conducted by Development Alternatives, Inc. [DAI]), which initially focused on capacity building for the four major local government associations and expanded to include technical assistance to Central Government in fiscal decentralization and public administration reform. The technical assistance to local government associations provided for institutional strengthening and to support formation of the Local Self-Government Analysis System (SAS), which includes a variety of data-collection and analysis mechanisms to improve local government management and to enhance the ability of local government associations to contribute to policy dialogues with Central Government. The DGPA made major contributions to proposals to increase local government self-revenues through local income taxes and a change to ad valorem system of property taxes; these proposals are now included in Central Government’s policy agenda. The DGPA also focused on financial and technical assistance to training organizations and universities to initiate and strengthen education programs for local government officials and students contemplating careers in government. Under DGPA, a pilot project was undertaken in 1995 to test the practicality of an intermediate level of local government, which later became institutionalized as a nationwide system of powiats.

b. The Urban Management Support Program (conducted by the Cooperation Fund) was designed to expand dissemination of USAID-introduced local government management and planning techniques and promote citizen participation processes in partner local governments. The Cooperation Fund is a Polish State foundation (created to channel European Union assistance funding) and USAID’s support was in furtherance of its strategy to develop Polish organizations’ capacity to provide technical assistance in local government and housing sectors.

c. Support for the MDA through several USAID projects to strengthen their capacity to assist local governments with project planning and financing. MDA is a State organization and USAID’s assistance was consistent with the strategy to promote local technical capacity.

d. The Environmental Action Programme Support Project – Poland (conducted by Chemonics International, Inc.), promoted environmental infrastructure investment through policy advice and introduced new energy conservation techniques to a number of pilot municipalities.

Consistent with USAID’s focus on local government, most of these new projects concentrated on direct assistance to municipalities and NGOs, except for the DAI project, which later initiated major components assisting the Central Government in accordance with the original project design.
There was increased attention to capacity building for Polish professionals and NGO institutions in both the extended and new USAID projects, e.g., a) four major municipal associations received financial and technical support; b) private consulting firms were assisted to form or expand; c) the work of the Home Builders Institute focused on creating and strengthening the Polish Association of Home Builders; d) the EERPF continued to develop real estate professional associations; and e) universities/technical schools/NGOs received more extensive support to prepare, and make self-financing, curricula for training to assist local governments and students seeking careers in government. The media was enlisted to expand information dissemination. Citizen participation became a new focus for USAID and most of the projects had this element integrated into project components.

Many of the pilot projects with municipalities were culminating in successful transfers of knowledge and/or completion of specific developmental objectives, e.g., assistance was provided under the PADCO project (with Harvard University as the lead consultants) to the City of Lublin on urban revitalization introducing a resident/city partnership process to achieve rehabilitation of older neighborhoods; this project was only one of twelve projects worldwide to receive an award from the United Nations at the Habitat II conference in 1996 for “Excellence in Improving the Living Environment.” Along with the successes, there were also some setbacks, e.g., with new local administrations resulting from the 1994 elections, some projects experienced changed attitudes for activities being conducted and, in some municipalities, projects were revised or even terminated.

CEE regional and Polish conferences were major initiatives during this period and proved very effective in expanding the perceptions of Polish Central and local government officials about introducing new approaches to management, financing and project planning. For example, in June 1994, a regional conference was held on municipal credit and provided a venue for the exchange of information for representatives from CEE countries and another conference on municipal bond financing for infrastructure development was held in Krakow in November 1994. Conferences were major launching pads for technical assistance. Following these conferences, USAID sponsored widespread efforts to assist municipalities and banks to structure credit for local government and to expand domestic capital markets (these efforts were conducted under a number of projects, including projects focused on the banking sector and capital markets development and not local government). For example, under a project designed to assist banking sector and capital markets development in Poland (Bank System Development Project in Poland, conducted by First Washington Associates, Ltd.), the first publicly traded municipal bond was issued with USAID support. Under the PADCO project the Gmina (municipal) Financial Analysis Model (GFAM) was introduced and served as a set of analytical tools to assess municipal creditworthiness for debt financing and was used by a number of municipalities to access bank financing. Municipal credit began to expand from PLN 132 million in 1993, reaching PLN 1.4 billion in 1997. Given Polish municipal officials early reluctance to incur debt, the efforts of USAID can be cited as a major element in changing attitudes and access to municipal credit.

Information dissemination was a key strategy of USAID to convert the experiences of pilot projects into practical materials and information that could be used by the many non-partner municipalities. USAID projects produced numerous manuals that were distributed to municipalities and professionals, e.g., under the PADCO project, 1,000 copies of a manual on
municipal rent setting methodologies was sold to municipalities.\textsuperscript{62} Training curricula for municipal public administration was institutionalized in universities, technical schools and NGO training institutes, e.g., in the Lublin University School of Business introduced a curriculum based on USAID local government management techniques on a fee-paying basis. Numerous articles on pilot projects were published in the media and one local publisher, Municipium, began to publish and sell manuals produced under USAID local government projects.

In 1997, USAID responded to the devastating floods in southern Poland by expanding several projects to assist with flood relief efforts, including the Urban Institute Consortium, Cooperation Fund, RTI and CHF projects.

In 1996, USAID initiated the Urban Institute Consortium Pilot Local Government Partnership Program (Pilot LGPP), which was designed to build on the multiple technical assistance, training, information dissemination and local capacity building efforts conducted under previous and then current projects. The more extensive LGPP, planned for a 1997 implementation, was to become the culmination of USAID assistance in local government and was to institutionalize the progress made under USAID. There was a protest filed challenging selection of the winning contractor and that delayed the LGPP until 1998.\textsuperscript{63}


The primary housing sector initiative during this period was to increase mortgage production under the Mortgage Fund. USAID recognized that local developers lacked experience in housing development and initiated extensive technical assistance in support of the Mortgage Fund to developers under extensions of the PADCO and CHF projects and to continued development of real estate sector associations. One CHF project (in Zory) produced the first mortgages financed by the Mortgage Fund. USAID programmatic changes to focus on local government resulted in much of the housing policy assistance shifting to local government in rent reform and housing allowances, housing strategies and assistance with development of new housing, including a new moderate-income rental housing program, TBS or Social Housing. Other initiatives also supported improving the environment for housing development, such as land management (Geographic Information Systems and Land Management Information Systems), analysis of legal impediments to housing development (land titling procedures, foreclosure problems and the Statutory Lien Law) and infrastructure development planning to support new housing initiatives.

The USAID housing sector strategy also continued to promote a competitive, market-based housing finance system. In the 1994 – 1997 period, the PADCO project provided substantial technical assistance to the State bank administering the Mortgage Fund (Bud-Bank), the HFPO and private commercial banks entering the mortgage field. Technical assistance included, a) direct on-site technical assistance to banks, b) preparation of mortgage origination and servicing manuals, c) preparation and presentation of numerous training courses, including institutionalizing a mortgage curriculum in three bank technical schools, and d) through companion USAID projects, introducing a system of bank regulatory and supervision procedures in the NBP. As there was virtually no experience in private commercial banks with construction and mortgage lending, USAID has been credited with modernizing bank construction/mortgage origination and servicing systems, with many of the procedures introduced by USAID adapted

\textsuperscript{62} Housing Finance Technical Assistance and Municipal Advisory Program for Poland, Final Report, op. cit., page 6.
and institutionalized by most of the commercial banks offering mortgage finance.\textsuperscript{64} One observer even noted during an interview that USAID defined the construction loan in Poland, which had not been separated out as a distinct lending procedure previously, and even to changing the name of housing finance from “housing loans” to mortgages.\textsuperscript{65} This same bank official opened a cabinet in his office and pointed to a number of USAID reports and manuals he used in developing the bank’s mortgage program. USAID also promoted the Dual Index Mortgage (DIM) mortgage program, originally introduced by the World Bank in Poland, to facilitate mortgage lending in high inflation/high mortgage interest rate environments. Beginning in 1990, there were no private commercial banks offering market-rate mortgages and, by the end of 1997, there were 20 banks offering mortgages. Commercial bank mortgage lending began to rapidly expand after the State bank subsidies were terminated in 1996. Pekao Bank underwrote the first market-rate mortgage denominated in Zlotys in 1995 outside the Mortgage Fund. PAMBank had been offering U.S. dollar-denominated mortgages since 1993 and three banks participated in the Mortgage Fund. In 1996 there were 21,500 mortgages originated, totaling PLN 663 million and, in 1997, this expanded to 42,500 mortgages, totaling PLN 1.5 billion. Banks found the Mortgage Fund too difficult to access and the level of Mortgage Fund production remained at low levels during these years; only three banks remained active in the Mortgage Fund. By December 31, 1996, the Mortgage Fund only had a portfolio of mortgages equivalent to US$ 5.9 million and construction loan portfolio of about US$ 1.2 million.\textsuperscript{66} In 1997, the GOP terminated further loans for the Mortgage Fund from the World Bank (official closing date was December 31, 1998) and EBRD.

Policy assistance continued largely through PADCO and sub-contractors (such as Abt Associates) and the Urban Institute Consortium. For example, under this policy assistance, USAID had major input into the 1997 Mortgage Banking Law, the Condominium Law and newly introduced Mortgage Bank and contract savings legislation. Under projects directed toward assistance to the banking sector, USAID began assistance to the NBP to initiate an effective bank regulatory and supervisory system. An effective bank regulatory system contributed to instilling public confidence in the banking sector and to resource mobilization through deposits in banks; the substantial liquidity in the banking sector contributed to increased interest by banks in both mortgage and municipal lending. The only new USAID housing sector project commenced during this period was the Urban Institute Consortium project, the Poland Housing Finance Project, begun in October 1996 to address national housing policy and market issues and to provide technical assistance to Central Government agencies.

One of the most effective assistance contributions of USAID in the housing sector was the report “Building on Progress: The Future of Housing Finance in Poland” and prior conference held in December 1996 under the Urban Institute Consortium project.\textsuperscript{67} The conference brought together representatives of Government, the banking sector and the media to consider housing issues and policy proposals. The report and conference were well-covered by the media, engendered

\textsuperscript{64} Interviews with a number of bank and government officials, including, a) Lech Gajewski, Executive Director, Bank Slaski, b) Elzbieta Kudowska-Bułwarska, Vice President, Bud-Bank, c) Marek Koziarek, Director, Credit Department, HypoVereinsbank and former head of mortgage lending at BISE Bank and d) Irena Stocka, Vice President of GE Mortgage Bank and former director of the Housing Finance Project Office under the Mortgage Fund.

\textsuperscript{65} Interview with Lech Gajewski, Executive Director, Bank Slaski, March 29, 2000.

\textsuperscript{66} Chronology Table for the World Bank Housing Finance Project, op. cit.

\textsuperscript{67} This report and conference were noted by several interviewees, including Slawomir Najnigier, President, State Office of Housing and Urban Development, and W. Jan Brzeski, Advisor to the Minister of Finance.
heightened interest in housing finance nationwide and assisted many professionals in the housing sector to improve their understanding of the housing market and finance.

Assistance to organizing professional associations in the real estate sector continued under the Home Builders Institute and EERPF projects. In 1994, the Polish Association of Home Builders was founded as an outgrowth of the APHBI and, during the 1994 – 1997 period and deriving from efforts under the EERPF project to establish regional associations, national associations were formed, i.e., Polish Real Estate Federation and Polish Federation of Valuers. In this period, EERPF introduced the U.S. Institute for Real Estate Management (IREM) curriculum to certify property managers. Assistance to professional associations encompassed many aspects, including institution building, training curricula for members, conferences and, of great significance, introduction of professional standards. For example, the EERPF held a conference in Krakow in 1994 that introduced professional standards and practices for property valuers. This was followed by preparation of a manual in 1995 on professional standards for property valuers and training sessions. Prior to USAID involvement, there had been no property valuation system in Poland. Now the Anglo-American system of property valuation has become accepted practice in Poland. The Act on Real Estate Management recognizes property valuers meeting licensing standards introduced by USAID.68 USAID assistance directed toward the Polish Banks Association (PBA), under banking sector projects, had the also heightened interest in the PBA to consider housing finance issues during this period. PBA officials credit a USAID/Warsaw senior advisor with being the driving force for the formation of its Housing Finance Committee, which was established in 1997.69

The RHUDO director in USAID/Warsaw received a national honor from the GOP in 1994 for contributions to the housing sector. This honor was in recognition of USAID’s role in the housing sector.


USAID strategy shift from Central Government during this period included a new emphasis on the NGO and private sectors to institutionalize reform.

Under USAID previously existing projects, PADCO and CHF, there was an increased emphasis given to assisting the private sector to assume an increasing role in housing production. This included extensive assistance to private developers and banks. USAID projects also included components directed toward forming or expanding consulting firms to disseminate techniques introduced under USAID. The RTI project fostered the establishment of a consulting firm (LEM S.C.) founded by professionals working under the project. The PADCO project led to the formation of several housing and real estate consulting firms by professionals working under the project, e.g., REAS Sp. z.o.o. and URBECON Sp. z.o.o. By 1996, the CHF project had established ten private sector local housing agencies.

68 Interview with Andrzej Rudka, President, Polish Federation of Valuers, March 29, 2000.
69 Interview with Krzysztof Piatraskiewicz, General Director, Polish Banks Association, March 28, 2000, who cited Michael Lee, USAID/Warsaw Senior Housing and Urban Policy Advisor, with organizing monthly meetings that led to formation of the PBA Housing Finance Committee.
During this period, USAID began two new projects directed at the private sector and NGOs.

a. The Democracy Network Project Poland (conducted by the Academy for Educational Development [AED]), started in 1995 and was completed in 1997, and was designed to assist community-based organizations and NGOs to promote policy advocacy and to train local government officials in community participation. The AED project resulted in an on-going foundation, the Academy for the Development of Philanthropy, which receives continuing financial support from international foundations such as the Mott and Batory Foundations; and

b. The DGPA project, conducted by DAI, started in 1996 (please refer to more detailed description, above) and had a major component designed to strengthen the four major local government associations in their role as policy advocates and professional development agencies and assisted in the creation of the Association of Polish Powiats.

Information dissemination continued as a USAID priority. All projects contained information dissemination components. The Cooperation Fund project was primarily established to expand information dissemination from the collective experiences of USAID projects in local government. There was an expansion of efforts to institutionalize USAID-introduced local government and mortgage lending techniques in universities, technical schools and NGO training institutes. For example, the DAI project assisted three universities (Krakow Academy of Economics, the Szczecin School of Public Administration and Marie Curie Sklodowska University in Lublin) to institutionalize local government training programs in public finance, service delivery, economic development and personnel management. The Cooperation Fund project included developing a local government education program in the Budget Research Center in Krakow and supporting systematic dissemination of these technical training skills to educational institutes throughout Poland and to consulting firms.

Citizen participation continued as a USAID priority focus. The AED project was specifically designed to promote citizen participation. Most USAID projects expanded citizen participation components in pilot municipalities, achieving some impressive demonstrations in effective community participation, such as the resident/city partnership in Lublin for community revitalization described above. Some municipalities embraced citizen participation and institutionalized it, others merely completed their obligations under the projects and did not integrate it into municipal planning and service delivery.

USAID continued its emphasis on forming and strengthening associations to represent local government and the real estate sector. Advances during this period were discussed above under local government and housing assistance programs. Positive results from the assistance to trade associations was also well-received by Government, which has institutionalized association involvement in policy-related committees at the national level, so this intervention had particular benefit for Poland.

**USAID Assistance Program – 1998 Through 2000**

The period 1998 – 2000 is when the USAID strategy was to consolidate advances promoted in the earlier years and to expand assistance to Central Government for policy development. It is
also marked by the impending conclusion of the USAID/Poland Mission in 2000 and the desire to leave a legacy of accomplishment.

1. **Background**

   a. In October 1997, a post-Solidarity government was elected. Beginning in 1998, a renewed effort at reform began and USAID devoted resources to support this effort.

   b. Macro-economic conditions continued to stabilize or improve in 1998 and 1999. Inflation declined to 12% in 1998 and to 9% in 1999. GDP growth continued, but at a lower level than previous three years, e.g., achieving positive growth of 4.8% in 1998. Similarly, positive wage growth continued, albeit at lower levels than in the previous three years, achieving a 5% increase in 1998. Interest rates remained high in comparison to interest rates in Western Europe and the U.S., with mortgage interest rates in 1999 ranging between 16.4% and 17.35%.  

   c. Households begin to access more credit for consumer items and this changing attitude toward debt has increased demand for mortgage finance. By the end of 1998, more than 73,000 mortgages were originated, amounting to PLN 2.9 billion in mortgage funding. In the first half of 1999, 96,000 mortgages were originated, amounting to over PLN 3.9 billion. Mortgage lending, by the first half of 1999, represented an almost eight-fold increase in mortgage funding over the entire year 1996. Contract savings and mortgage bank legislation are enacted and create new housing finance mechanisms.

   d. Housing completions gradually begin to expand, but only reaches about 74,000 new units by 1997. The private sector continues to expand its role in housing production; units in production, but not completed are projected to be over 600,000 by 1999 and may not be expeditiously completed because of the structure of income tax incentives. Further analysis under a USAID project reveals that about one-third of housing units in the pipeline (started but not officially completed) are occupied and amount to over 200,000 units, which considerably adjusts numbers estimating the housing gap. New Government moderate-income rental subsidy program (TBS) proves popular.

   e. The third round of local elections take place in 1998. Local government is becoming more political, which has implications for some municipalities not continuing reforms begun under previous local administrations. Elementary education dominates local government budgets and leaves less flexibility to undertake other initiatives.

   f. A new tier of local government is adopted, powiats, which are analogous to U.S. counties, and commence operations in 1999.

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70 Poland: Housing Finance at the Millennium, Urban Institute, February, 2000, page 11.
71 Poland: Housing Finance at the Millennium, op. cit., page 8.
72 The Transition In Housing Finance In Central Europe And Russia: 1989-1999, op.cit., page 91
73 Urban Institute Consortium project.
g. Capital markets expand. A new Over-The-Counter market emerges with USAID assistance, which will facilitate municipal bond public offerings. USAID also provides assistance for introducing private pension funds, which, at present, have restrictions on direct housing and municipal finance, but have significant future potential in these sectors.


USAID strategy during this period focuses on local government and policy assistance to Central Government in local government and housing. By 1998, most of the previous projects had been completed in local government, except for the DGPA.

There were only two new projects in this period:

a. The Local Government Partnership Project (LGPP), commencing in early 1998 and scheduled to conclude in March 2001, is conducted by Chemonics International, Inc., as prime contractor. The LGPP is to: a) consolidate advances accomplished under previous projects, b) focus on extensive pilot projects and information dissemination to expand local government access to USAID-promoted techniques, models and established best practices and c) promote sustainable technical resources in private sector consulting firms and education institutions to continue to provide assistance to local government after the close-out of the USAID Mission in Poland.

The LGPP is working with 45 partner local governments in seven areas encompassed under previous USAID/Poland projects: a) strategic management, budgeting and finance, b) economic development, c) infrastructure finance and development, d) municipal service delivery, e) housing management and development, f) sustainable development of land and g) public relations and citizen participation. A total of 59 technical tools, models, best practices and/or processes will be introduced in Partner Gminas (local governments). In addition, LGPP is, in one way or another, assisting over 300 local governments in Poland (about 1/8 the total number of local governments) through other programs, such as the Associated Gminas Program, where technical assistance is provided on a cost-sharing basis.

The LGPP is undertaking a substantial information dissemination process that includes: a) wide media (newspapers, periodicals, TV and radio) coverage of techniques, models and best practices; b) conferences; c) Internet Web site; d) publications (e.g., best practices descriptions) and catalogs of resource materials; and e) expanding continuing education for local government officials through universities. Partner local governments have already begun to implement into practice LGPP assistance, e.g., multi-year investment plans have been adopted, Task Based Budgeting (TBB) systems have become operational and economic development and administrative reforms have been effected. To promote widespread local government reform, the LGPP is working with the Ministry of Finance on the Quality of Financial Data Reporting Program, which may be a precursor for requiring local governments to adopt advanced budgeting techniques introduced by USAID such as TBB.

To promote sustainability of USAID-introduced techniques, models and best practices for local government, the LGPP is the first donor program to systematically
use consulting firms to drive the process of local government service delivery and responsiveness to citizens. The LGPP is training and certifying consultants to provide fee-paid technical assistance to local government, a process which should extend the effects of USAID assistance well-beyond the project completion date. The LGPP is also working with local government associations to expand services to member local governments and strengthen their capacity as representative organizations.

b. The Increasing Access To Municipal Capital Project, commencing in 1999 and conducted by RTI. The RTI project addresses improving access to municipal credit for municipalities, assistance to Central Government on a legislative/regulatory framework to expand municipal credit, e.g., introducing the concept of revenue bonds, and to assist Central Government with addressing water supply policies and standards. Technical assistance to the Ministry of Education on analyzing and establishing Central Government transfers to local government to support local education systems was added to the project.

The President of the State Office for Housing and Urban Development was particularly laudatory toward the RTI assistance on water supply policy and standards development and indicated that it could not have been accomplished without USAID assistance.74 Other short-term consultancies are still being undertaken to assist Central Government, such as conceptual design of a municipal bond guarantee program for smaller municipalities.75

The DGPA project was extended until the end of 1999 to provide additional assistance to the Ministry of Finance on a range of important policy and implementation issues, e.g., a) design and implementation of further decentralization, such as the new Powiat tier of local government, b) assistance to the Government’s Regional Auditing Agencies (RIO) to develop an automated data-collection system and c) assistance with planning for a new local government financing system, including consideration of introducing an ad valorem property tax system. The DGPA project, also in 1999, began providing the principal technical inputs for the Ministry of National Education (MEN) to design a new, unified system for the distribution of Central Government transfers (grants) to local government, including redesign of the formulas by which the education subsidy is allocated to local governments. This assistance is subsequently being continued under the RTI project in 2000. This is a particularly vital assistance effort, as education budgets account for over 45% of larger municipality total annual expenditures and over 50% of medium to small municipality expenditures.76

Interviews with Ministry of Finance and State Office of Housing and Urban Development officials indicated that the USAID assistance was extremely vital to their efforts.77 The RTI project continues to provide assistance and will conclude in 2000. The LGPP will be the one remaining major project in local government and it is scheduled to be completed in 2001.

74 Interview with Slawomir Najnigier, President of the State Office for Housing and Urban Development, April 3, 2000.
75 Interview with Raymond Struyk, Urban Institute, March 29, 2000 (in Warsaw)
76 Internal project research by Pawel Swianiewicz, March 2000.
77 Interviews confirming the USAID contribution to policy development included, Jerzy Kurowski, Vice Manager of the Department of Local Government Finance and Slawomir Najnigier, President, State Office of Housing and Urban Development. The same was true in interviews with MOF officials responsible for housing-related matters.
In 1999, USAID introduced the Development Credit Authority (DCA), a USAID loan guarantee program (providing a 50% U.S. Government guarantee on loans issued by commercial banks) that will leverage $300,000 of USAID budget authority to provide the equivalent of $10 million in domestic loans for environmental improvement projects, mainly to be borrowed by local governments.

3. USAID Housing Sector Assistance – 1998 Through 2000

USAID re-focused its major housing sector activities on providing assistance to bankers and Central Government in this period, continuing assistance for creation of local housing agencies and preparing for close-out of the USAID Mission in Poland.

The PADCO project ended in 1997 and support specific to the Mortgage Fund was wound down. The Mortgage Fund continues to operate at a low level of activity and is to be transferred to BGK, the State bank responsible for administering national housing programs. The BGK will maintain the Mortgage Fund as a possible future resource to create a Fannie Mae-type secondary mortgage market facility if such a facility is needed. The CHF project expanded to establish 25 additional pilot projects and local housing agencies, achieving a total of 35 agencies nationwide, producing over 1,650 housing units by 1999 (production continues without USAID assistance, with over 400 additional units in the pipeline) and producing a successor foundation to continue developmental and information dissemination activities after completion of the USAID project.

The mortgage finance industry is rapidly expanding, with about 30 banks providing mortgages by the end of 1999 and mortgage volume escalating rapidly, e.g., mortgage finance for the first half of 1999 was an eight-fold increase over mortgage funding in all of 1996. USAID-introduced construction loan and mortgage origination techniques have become generally-accepted practice in the banking sector. Mortgage banks were being formed, with two institutions receiving licenses and another five institutions with applications pending. A Polish contract savings program was implemented, incorporating recommendations provided under USAID projects; USAID analyses on proposed contract savings legislation (particularly on the proposed Kasy Budowlane legislation) led to significant revisions to the final program. A senior Ministry of Finance official characterized assistance on this legislation as, “The contribution of USAID to the efforts of (the) Finance Ministry to amend the dangerous legislation has been nothing short of crucial.” USAID also introduced new concepts for future consideration by the banking sector and Government in Poland, e.g., mortgage default insurance. The DIM mortgage financing instrument has been adapted by a number of banks and is one of the major forms of mortgage lending in Poland. PAMBank was sold to the U.S. company GE Capital, which renamed it GE Housing Bank and continues to provide mortgage financing.

The Urban Institute Consortium (UIC) project became a major focal point of USAID assistance to the housing sector. Beginning with a conference in 1996 and report in 1997, “Building on

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78 Interview with Irena Herbst, Vice President, BGK, March 30, 2000.
79 Interviews with Judith Hermanson-Ogilvie, Vice President, CHF, March 17, 2000, Wojciech Wojtysiak, former Program Director, Poland, CHF, April 3, 2000 and Krzysztof Kaminski, President, Center for Housing Initiatives (CIM), March 22, 2000, and Strengthening Market-Oriented Housing Delivery System Through NGOs, Poland, Final Report, February 2000.
80 Same interviews noted in footnote number 64, above.
81 Ministry of Finance as USAID’s Interlocutor in Housing Finance, op. cit., page 1.
82 Poland: Housing Finance At The Millennium, op. cit., various pages.
Progress”, the UIC project undertook very significant assistance on multiple housing policy issues until the end of 1999. UIC consultants worked with the State Office for Housing and Urban Development and the NBP. Policy areas included: a) regulation and supervision of mortgage finance, b) analysis of mortgage markets, c) Polish system of mortgage banks and mortgage bonds, d) contract savings systems analysis, d) mortgage default insurance, e) continued rent reform and improving housing allowance program, f) assistance in institutionalizing property valuation standards and g) housing subsidy and income tax reform analysis, including recommendations on restructuring subsidies and revisions to the personal income tax system. The resulting policy assistance contributed substantially to new legislative proposals and regulatory systems. On legislative proposals for mortgage banks, one Ministry of Finance official summed up USAID’s assistance as, “The inconsistency (in the proposed legislation) was pointed out in USAID’s report Building on Progress and has made both the Finance Ministry, Polish Banks Association and Banking Supervision Inspectorate (at the NBP) more reflective about the final form of implementation regulations.” The NBP was also assisted by other USAID projects (Barents Group, LLC and First Washington Associates, Ltd. projects) to establish a regulatory framework for the banking sector, which has become a model for CEE countries. The value of this policy assistance was well-appreciated by Government officials, as described above in the Background and Highlights sections.

The TBS program, which provides subsidies to develop new middle-income rental housing, and which was assisted by USAID in its development and promotion under the PADCO and CHF projects, has proven to be very popular, with 8,500 housing units completed by the end of 1999 and another 6,500 units in the pipeline. BGK, the program administrator, is now exploring approaches to entering the capital markets to raise additional financing for this program.

By the end of 1999, most USAID housing sector activities were completed, except for final report and several technical reports preparation, which continued on into 2000.


Most of the projects assisting NGOs and the private sector were completed prior to, or in, 1998, except for the DGPA project, which continued through 1999 assisting local government associations, and the on-going LGPP. USAID was winding down its program in Poland in anticipation of closing the Mission in 2000.

The fruits of USAID assistance were clearly evident as NGO and private sector technical capacity to continue assistance to local governments and the housing sector have demonstrated capacity to be sustainable after close-out of the USAID Mission. For example: a) three of four local government associations, receiving USAID assistance, (the APC, ARG and UMC) have been significantly strengthened and the SAS (local government data-collection system) is continuing and expanding, b) real estate trade associations formed with USAID assistance are

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83 Interviews with Sally Merrill, Urban Institute, March 15, 2000 and Edward Kozlowski, CEO, Cracow Real Estate Institute, March 22, 2000.
84 Ministry of Finance as USAID’s Interlocutor in Housing Finance, op. cit., page 2.
85 Interviews with Maria Lubera, Advisor to the President, Krzysztof Kanigowski, Head of Unit, and Piotr Bednarski, Credit Specialist, General Inspectorate of Banking Supervision, National Bank of Poland, April 6, 2000.
86 Interview with Irena Herbst, Vice President, BGK, March 30, 2000.
87 Interviews with Andrzej Porawski, General Secretary, Union of Polish Cities, April 4, 2000 and Wojtek Marchlewski, Consultant to the Association of Rural Gminas, April 1, 2000.
expanding membership and have become self-sustaining, e.g., Polish Real Estate Federation, Polish Valuers Association, Polish Association of Home Builders and the Association of Polish Property Managers (including an IREM Polish Chapter of Certified Property Managers), and c) the PBA has institutionalized a Housing Finance Committee and is considering initiation of a municipal finance committee. Private sector consulting firms are engaged in providing technical assistance to local governments and the housing sector, e.g., REAS Sp. z.o.o. provided assistance to 40 TBS project sponsors since forming after the PADCO project, URBECON Sp. z.o.o. assists local governments with housing strategies and LEM S.C. provides assistance to local governments in infrastructure development in Poland and now in the CEE countries. A number of universities, technical schools and NGO training institutes continue to provide education curricula and seminars on USAID-introduced techniques for local government and banking sector professionals and officials.

The Polish-American Freedom Foundation was an outgrowth of the Polish-American Enterprise Foundation and will eventually be endowed with an estimated $180 million to continue programs in Poland to promote civil society. The Foundation’s program is still in preparation, however, this prospectively will provide a continuing source of funding for some USAID-introduced initiatives in local government and the housing sector. The Poland-America-Ukraine Cooperation Initiative was created in 1999 to utilize the advances accomplished in Poland and the expertise of Polish professionals and government officials to assist the Ukraine to implement reforms and will receive $10 million in USAID financing over five years. USAID-assisted Polish private sector consulting firms, NGOs and government agencies are likely candidates to provide assistance under this program. USAID has centrally-funded projects which will continue to provide selective assistance to Poland and will continue to meet particularly effective assistance needs.

CONCLUSIONS

Initiating a massive program of technical assistance to a country where USAID had no prior experience is an awesome task, especially under the political imperatives and time pressures imposed by the sudden emergence of CEE countries seeking to create democratic institutions and market-based economies deriving from forty-five years of Communist rule. There was no prior experience with “second world” nations, where substantial expertise and capability existed and which had traditions dating back centuries. There was no time to undertake the usual program planning, no time to experiment with approaches; USAID had to have a full program up-and-running in less than two years. USAID accomplished this challenge. There was a learning curve that was overcome during the conduct of extensive projects and, by 2000, it was clear that USAID had met the objectives set out by the U.S. Congress in late 1989 and delivered an extensive and effective assistance program in Poland that was both appreciated by the Poles and will have continued positive impacts well beyond the completion of the USAID program.

89 Interviews with Krzysztof Pietraszkiewicz, General Director, PBA, March 28, 2000, and Anthony Levitas, RTI consultant, April 7, 2000.
90 Interview with Ryszard Kruk, Vice President, Polish-American Enterprise Foundation, April 5, 2000.
92 Interview with William Frej, USAID/Warsaw Mission Director, and former USAID/Warsaw RHUDO director,
LESSONS LEARNED

There are a number of lessons learned, or confirmed, from the USAID assistance program to Poland in local government and the housing sector that are applicable to USAID assistance programs in other nations. The purpose of this section is to identify experiences under these USAID programs that may assist other Missions in the design and conduct of new programs and in the re-focusing of on-going programs. Many of the most valuable experiences of USAID in Poland have also been evident in other USAID-assisted countries as well and are described here to emphasize their applicability. Major lessons learned include:

Demand-Driven Technical Assistance is Most Effective

USAID defined its initial program in the housing sector and local government based on assessment missions to Poland and priorities identified by Polish officials. USAID responded selectively to requests for assistance, providing support for those areas where USAID thought the U.S. experience could be most productive and defining the approach for undertaking assistance. This proved very effective in gaining partners for the conduct of pilot projects and for the introduction of concepts, techniques and policy recommendations. For example, local government officials expressed a desire to revitalize certain older, blighted neighborhoods, but lacked the experience on how to mobilize local citizens and resources to accomplish this objective. USAID, building on the extensive U.S. experience with urban revitalization, was able to conduct pilot programs that demonstrated new, effective approaches. USAID assistance made significant contributions toward the City of Lublin receiving an award from UN HABITAT for an effective community-participation process. The same constructive relationship was developed for municipal infrastructure planning, which Polish local government officials identified as a high priority and the U.S. experience could be well applied. This resulted in a large part of USAID’s assistance program focusing on capital improvements programming, environmental project planning and municipal credit to finance infrastructure projects.

Another example was the creative response by USAID to the Government’s commitment to establishing a market-based housing finance system. Macro-economic conditions were unfavorable for the initial primary program component to achieve its objectives, i.e., the Mortgage Fund. However, with Government and private sector partners, USAID was able to implement a project that provided significant technical assistance to the banking and real estate sectors. This companion assistance contributed substantially to establishing a modern, market-based housing finance and production system in Poland; thus meeting objectives originally identified by Government officials. This is an excellent example where Polish officials identified general programmatic areas for USAID assistance, with USAID defining the implementation process to accomplish the general objectives.

A third example was in USAID contractors providing Central Government with alternative policy/implementation strategies from other nations, as well as from the U.S. International consultants, from other than the U.S., were also selectively used to provide broader policy discussion. This assistance emphasized tailoring assistance to meet the policy needs of Government, rather than trying to be doctrinal about using only U.S. approaches. This international approach was cited by several senior Government officials as promoting a trust and confidence that enhanced receptivity to USAID advisor assistance. For example, when Government was considering a format for secondary mortgage market structures, a USAID project employed a French consultant to assist with the analysis of mortgage bank structures in
several nations, including France and Sweden, in addition to U.S. consultants presenting the U.S. format, for consideration by Government officials. With confidence and trust established between U.S. advisors and Central Government officials, USAID assistance was able to more effectively provide vital technical inputs to support Polish policy agendas.

When USAID departed from this strategy, there was some resistance to certain project elements, e.g., the one area where USAID assistance received some negative comments during interviews was in the requirement for adding citizen participation components in local government projects. Citizen participation was a priority established by the U.S. Government, not a demand-driven request by local partners. With all of the other assistance needs, local government officials appeared to see this requirement as less of a priority and it was often viewed as diverting scarce resources to efforts that did not immediately focus on local needs. The several positive examples of citizen participation, that did result from USAID efforts, demonstrated that, at some time, this strategy would gain greater receptivity, but, perhaps, the timing of this strategy was premature given the significant problems confronting local government.

USAID/comments on the draft report requested the writer to comment on the following observation, “Missions cannot control the amount of resources they receive. Little correlation exists between program effectiveness and resource amounts. In this context, what lessons could be learned from Poland’s housing and local government experiences that would help Missions make the most out of their resources when they have them?” This question is deserving of consideration. In the next three paragraphs, the writer attempts to address how resources may be more effectively applied.

One technique that effectively used USAID limited financial resources in the Poland program was to provide a substantial up-front pool of funds that funded partner projects over an extended period as counterparts defined viable projects and conducted them successfully. It provided for maximum flexibility in applying limited funding to projects that proved their worth. This approach to project financing was incorporated under the Polish-American Enterprise Fund. Although this mechanism was not primarily focused on local government and housing (however, a major component was in the housing sector), the structure of the financing approach is applicable for government and NGO projects as well. A successor organization to the PAEF is now formed, the Polish-American Freedom Foundation, which will be endowed with an estimated $180 million of funding from the PAEF to continue to meet USAID assistance objectives in Poland.

A similar mechanism was developed under the USAID/Ukraine program, that involved the USAID/Poland program, and that is the Polish-American-Ukraine Cooperation Initiative, which provided an up-front commitment of $10 million in USAID funding without specifying activities to be funded over an extended period of years. These financing structures are discussed in more detail, below, in section 2. The PAEF, Freedom Fund and Polish-American-Ukraine Cooperation Initiative are not typical USAID procedures, but, perhaps, the lessons learned from them as financing mechanisms in Poland should be considered in other assisted countries.

93 For example, one interviewee indicated that rural municipalities had expressed considerable resentment for having to comply with citizen participation requirements. Interview with Wojtek Marchlewski, Consultant to the Association of Rural Gminas, April 1, 200
One Polish reviewer of a draft of this report commented, “At the beginning of the last decade, many people identified USAID with the Marriott Brigade model (a somewhat disparaging reference to the many short-term consultancies). Later many complained about the very slow bureaucratic reactions of USAID. In your report you mention how important is ‘demand driven’ assistance. Many people complained that, in transition economies, demand appears and changes sometimes very quickly. Slow bureaucratic machine reactions…(by USAID) was sometimes so slow that the final agreed upon programme was not required anymore.”

One approach for allowing more flexibility in USAID response (and, hence, better utilization of USAID funding) may be in the approach to the specification of performance indicators. Performance indicators, where applicable, should be defined more by overall results than project inputs into a process, e.g., the number of reports or training sessions produced by contractors, or even specific techniques, are not as relevant as the number of counterparts successfully meeting overall objectives promoted under USAID assistance, such as improved financial or program management. This would allow more flexibility in the project inputs and permit rapid responses to demand-driven technical assistance requests. In Poland, counterparts had the ability, over time, to better define assistance needs. In addition, with local government elections, new local priorities were sometimes defined that would have benefited from changes to previously agreed-upon assistance projects that did not have the flexibility to adapt to new conditions. This may not always be the case in all assisted countries, however, it more likely than not that local counterparts will be a most constructive contributor in defining assistance programs and their continued support of projects is vital to successful implementation.

The added monitoring complexities of allowing more flexibility in assessing successful project implementation with changing performance indicators is outweighed, in the writer’s opinion, by the advantages of better targeting assistance as acceptable (not all requests may be consistent with USAID interests) demand-driven requirements are defined by counterparts. Monitoring would be greatly facilitated by establishing reliable baseline data at the beginning of an assistance program to be able to measure results performance of projects over time. Adequate baseline data would be an effective measure to evaluate results rather than solely project inputs. Again, performance indicators could be made more flexible by defining them more by objectives, e.g., number of assisted municipalities with improved (definition of improved to be part of the indicator) local government financial and project management, rather than by inputs, such as implementation of a specific technique (e.g., strategic management process) and number of training sessions. This would allow the contractor to respond to counterpart needs over time as the contractor and counterpart are better able to define specific needs, with a possible shift in assistance from, for example, an original emphasis on strategic planning to capital improvements programming, without having to change project indicators.

As evident in Poland, agreements were entered into, up-front, with counterparts on specific techniques to be applied in specified municipalities, however, during the course of assistance, it became evident in a number of municipalities that counterparts really wanted a different focus for assistance. This experience is particularly germane to the Local Government Partnership Program (LGPP), a major USAID initiative which has contractual obligations to introduce specific techniques into a target number of municipalities based on quickly formulated up-front agreements. This format does not provide flexibility over time to respond to stated concerns that municipalities have voiced about the appropriateness of some of the techniques being pursued for their municipalities. Given contractual obligations, it is difficult for the LGPP to

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94 Comments by Pawel Swianiewicz, May 2000, on the draft report.
expeditiously shift assistance strategies. A positive example of indicator flexibility was the success of USAID advisors in assisting with housing policy. Over time, the technical assistance policy agenda changed considerably to respond to Central Government priorities (with USAID advisor inputs) and this built up a significant, positive working relationship between USAID advisors and Government officials leading to substantial progress.

USAID did promote concepts and techniques not demand-driven as well. For example, USAID directly promoted introduction of a Housing Finance Committee in the Polish Banks Association, which initially took a period of time to be accepted by the Association, but proved very effective over time. Although demand-driven technical assistance is an effective mechanism, the experience of USAID and U.S. advisors can often provide insights not readily apparent to counterparts. Thereby, by advocating a focus on demand-driven technical assistance, this does not mean to exclude the collective experience of USAID and advisors in the process. Where U.S. advisor and counterparts work in concert on defining projects, that most often produces the best assistance programs.

**USAID Funding Should Build Gradually and Provide for Sustainability at Completion**

The massive USAID assistance effort during the first five years in Poland, at times, was too extensive to be absorbed by counterparts and consultants, who both went through learning curves before being able to well-define assistance needs and better utilize assistance provided. In the early years of USAID’s program in Poland, there was substantial project funding available, resulting in numerous consultancies. In addition, other multilateral and bilateral assistance programs were similarly putting consultants into the field, which often resulted in competing (and not necessarily consistent with USAID) sources of advice. At that juncture, Polish counterparts were often unprepared to best utilize this assistance and U.S. consultants were learning the most effective process to provide assistance. With a new program, it is not easy to determine what will be the most effective form of assistance nor priorities for USAID.

USAID’s approach of exploring a number of concepts in the early years was effective in determining a focus for the latter years. It is often better to test a more wide-ranging assistance program in the early years then attempting to pre-define a program without experience in the field. As counterparts in Poland had only a broad idea of what was needed in the early years, experience gained with introducing pilot projects, containing a range of assistance options, assisted them to assess what was most relevant to their development requirements. For both counterparts and USAID, the process of pilot projects helped to define approaches for adaptation of concepts and techniques in subsequent years.

The process of involving counterparts requires more time than having contractors define project activities alone. The difficulty with this process in Poland was that a major portion of the funding, in the early years, went to defining and introducing a program and conducting pilot projects. That left less resources available to disseminate and implement assistance measures in the latter years of the USAID program, when the learning curve had been overcome and positive working relationships between U.S. and Polish project consultants and counterparts had been established. The LGPP project was designed to disseminate and implement techniques formerly introduced in pilot projects to many additional counterparts, however, by the time that the project began implementation, there were limited financial resources and only two years remaining to effect substantial knowledge transfer. The USAID strategy was sound to move experiences from pilot projects to more widespread implementation. However, experiences from the LGPP
demonstrates that information transfer and widespread adoption of techniques is a long-term process that requires continued support over many years. USAID Mission staff are exploring ways that financial support may be continued through other mechanisms, such as the Polish-American Freedom Foundation, and the Polish-American-Ukraine Cooperation Initiative (discussed below). However, many USAID Missions do not have a potential source of continuing funding after a Mission close-out, so long-term funding strategies must be designed into the projects or, as suggested herein, for sector-wide strategies.

Over the last five years, USAID funding began to gradually decrease, just at the time when counterparts had established positive working relationships with U.S. and Polish advisors under USAID projects and assistance needs began to expand to accomplish work begun earlier. Although the Poles have made impressive strides in the transition, many interviewees expressed the opinion that in the next few years USAID assistance would be very beneficial to fully implement policies and reforms. For example, Central Government officials indicated that many policy areas assisted over the previous ten years were now coming to serious national discussion, e.g., ad valorem local property taxes and reform of tax incentives for the housing sector, and USAID assistance to support the final implementation would have made considerable contributions to gaining enactment and effective implementation. The same can be cited for revamping local government financial planning, e.g., changing the local government budget reporting process to incorporate Task Based Budgeting. For much of USAID’s program in Poland, both ad valorem taxation and Task Based Budgeting were techniques included in pilot projects.

USAID maintains that it is the right time to leave Poland and that USAID’s objectives have been accomplished. The “right time” to terminate an assistance program is subjective and political. The donor agency often has limited assistance objectives and resources, however, counterparts, confronted with substantial remaining issues, realize the difficult task of continuing reform with much reduced resources. The question is really if limited donor assistance objectives accomplish what is needed to achieve what are long-term reform and stabilization processes. In Poland much progress has been accomplished and USAID assistance was very much appreciated. Poland had graduated to a new self-sufficiency. Counterparts, in asserting the need for USAID assistance, were attempting to point out how much USAID assistance did contribute and how much more could be accomplished with further assistance. Although USAID further assistance to Poland is, perhaps, not essential to initiate the reform process, it would, at this juncture, contribute significantly to finalizing and solidifying gains made during the previous ten years. That should be as vital an interest to the U.S. Government and U.S. economy as the early assistance to introduce a market-based economy and democratic principles.

NGOs, in particular, are impacted with the withdrawal of USAID assistance. A number of NGOs assisted will have to curtail valuable programs without further assistance. It took a number of years for NGOs to establish credible programs and gain public acceptance and it is extremely difficult to replace USAID support with local sources of funding. It is understandable that NGOs have to be weaned from USAID assistance, but there should be some basic level of continuing funding to support particularly effective NGOs that are not established to generate revenues, but deliver services. Without that continuing support, the progress advanced under USAID gradually, or in some instances rapidly, diminishes and, many times, disappears. For example, CIM, a Polish foundation established to support the development of local housing agencies, had to switch its strategy from assisting with the formation of new local agencies to generating revenues from its own development projects. The Crakow Real Estate Institute, a
Polish think tank on housing issues, generated the most substantial repository of information on housing and real estate in Poland, but has no financial means to support dissemination of information. Many training programs are curtailed or ceased without further USAID assistance. The philosophy appears to be to encourage NGOs to develop self-financing mechanisms rather than rely on USAID funding. That is an appealing philosophy in the American context, but often unrealistic for NGOs in developing nations.

Even in the U.S., many NGOs owe their continued existence to government support and often change their initiatives to respond to changing government programs. In order to survive, many NGOs in USAID-assisted countries have to alter their basic missions to respond to other donor programs and that often results in a considerable divergence from the original positive objectives or focus established under USAID. There simply may not be local financial support available to finance continued valuable programs. Of course, there are examples of NGOs that do survive, but they are in the minority. Although resisted under USAID policy, the strategy of establishing endowments to continue basic, effective services by selected NGOs can be extremely beneficial in continuing positive efforts well-beyond the close-out of the USAID Mission. Endowments can be cost-effectively monitored after a Mission close-out and funding discontinued if grantees fail to meet certain performance criteria.

The U.S. Congress expects the expeditious expenditure of funds allocated in a given year and, as a result, there are tremendous pressures to expend the funds and not have sizable funding pipelines or endowments. This is an issue that only USAID/Washington can deal with, but, perhaps, Missions can provide the experience and rationale for senior USAID officials to negotiate expenditure flexibility with Congress. As discussed, below, the Polish-American Enterprise Fund (PAEF), the Polish-American Freedom Foundation and the Polish-American-Ukraine Cooperation Initiative are three funding structures involving the USAID/Poland program that demonstrate possible models for other USAID country programs.

The PAEF was allocated a substantial up-front pool of funds by USAID in 1990 (a total of about $255 million in grants and technical assistance). The PAEF created subsidiary entities in particular programmatic areas, e.g., Micro, Small and Medium-Sized business lending, housing lending and privatization of State enterprises to disburse funds as counterparts defined acceptable requests for funding. This allowed for gradual increases in funding to viable projects and activities emerging from demand-driven assistance. The PAEF also created a foundation for funding scholarships and book publication. The PAEF dealt with private sector business development, however, the same project planning and disbursement concept can be adapted for government and NGO projects. This financing mechanism could promote project funding based mainly on viable work plans, jointly prepared by USAID consultants and counterparts, with reasonable prospects for successful results. Projects can be better defined in phases, with further funding depending on successful completion of prior stages. Projects in a particular sector could compete for financing based on work plans and successful implementation; effectiveness resulting in more funding. Using the PAEF model, USAID could be accorded the flexibility to reprogram any funds not effectively disbursed from one project to another project if results are not demonstrated over a reasonable time period. The PAEF had this flexibility for moving funds from one investment to another if results were not obtained.

The Polish-American Freedom Foundation is an excellent example of how USAID assistance can be structured to continue assistance on a productive scale after the formal USAID Mission has closed. This long-term funding strategy could be applied in a number of Missions, if USAID
is given the opportunity by Congress to plan allocation of resources over the long-term and be permitted to establish endowment-type structures to provide for supervised activities after the close of the formal program. The Freedom Foundation is the successor organization to the Polish-American Enterprise Fund, which was established with a substantial endowment by USAID to finance business development. The financial success of the PAEF enabled them to refund $120 million to the U.S. Government and establish an estimated $180 million endowment for the Freedom Foundation to continue support of USAID program objectives in Poland.

The Polish-American-Ukraine Cooperation Initiative is another funding mechanism that furthers sustainability of USAID assistance efforts. USAID/Ukraine has established a $10 million program, administered by a foundation, which will employ Polish expertise to assist counterparts in the Ukraine. This provides funding for employing Polish consultants and NGOs, many of which acquired significant expertise under the USAID/Poland program, and contributes to maintaining their sustainability. This financing mechanism may be applicable to other assisted countries, where an up-front pool of funds are committed to a sector without definition of specific activities and where these activities are contracted as counterparts define assistance requests that are acceptable under USAID objectives.

**Long-Term Advisors and Continuity of Short-Term Advisors are Vital to Successful Assistance Efforts**

There is a learning curve consultants need to overcome before technical assistance can be truly effective. Further, for counterparts to embrace technical assistance, they need to gain confidence in the advisors offering such assistance. USAID was fortunate to have committed advisors who were involved over many years with the Poland program. Many interviewees expressed their appreciation for the trust and confidence built up working with these long-term advisors, and short-term advisors who provided extended, periodic assistance, over much of the ten years. The relationships created were often as important as the technical advice, because counterparts were more receptive to the advice from these long-term associates. Short-term consultants, who only provided one-time assistance, were characterized in somewhat disparaging terms, called the Marriott Brigade, and were viewed by counterparts as being less effective. There were exceptions to this general observation, as some short-term consultants did make valuable contributions, especially when teamed with long-term advisors, but, generally, long-term advisors and continuing short-term advisors were regarded much more highly by Polish counterparts. Long-term advisors can be placed in local government, Central Government and the private sector.

It is difficult to determine up-front the prospective effectiveness of advisors, as much depends on the skills and experience of the advisors. There are few criteria that can be established to pre-determine the effectiveness of an advisor; so much depends on the individual’s ability to establish a positive chemistry with counterparts. A technical advisor needs to understand how to establish relationships as much as being a technical resource, so the more extensive the experience working with diverse cultures may be one factor that can help determine the potential for success. The technical competence of an advisor appears to be more important than the ability to speak the language, as counterparts can readily discern when an advisor lacks the necessary experience and knowledge to be effective. Language fluency can assist, but if the advisor cannot deliver, that rapidly becomes secondary, as a competent advisor can readily establish communications even without native language proficiency.
What also appears to be relevant is that when a long-term advisor relationship is effective, it is extremely difficult to replace that person. Thereby, as USAID often does, attempts should be made to maintain continuity of successful advisors. To assist USAID with efforts to retain effective advisors, USAID may want to consider inducements for continued successful service that are used in the U.S. military and private sector, including financial incentives or more liberal leave conditions to extend a contract. It is much more cost effective to continue an advisor with financial and other incentives than replace that individual with a new person that may or may not be as effective and, in any event, will take a prolonged period to learn the local perspective of the previous advisor. This will require changes in regulations, but may be worthy of undertaking such effort to amend regulations.

In Poland, this study identified several key contributions by long-term and continuing short-term advisors. The long-term USAID advisor in the Ministry of Finance, Department of Local Government Finance, was cited as establishing a particularly effective relationship with Ministry officials which enabled USAID assistance to be much better integrated into policy making. The same is true with the RTI advisors now posted in a Ministry for water supply policy formulation. Housing policy advisors, first engaged under the PADCO project, then later continuing under the Urban Institute Consortium, provided nearly ten years of short-term technical assistance, resulting in laudatory remarks by senior Government officials about their contribution to the new national housing policy agenda proposed for the years 1999-2003. The Harvard University team, working with the City of Lublin for five years, gained the confidence of City officials and local citizen groups to introduce an internationally-acclaimed partnership for revitalization of older neighborhoods. The long-term advisors on the CHF project were resident in Poland for eight years and, through the relationships they built up with officials at all levels, were able to gain entry for the successor Polish foundation to new partners. These are examples of the benefit derived through the continuity of advisors identified under this study: USAID contractors cited other examples in local government economic development and infrastructure development. Both USAID advisors and Polish officials interviewed confirmed that these long-term relationships were more constructive than the one-time assistance by other consultants.

There are competitive contracting regulations that often affect USAID’s ability to continue successful contractors on re-bidding of contracts. For example, the contract for the LGPP was awarded to a new contractor, when the financial bid was considerably lower than the consortium with successful experience in Poland. The new team had to undergo a learning curve that adversely affected implementation of the project, which may have been averted with the more experienced contractor who had established relationships with Polish counterparts and an understanding of the Polish system and society. The initial problems in LGPP (which are now being addressed with a new management team) significantly delayed effective implementation of the project, leaving relatively little time to accomplish essential objectives. The continuity of assistance was disrupted with the selection of a new contractor. Although there is no way to determine if the losing bidder, the firm with Polish experience, would have achieved more effective project implementation, there are reasonable prospects that the learning curve, at least, would have been eliminated.

As evident in the mid-term evaluation of the LGPP, the programmatic cost of a new contractor’s learning curve could be viewed as being much greater than the additional financial cost difference in bids. Substantial weight in the evaluation of bids is given to previous successful experience in a country, however, under USAID procedures, a contractor can make a particularly low financial bid that may, in the long-term, not be in the best interests of the overall assistance
program. USAID can make the determination that the technical proposal of a bidder so far outweighs another lower cost bid, that a higher bid can be accepted, however, that places USAID officials in a bureaucratically difficult position. In this case, after a formal protest had been lodged by the unsuccessful bidder, the Government Services Organization ruled that the technical differences in the proposals were not significant enough to select the higher cost bid. The “intangibles” of successful direct country experience cannot be readily costed. It is not an easy issue to resolve, but, perhaps, the LGPP experience in Poland will be illustrative for other Missions confronted with a similar dilemma. That does not mean that a contractor should be continued who has not demonstrated success and positive relationships with counterparts; mere execution of a contract does not always constitute success. Thereby, as often done (but not always) by USAID, an evaluation of contracts (and related projects in a sector, where applicable) would be advisable prior to re-bidding or bidding for a new, related contract. The evaluation(s) will also be constructive for USAID in framing a contract extension or new project.

Gradual Transfer of Technical Assistance Responsibilities to Local Providers Builds Institutional Capacity and Sustainability

USAID focused on involving Polish professionals in projects as technical assistance providers and on building local institutional capacity in private consulting firms and educational and training institutions. USAID projects also began to increase the responsibilities of Polish professionals to replace U.S. consultants in providing technical assistance and this, too, added to building local capacity. This strategy was well-appreciated by Polish counterparts and built capacity in Poland to sustain USAID-introduced concepts and techniques after close-out of the formal USAID program in Poland. The concentration on forming and/or strengthening Polish associations was another effective strategy in institutionalizing many USAID initiatives.

There are a number of examples of successful Polish consulting firms that evolved from USAID projects, such as LEM S.C., REAS Sp. zo. o and URBECON Sp. zo. o. CIM, the Polish foundation established to create local housing agencies, is now utilizing the knowledge gained under the USAID project to undertake direct housing development. Four real estate-related Polish associations were established under USAID assistance and continue to expand their roles in promoting this sector. All these organizations are self-sustaining in large part because USAID stressed the involvement of Polish counterparts in the conduct and management of projects. USAID’s last major project in local government, the LGPP, has transferred much of the technical assistance responsibilities to Polish professionals from U.S. consultants and this has proven to be an effective strategy.

U.S. Models Require Adaptation in Assisted Countries and Comparative Models from Other Nations are Valuable for Identifying the Most Appropriate Solutions for Assisted Countries

U.S. concepts, practices and techniques introduced into Poland were adapted over time to fit the Polish context. This process confirmed the need to adapt the U.S. experience for productive absorption in Poland. This may appear obvious on the surface, however, the effort to introduce U.S. systems and concepts into Poland did, at times, encounter difficulties until they could be transformed to suit Polish practices. For example, under the local government assistance program, the Task Based Budgeting technique underwent significant adaptation before its current structure was adopted. Real estate appraisal techniques combined practices used in Britain with U.S. techniques to effect a Polish system. Bank construction loan and mortgage origination
procedures were adapted by many banks, introducing variations to the basic concepts presented under USAID. Although not a U.S. technique, the same process occurred with the Dual-Index Mortgage structure advanced under a USAID project, with banks adapting the basic concept to introduce variations of the dual-index mortgage. A U.S. automated property management system introduced into Poland had to be adapted to Polish laws and practices. Some consultants (in particular, the Urban Institute Consortium) provided comparative models from other European and international experience, in addition to the U.S. experience, and this process was especially well-received by Poles, who could then determine which concepts and systems best addressed their needs and society.

Another strategy in Poland was to assure that major reports, practices, etc. were translated into Polish. The translation of major technical inputs was vital to the dissemination of knowledge process. USAID performed particular oversight for reports, conferences and other technical materials to assure that the presentations were accurate, convincing and translated into correct and fluent Polish. The emphasis on assuring extensive translation and quality control contributed to the credibility and effectiveness of USAID assistance programs and is a lesson for other Missions that can be applied from the Poland experience.

**Macro-Economic and Political Conditions Significantly Impact the Pace of Reforms**

The adverse macro-economic conditions prevailing in the early 1990s undermined successful implementation of the Mortgage Fund (there were other factors, too, such as the lack of private sector mortgage experience and continuing Government subsidies through the State bank, however, macro-economic conditions were the most serious drawback to rapidly implementing a mortgage industry). Macro-economic conditions also made development of new housing exceedingly difficult. At the time USAID began implementation of its housing sector strategy in 1992, inflation was exceedingly high at 42% and 35% in 1993 and real wages were declining at the same time. This was an improvement from the early years of the transition beginning in 1989, with inflation being 718% in 1990. The economic uncertainties of the early 1990s, coupled with an anti-debt culture where there was little experience with, and a negative attitude toward, incurring household debt, did not generate significant demand for mortgage loans.

Clearly, macro-economic conditions were not favorable to expanding mortgage lending in Poland during the early 1990s. USAID’s initial housing sector strategy was significantly impacted by early 1990s macro-economic conditions and only after conditions began to improve later in the decade did the USAID strategy become truly effective. By 1997, inflation had declined to 15%, further declining to 9% by 1999 and real wage growth continued on a positive trend starting in 1994. With improved macro-economic conditions, stabilization of the economy and a modern housing finance system becoming widely adopted in the banking and real estate sectors (in significant measure due to USAID assistance), mortgage lending began to rapidly increase in 1998 and, today, continues to expand substantially.

Changing political conditions also affected USAID program implementation. Local government elections impacted a number of USAID pilot projects, as some new administrations demonstrated less support for projects or even sought to reject techniques and practices introduced under USAID projects. The election of a post-Communist government in 1993 had significant impact on USAID’s program focus. These examples represent the lesson learned that macro-economic and political conditions often influence the pace of reforms and the effectiveness of technical assistance.
The lesson learned for other USAID Missions is that sector programs and projects must take into account macro-economic and changing political conditions. Addressing these factors would benefit from flexibility designed into performance indicators (as discussed, above, in section 1) to allow contractors to respond to sometimes rapidly changing conditions. Further, project evaluations should devote considerable analysis to macro-economic and political conditions as they impact on project performance. It is necessary to evaluate a project in the context of macro-economic and political conditions to fully assess contractor performance and to define effective strategies for continued assistance in a sector. Thereby, evaluation Statements of Work should include a background section on macro-economic and political conditions, how these factors impacted project performance and ways that a project can be strengthened given local conditions.
ANNEX 1

LIST OF MAJOR USAID PROJECTS IN POLAND
FOR LOCAL GOVERNMENT AND HOUSING SECTOR ASSISTANCE

22. KPMG IQC (which produced certain reports by the Urban Institute Consortium)
27. Development Credit Authority, USAID/Warsaw, 1999 – on-going.
RELATED PROJECTS

28. Peace Corps - assistance to local governments
29. 35 U.S. Government agencies with projects in Poland, e.g., Department of the Treasury technical assistance on banking sector.
30. Financial Services Volunteer Corp. technical assistance on banking sector
31. World Council of Credit Unions technical assistance on credit union development
ANNEX 2
LIST OF INTERVIEWS

The following interviews were conducted for the USAID Assistance Program to Poland in Local Government and Housing Sector Reform – A History And Assessment From 1990 Through 2000. The list is presented chronologically for each category.

IN THE UNITED STATES

1. Ron Johnson, former long-term advisor in Poland, RTI, March 13, 2000 (telephone).

VIA E-MAIL


USAID/WARSAW

13. Steve Horn, Deputy Director, Regional Housing & Urban Development Office, USAID/Warsaw, various dates from March 20 – April 7, 2000.
WARSAW INTERVIEWS

29. Krzysztof Kaminski, Center for Housing Initiatives (CIM), March 27, 2000.
32. Local Government Partnership Project Senior Staff Meeting (over 15 senior staff in attendance), March 28, 2000.
33. Irena Stocka, Chief Operating Officer, GE Mortgage Bank (former Director, Housing Finance Project Office, Mortgage Fund), March 28, 2000.
36. Lech Gajewski, Executive Director, Bank Śląski (and Chairman, Polish Banks Association Housing Finance Committee), March 29, 2000.
38. Władysław Jan Brzeski, Advisor to the Minister of Finance on Real Estate Reforms (former Director, Housing Finance Project Office, Mortgage Fund; President, Cracow Real Estate Institute and Deputy Mayor, Krakow), March 29, 2000.
45. Marek Koziařek, Director, Credit Department, HypoVereinsbank, March 31, 2000.
46. Wojciech Marchlewski, Consultant to the Association of Rural Gminas, April 1, 2000.
47. Agnieszka Krzywicka, Director General, Polish Association of Home Builders, April 3, 2000.
50. Ewa Bonczak, Vice President, State Office for Housing and Urban Development, April 3, 2000.
51. Wojciech Wojtysiak, former Program Director, Poland, Cooperative Housing Foundation, April 3, 2000.
52. Agnieszka Drewicz-Tulodziecka, President, Mortgage Credit Foundation, April 4, 2000.
54. Andrzej Kwiatkowski, Head of Unit, Department of Finances of National Economy, Ministry of Finance, April 4, 2000.
55. Marta Sambor, Department of Finances of the National Economy, Ministry of Finance, April 4, 2000.
56. Andrzej Porawski, General Secretary, Association of Polish Cities, April 4, 2000 (telephone).
58. Marek Dabrowski, President, Polish Real Estate Fund Sp. z.o.o. (former President of the Housing Development Company, an affiliate of PAMBank), April 5, 2000.
59. Olgierd Dziekonski, Deputy Mayor, Warsaw (former President of the Municipal Development Authority), April 5, 2000.
60. Maria Lubera, Advisor to the President, General Inspectorate of Banking Supervision, National Bank of Poland, April 6, 2000.
61. Krzysztof Kanigowski, Head of Unit, General Inspectorate of Banking Supervision, National Bank of Poland, April 6, 2000.
63. Jerzy Kurowski, Vice Manager, Department of Local Government Finances, Ministry of Finance, April 6, 2000.
64. June Lavelle, Consultant, April 6, 2000.
ANNEX 3

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29. Housing And The Macro Economy: Tax Reform And Alternative Subsidy Policies For Housing, Urban Institute, Sally Merrill, et.al., April 1999.


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45. Communal Credit and Development Program – Concept, draft, Urban Institute, Raymond Struyk, March 2000.
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58. LEM II / Poland, Final Report, Research Triangle Institute, November 1998.
64. The Self-Government Analysis System After Three Years, Pawel Swianiewicz, November 1997.
67. Lublin Local Initiatives Program, Case Study in the Institutionalization of Community Based Development, PADCO, Inc. & Harvard University, Mona Serageldin, March 1997.
70. Improving the Budget Process: Technical Assistance to Gdynia, Ostrow Wielkopolski and Regowiec Fabryczny, ICMA, August 1996.
72. USAID’s Role in Assisting in the Financing of Municipal Infrastructure in Central and Eastern Europe, draft, Urban Institute, Ritu Nayyar-Stone, March 1996.

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