



**P A D C O**

PLANNING AND DEVELOPMENT COLLABORATIVE INTERNATIONAL, INC.

**Housing Finance Technical Cooperation Contract for Poland**

**Seminar on Not-for-Profit Housing Developers (TBS)  
Krakow, Poland**

**Contrasting Not-for-Profits: A Summary of  
Comments by Presenters at the Seminar**

**Prepared for  
European Bank for Reconstruction and Development**

**Prepared by  
Duncan MacLennan  
PADCO, Inc.**

**Contract No. 9572  
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## **Contrasting Not-for-Profits: A Summary of Comments by Presenters at the Seminar**

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### **1 Purpose**

The Krakow conference brought together Polish, Western European, and U.S. experts to consider issues arising in the development of not-for-profit (NFP) housing organizations. In addition to presenting their papers, international experts participated in Panel Sessions all chaired by Duncan MacLennan. There have been difficulties in translating the record of these sessions. This paper tries to draw together the main themes of the discussions based on the notes of the Chairman and contrasts approaches to NFPs in the Netherlands, France, Scotland (and to a lesser extent England, where the policy regime is similar, but not identical), and the United States. More detailed discussions of country-specific issues are in the notes and papers provided by country contributors.

### **2 Sector Scales**

In contrast to the United States, where the non-market sector provides just less than 6 percent of homes, Western European countries typically have large non-market housing sectors. Their origins often lie at the beginning of the century, but their scale reflects post-1945 reconstruction and welfare state policies. The overall share of the social sector is 40 percent in the Netherlands, 37 percent in Scotland (and 25 percent for Britain as a whole), and 17 percent in France. The share of the overall social sector in new housing output has been dropping in all of these countries since the mid-1970s, but only in Britain, after 1980, has the absolute size and tenure share fallen significantly. For instance, in Scotland, the share of the social sector has fallen from 61 percent since 1975.

These reductions in Britain reflect a contraction in the municipal sector, both by removing new municipal investment and by selling council homes to tenants and other landlords, usually NFPs. In Britain, as elsewhere, the NFP component of the social sector has continued to grow. Growth in the 1990s has been ubiquitously slower than in the previous decade. At present, NFPs own 92 percent of the Dutch social stock, HLM own all of the French social sector, and, in Scotland, NFPs own just 12 percent of the social stock.

The large scale of the European social rental sectors means that they often dominate the market rental sector, providing three-quarters of all rental homes in Britain and the Netherlands and around half in France. This is in stark contrast to the United States, where the market rental sector is five times the scale of the social sector and where affordable homes have primarily been provided by tax-subsidized private landlords. It was agreed by the panelists that the Polish context was most similar, in structural terms, to the Scottish experience, given the large state sector and the relatively recent growth of housing associations.

### **3 Nature of the Organizations**

In Britain, housing associations are classified as private sector bodies and they have been registered with the government as being NFPs. Less than half have a charitable status. If they

wish to receive government assistance for development, they further have to register with the quasi-autonomous government bodies (Scottish Homes in Scotland and the Housing Corporation in England), which fund, supervise, and monitor housing associations. Membership of the association involves purchasing a nominal £1 share and this conveys the right to vote at Annual or Special General Meetings. Tenants do not have to be members and members are often not tenants. A Management Committee, usually of up to 16 members, is responsible for setting and monitoring the policies and accounts of the organization. In Scotland, tenants tend to be the majority on committees, but in England this tendency has been decreasing as associations have become more dependent on private financing and seek more "professional" committee members.

In the Netherlands, there is no special government body to deal with associations and they are supervised and monitored by the municipalities, though they have to be registered with the central government as non-profits or foundations, established on the condition that all surpluses must be reinvested in housing. Two distinct types of organization exist. In the associations, the Board of Members appoints a Supervisory Board to monitor executive performance and only one tenant is appointed to that Board. The Board receives modest payment for its involvement. In recent years, again with the growing use of private funding, many associations are transforming themselves into a different, but still NFP, entity called a "housing institution." This model has no members, does not have to have a tenant Board Member, and the Board select themselves.

In France, there are four distinct types of organizations providing NFP homes. The Offices Publics d'HLM are NFPs sponsored by municipalities or departments. They are public sector organizations, essentially municipal housing companies. The 15-person Board of Directors is comprised of 10 government representatives (5 local and 5 national) plus three tenants and two representatives of other social organizations. The OPAC are also sponsored by public authorities and operate under a mix of public and private law. The Sociétés Anonymes d'HLM are, by way of contrast, classified under legislation for private joint stock companies and they are permitted to make small profits with equity investors making a return. They are sponsored by a range of public and private bodies, including private sector firms, public enterprises local authorities, and others. Their Boards are comprised of 13 representatives of shareholders and 2 tenants. Other, smaller types of organizations also exist. This variety of organizational types is reflected in the TBS proposals for Poland as the HLM model was being used as a baseline.

Aside from variations in legal status, within as well as across the different countries, associations varied greatly in scale. In Britain, there are more than 2,500 associations (350 in Scotland). Most operate locally, within a single municipal area or even neighbourhood, and the larger cities of around 1 million people will commonly have 50 to 80 associations operating within their territories. Local associations usually have no more than 2,000 units. Regional associations may operate across a range of municipalities and have become increasingly important in recent years and have scales between 2,000 and 12,000 units. There are a number of national associations and a dozen with sizes exceeding 20,000 units. In the Netherlands, only a few operate nationally; the regional operators are becoming more important, but the vast majority operate within a single municipality. Of the 853 associations, only 24 exceed 10,000 units and two-thirds have less than 1,800 units. As in Britain, recent changes in funding arrangements, which have placed associations closer to the capital market, have stimulated a few mergers and have also resulted

in a growing proportion of investment programs being delivered by the larger organizations. There appears to be major scale economies in the raising of market finance. This is an issue that aroused much concern on the part of Polish participants, but the international experts reminded the audience that their national movements had also commenced on a small scale. In France, the HLM operate regionally or locally with the OPHLM having an average size of 6,000 units and the OPAC 17,000, but with the private HLM usually not exceeding 2,000 units.

In the U.S., the central government played a much smaller role in establishing and participating in NFPs, though there was a clearly established legal framework. Organizing committees were much more likely to represent genuinely voluntary rather than government interests, though municipal and state governments did play a role. There, NFPs were more likely to be local and small.

The European experts were particularly interested in one facet of the U.S. experience. In Europe, NFPs had explicit, if varied, housing remits. They could build new homes for rent, and in some cases for home ownership, and, in Britain and the Netherlands, play a crucial role in revitalizing housing and receiving stock transferred from municipalities. NFPs in the U.S. participated in a range of activities other than housing but closely related to it, for instance, dealing with local training and job-creation programs or environmental issues. Experts commented that this was an aspect of NFPs that should be more widely developed in Europe and there was some concern that Polish plans might ignore such matters, especially if the TBS were not to become involved in housing rehabilitation. It was felt that the French experience was not the best starting point for a model that treated new construction and rehabilitation evenhandedly.

#### **4 Establishing and Funding NFPs**

There were major differences in the ways in which housing NFPs were initiated. In the U.S., it was very much a "bottom-up" process, with initiatives stemming from the private and voluntary sectors and there were some similarities with the Netherlands. In both Britain and France, however, there was considerable public sector involvement in forming and promoting the NFPs. For instance, the national quangos in the U.K. will promote new associations in areas where needs exist but associations do not and, more generally, they will give financial and technical support to newly emerging association committees.

Once established, NFPs confront an array of funding issues and patterns that have both similarities and differences across countries. This summary provides only the briefest overview of some key questions. France relies on a system of subsidized loans provided through the Caisse de Depots, though limited grants (about 12 percent of project costs) are available. The provision of equity by some shareholders in some HLM is a distinctive aspect of financing of NFPs, and in most other countries equity investment does not exist at all in NFP projects. Subsidized loans or tax breaks support U.S. NFPs, and these are allocated, usually by state or local governments. In contrast to France and in common with the UK and the Netherlands, NFPs in the U.S. are not confronted by a monopoly supplier of subsidized funds and the best interest deals can be sought out over the financial system as a whole. The U.K. supports associations by up-front capital grants (known as Housing Association Grants or HAGs), which vary by project type and location from 40 to 95 percent of costs, but average 58 percent in England and

73 percent in Scotland. Grants, as opposed to loans, give considerable asset strength to NFPs early in their careers. Since 1988, there has been a great deal of innovation and competition in the provision of loan funds for the non-grant component of U.K. association spending, and borrowing margins over bank base rates have been eroding. Some larger associations borrow directly from the bond markets with their credit standing enhanced by private insurance, and there is lending by overseas banks as well as U.K. banks and building societies.

In the Netherlands, associations had made increasing use of a diverse range of private loan funds, which were usually provided by domestic banks and pension funds. Since 1994, Dutch associations have had to rely entirely on private loan finance and their own accumulated reserves. This followed the "grossing" operation in which the government set off future loan subsidies against the value of outstanding debts of the associations and, as the two were approximately equal, the overall housing association sector now has no debts and no prospect of future loan subsidies on existing stock. Credit enhancement for loans to associations is ensured by a guarantee fund organized by the national federation of housing associations and paid for by association premiums.

Regardless of the instruments used, two general features were apparent. First, associations are increasingly using private finance to fund projects and, secondly, the level of subsidy support remains high (often close to approximately two-thirds of project costs). Rents of such units, which in France and the Netherlands essentially remain controlled by the State, have manifested a third trend over the last decade or so; namely, they have increased by considerably more than inflation. Rent inflation rates have been double the general index in the U.K., a half larger in the Netherlands, and a quarter more in France. Housing allowance bills had burgeoned in consequence and there is a growing concern about the dependence of NFP revenue accounts on such government support, which could be curtailed in the future. Rents, in spite of the increase, were still well below market levels for similar properties and these rents, with considerable tenure security rights for tenants, made association renting generally attractive.

## **5 Developing and Letting Homes**

In most NFPs in all of the countries, associations would have a staff member responsible for managing the development process; the exceptions were very small associations that could buy in support, usually from other NFPs specializing in the provision of support services. In Britain, the U.S., and the Netherlands, almost all associations prepared a general business plan to convince funders of the viability of the organization, but this approach was reportedly less widespread in France. In developing specific projects, only the very largest associations maintained in-house design and planning teams and the norm was to contract these services out to the private sector or specialized secondaries.

In all countries, NFPs were given clear prior indications of the kinds of projects that would be likely to be prioritized and to be given guidance about maximum allowable cost levels. The English and U.S. systems were also explicitly competitive in that it was clear that those NFPs seeking lower subsidies for given types of project would be more likely to win support. Most approval processes involved a two-stage submission with approved preliminary proposals, then further developed proposals. In general, NFPs received in principle subsidy support for their

project before taking it to private financiers for their decision. Once projects were completed, there was generally some form of inspection to ensure their conformity with technical and funding requirements.

In all of the countries, NFPs had to develop explicit and needs-related housing selection policies; fairness in the use of public funds required such approaches. In general, new lettings by NFPs had increasingly been directed at the poor and the new clientele of the 1990s has been markedly poorer than the pre-existing stock of tenants. Most NFPs maintained their own waiting lists for potential clients, but in all instances local authorities and other investors had a right to nominate applicants for a proportion of NFP vacancies. The experts took the view that more attention had to be given to waiting and transfer list policies, which facilitated the movement of households, especially job-related moves. There was a view that common housing registers, where a single agency recorded the names of those seeking housing in an area and then made them available to all local and state NFP providers, had a growing role to play.

## **6 Managing Homes**

The international experts confirmed that a range of management systems and levels of effectiveness prevailed within each country. Smaller organizations often contracted out service provision to providers with scale economies. There was a view that for NFPs to provide a full range of services effectively, an organizational scale of at least 3,000 units was required, though there was little hard statistical evidence for this observation. Across the countries, there was little evidence that NFPs had any systematic evidence of the costs per unit of service for any of their activities. This is a worrying observation, as not all systems were competitive, more so in management than development activities.

It could be argued that the French system, where shareholders have made some equity investment, would be more likely to encourage Boards to ensure that managers performed effectively, and this would also be encouraged by the fact that housing allowances never fully cover the costs of tenants. Similarly in the U.S., tenants would incur most of the burden of management inefficiencies and pressure landlords to economize. Since 1994, the Dutch system should also encourage efficiency in production, but, as in the U.K., higher costs may be largely absorbed by housing allowances.

In Scotland, as for the rest of the U.K., high grant rates and housing allowances, which cover all of the costs of the poorest households, do not ensure efficient resource use. However, the U.K. has a very extensive system of monitoring association policies, costs, and outcomes. As in the other countries, associations have to produce annual accounts that relate to their subsidized activities. But British associations also have to produce other annual performance information and are, every three years or so, paid a formal monitoring visit by the supervising quango. The results of such monitoring now influence the allocation of new investment funds and are regarded with great importance by the private financial institutions that lend to associations. Dutch monitoring and supervision, by local authorities, has been less formally developed, though some associations are now developing performance agreements with municipalities. The Dutch federation of associations also scrutinizes the performance of struggling associations and has a member-endowed fund for the restructuring of poor performers. In France, formal monitoring

is less well-developed than in the Dutch and British cases, though the national federation does encourage peer review of performance and assists poorer performers. In consequence, there are few instances of associations ever defaulting on their loan obligations.

The U.S. approach has a different and interesting emphasis. State and local governments that have funded projects check that the properties constructed are used for the intended purposes and client groups and receive annual accounts for projects they have supported. So also do the banks that have provided support and they play an important role in this respect. Given the extent to which private finance now funds associations in other countries, it was agreed by the experts that new thought had to be given to the involvement of the private sector in monitoring. This observation may be currently less relevant to Poland, which has adopted a centralized lending model based on the French system; but it may become an issue as more diverse funding sources are sought.

## **7 Conclusions**

The experts strongly supported the notion that Poland would benefit greatly from having an active and modern not-for-profit sector to unlock investment in the rental sector. While the French HLM model had many merits and formed a useful starting point for the Polish TBS, it was clear that experience elsewhere posed important questions about how the model could be adapted and improved. The structure of the Scottish context provided clues about how TBS might evolve in a context of transferring management and eventually stock from other social landlords and U.K. monitoring systems were of potential relevance. The ability of the U.S. system to capture truly voluntary efforts and to link housing to other activities was worth noting. The Dutch approach to an important role for the national federation and the relationships developed with municipalities could also be relevant in the Polish context. It was also clear that systems in Britain, the Netherlands, and the U.S. had played an important role in rehabilitation of homes and neighborhoods, and that they had encouraged a diverse and competitive provision of private finance. Rehabilitation and diverse private financing are not the strong points of the HLM model and, if the Polish TBS are to benefit from such experience, the present model will have to be adapted.