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Planning & Development Collaborative International, Inc.

HOUSING FINANCE AND MUNICIPAL ADVISORY PROGRAM FOR POLAND

ANALYSIS OF THE NATIONAL HOUSING FUND IN POLAND

Prepared for:

United States Agency for International Development
Contract No. EUR-0034-C-00-4029-00, RFS-28

And

European Bank for Reconstruction and Development
Under a Subcontract with Credit Foncier

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ANALYSIS OF THE NATIONAL HOUSING FUND IN POLAND

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Executive Summary and Edited by
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Mr. Jean-François Grillon completed his work under contract to PADCO as part of the PADCO / USAID contract under the Housing Finance and Municipal Advisory Program for Poland. Mr. Grillon works with Caisse Des Depots et Consignations in France, and was involved in the early development of the National Housing Fund (NHF) design.

Professor Duncan Maclennan completed his work under contract to PADCO as part of the Credit Foncier / PADCO contract with the European Bank of Reconstruction and Development (EBRD). Professor Maclennan is the Director of the Centre for Housing Research at the University of Glasgow in Scotland.

The above two consultants were supported and assisted in their work by Mr. Richard Quigley, a PADCO resident advisor, who focused on feasibility issues; Ms. Martha Sickles, a PADCO resident advisor, who was "task manager" for the assignment; and Mr. J. Ronald Campbell (Program Manager and Chief of Party of the Housing Finance and Municipal Advisory Program for Poland under the PADCO / USAID contract), who focused on feasibility issues in relation to experiences and lessons-learned in the Mortgage Fund program.

Executive Summary

Efforts by the Government of Poland (GOP) over the past few years to introduce a social housing system recently culminated in the passage of the "Act on Selected Forms of Support for Housing and Other Decrees". This Act contains enabling legislation for the creation of the National Housing Fund (NHF) and Social Housing Associations (TBS) as well as a contract savings system.

This report was prepared at the request of the Ministry of Physical Planning and Construction with the objective to further the conceptual design of the system by drawing on the experience and practices of similar systems in Western European and the United States.

Currently, the NHF has a number of aims, including gradual reform of State budgetary support to housing, maintenance and stimulation of an affordable housing supply for low and medium income households and the attraction of financial markets (e.g., bonds) and/or institutional investors (e.g., loans or deposits) into the program.

Unfortunately, the current design of the NHF severely limits the ability of the program to benefit any significant number of households in Poland. In particular, repayment installments of NHF loans are currently pegged at 4% of the loan amount and rent restrictions are currently pegged at 4% of the replacement cost. These restrictions will strain the financial resources from the State budget, contributing to negative amortization requirements and inhibiting the ability of a TBS to collect sufficient revenue to cover repayments of private sector investments or loans. In this context, the NHF will undoubtedly have difficulty in attracting the interest of financial markets and investors.

As indicated in the body of this report, the current design requires levels of subsidy at between 60 and 70%. Obviously, such a high level of subsidy limits the scope of the program based on finite State budget allocations and raises questions of the ultimate sustainability of the program. Additionally, the program does not appear to have much, if any, flexibility in using the subsidy to leverage funds from financial markets or investors. For example, the NHF should be able to provide capital grants or very low interest rates (especially where lower income housing production is the result). It should also be able to accept a subordinate lien position on a project to allow a bank or investor to take the primary lien position. Ultimately, the program must provide some incentive for investors or financial markets to participate in the program.

The preceding constraints are probably the most critical requiring attention; otherwise, the program is unlikely to produce the number of housing units hoped for by the GOP. Other important changes that are needed to help ensure that the program will be successful and sustainable include:

- ***The different activities of the NHF (financing TBS, contractual savings system, financing infrastructure for municipalities) should be set up in separate accounts.***

- ***The BGK will need technical assistance in construction lending and its general role as NHF implementor. The experiences gained and training capacity developed in the Mortgage Fund at the Bud Bank should, at the very least, be tapped for this purpose.***

- ***The legal status of the NHF, or the BGK, should permit total transparency of the State budget funds particularly in relation to the State's housing policy.***

- ***The credit decision of an application from a TBS for a NHF loan must be separate from the decision on whether the project qualifies for funding according to housing policy criteria.***

- ***An assessment should be made of the 'market potential' for TBS, either for the first program year or over some longer planning period. This effort will provide the Ministry needed information on the potential demand on the State budget for NHF allocations as well as the potential demand for the formation of TBSs.***

- ***If the NHF balance sheet is consolidated within the overall BGK balance sheet, additional costs will accrue from demands of banking regulation, liquidity risk issues will be raised, and transparency problems in NHF's financial management will arise.***

By addressing such problems and questions early, the Ministry will be in a strong position to ensure that the NHF/TBS program makes a lasting and sustainable contribution to affordable housing in Poland.

TABLE OF CONTENTS

Acknowledgments ..... *i*

Executive Summary ..... *ii*

National Housing Fund Analysis *1*
Recommendations *3*

Analysis of a NHF Credit *5*

National Housing Fund Simulation *6*
Table of Parameters *7*
Estimated Accounts *10*

Development of the Polish TBS *13*
Summary *14*
Financial Issues *15*
Roles for TBS *17*
National Strategy Statement *18*
Approving the TBS Charter *18*
Screening Projects for Funds *19*
Monitoring *20*

Schedule of Contacts *22*

National Housing Fund Analysis[1]

The Government of Poland has passed an Act that reforms the rental housing sector, creating a National Housing Fund (NHF). This Act and the draft Ordinance[2] ***respect most of the original objectives of the Ministry of Physical Planning and Construction (MOSEC):***

Gradual reform of the budgetary support to housing.

Maintenance of a housing supply for low and medium income households regardless of the financial and economic situation.

To direct market resources in the financing system to TBS.[3]

Mr. Grillon conducted an analysis of the NHF with the Bank Gospodarstwa Krajowego (BGK) using an asset liability management model. A simplified model was used to project the evolution of the cash balance over 20 years. The analysis considers various assumptions:

0.The ability of the financing system of TBS to repay NHF loans (see Analysis of a NHF Credit). It appears that the input parameters defined by MOSEC are available. However, some adjustment must be made on repayments and interest rate indexing for greater security in the TBS financial equilibrium (the long term TBS balance is the best security for NHF activity).

1.The variation of the macro-economic parameters of the model:

. various economic scenarios, including inflation, construction cost index, etc.;

a. various costs of a loan and feasibility given rental levels;

This section of the report was prepared by Jean-François Grillon.

Regulations that are annexed to the Act, guiding implementation of the Act.

Editor's note: It will however be difficult for the NHF to attract such resources unless changes are introduced that ble a TBS to charge rents at levels that will generate enough revenue to cover the costs of market resources.

b. various kinds of loan instruments, in particular dual index loans.[4]

2.The variation of the financial policy:

. different kinds of budgetary support: capital subsidy, interest subsidy, or operating subsidy;

a. various scenarios of resource collection: State funds, market resources, etc.;

b. borrowing on the capital market in Poland and abroad.

3.The variation of commercial parameters in the model, including evaluation of administration and management costs of NHF.

[illegible] analysis,

Article 16.2: the Council of Ministers shall set up the Fund in BGK, adapting the Bank's articles to the requirements of this chapter.

Article 22.2: the financial plan of BGK shall provide a separate heading for the financial plan of the Fund, etc.

Article 22.3: BGK shall draw up a separate balance sheet and income statement for the Fund.

[illegible]

Article 18: the funds available to the Fund shall be allocated for:

Where loan repayments and the interest rate are indexed in relation to two different indicators.

- *loans extended on preferential terms to TBSs and housing cooperatives for construction of dwellings;*
- *credits extended to banks operating the contractual savings system to the extent necessary for support of current payment liquidity;*
- *loans on preferential terms to municipal administrations for installation of technical infrastructure associated with housing construction;*
- *carrying out other tasks connected with meeting the housing needs, defined by MOSEC in coordination with the Ministry of Finance, in particular repairs and modernization of dwellings for rent.*

[illegible]

Article 22.1: management of the Fund shall be the responsibility of the Supervisory Board of BGK, which will be expanded by the addition of two representatives of MOSEC.

Draft ordinance (§ 5.2): decisions will be made by the Board of BGK upon consultation with MOSEC.

[illegible]

[illegible][5]

[illegible]

[illegible] *include two steps:*

in the short term (next 2 years) the NHF will use the budget subsidy to provide loans to TBS and will study the resort to external financing. This means that the government's financial support takes the form of an annual grant to NHF.

Editor's note: Mr. Grillon anticipates that this consideration "has to be decided upon in consultation with the NHF"; howe possible for a TBS to be formed that chooses not to borrow funds from the NHF.

in the medium term (1998-1999) the NHF will resort to the financial market in the limits determined by the asset liability management model.

[illegible] separate from the Ministry's decision on whether the project qualifies for funding according to program criteria. Additionally, an application for a loan should be submitted after the project has been qualified under the program criteria.[6]

2. The maximum amount of NHF funds that can be invested in new TBS loans depends on the capital subsidy required in the budget and on the subsidy needed to cover the NBP rediscount rate. Therefore, a number of adjustments should be made to the loan parameters for TBSs, including:

repayments of NHF loans to a TBS must be linked to a national index representative of the rent evolution (e.g., National Construction Cost Index);

interest rates of NHF loans to a TBS must be variable and indexed to the full NBP rediscounted rate, or some other market-sensitive index;[7]

determine the amount of the loan (keeping the repayment within the legal maximum limit) based on the available rent which may be equal to or lower than the legal maximum rent;

include a fee or a deducted amount to feed a mutual guarantee fund for TBS.

3. A special legal status must be provided to the NHF, or the BGK must be restructured, to permit total transparency of the State budget funds particularly in relation to the State's housing policy. The management of the NHF by BGK

Editor's note: Mr. Grillon's original recommendation is somewhat less detailed. The editor revised the recommendatio ect a banker's perspective, who will not want to underwrite an application for a NHF loan without some assurance tha ets the policy criteria and priorities.

Editors note: The Mortgage Fund recently dropped the NBP rediscounted rate in favor of the 13-week Treasury Bills r proved by the Ministry of Finance, World Bank and USAID).

should be the subject of a detailed contract in case of NHF independent status. The monitoring of the NHF will be in the hands of the Board of Directors, including representatives of:

Ministry of Finance
ministry in charge of housing policy
municipalities, ...

4. The different activities of the NHF (financing TBS, contractual savings system, financing municipalities) should be set up in separate proper accounts.

5. A local housing committee (it may be an existing committee) should be set-up that will determine the priority of TBS projects seeking NHF financing. The determination of such priorities should be made in relation to available funds allocated to the NHF by the State, according to a set of totally transparent criteria.

6. Technical assistance to NHF for the main activities :

financial and juridical analysis of TBS and cooperatives borrowing loans,
economic and financial analysis of projects;
simulations of a monthly model of cash flow (over 3-4 years),
development of an asset liability management model over 30 years,
procedures and accounting principles,
definition and setting of guarantees for loans and resources,
evaluation of the NHF's activity.

Analysis of a NHF Credit

Unit size	*55*	*m2*
Cost / m2	*800*	*zl/m2*
Cost / unit	*44 000*	*zl*

NHF loan amount	*22 000*	*zl*
%	*50%*	

Economic hypothesis	*1996*	*1997*
Inflation (INF)	*20%*	*18%*
Construction cost (CCI)	*18%*	*16%*

Balance rent (zl/month)	*01/01/1996*	*Index*	*First year of renting 01/01/1998*
Loan repayment (4%)	*73*	*CCI*	*73*
Management cost	*41*	*INF*	*58*
Maintenance	*8*	*CCI*	*11*
TOTAL	*122*		*142*

Rent limit (zl/month)			
4%	*of cost*	*147*	*CCI*
201			

Household financial outlay (zl/month)			
Household income	*1 000*	*INF*	
1416			
Household expenses	*299*		*418*
in %	*29.9%*	*29.5%*	
rent	*122*	*CCI*	*167*
locative expenses	*177*	*INF*	*251*

Hypothesis of paper: ***"Simulated effects produced by the rental housing in the relation to the amount of state budget funds allocated for the NHF" MOSEC, 1995/09/12***

Sources of funds: ***State budget subsidy and issuance of bonds***

System capital subsidies: ***Hypothesis assumes decreasing inflation***

I) Table of Parameters to Detail

A) Index

	index 1 inflation	index 2 construc t cost	index 3 rate of deposits	index 4 rate of bonds	index 5 int. rate credit 1	index 6 1° instalm. credit 2	index 7 progression 86% CC	index 8 rate cash	index 9 int. rate dom loan	index10 int. rate for loan
1	20.00	18.00	20.00	22.00	15.50	4.00	15.48	19.00	23.00	15.50
2	18.00	16.20	18.00	20.00	14.10	4.00	13.93	17.00	21.00	14.50
3	16.00	14.40	16.00	18.00	12.80	4.00	12.38	15.00	19.00	13.50
4	14.50	23.05	14.50	16.50	11.80	4.00	11.22	13.50	17.50	12.75
5	13.00	11.70	13.00	15.00	10.80	4.00	10.06	12.00	16.00	12.00
6	11.50	11.50	13.00	13.50	10.60	4.00	9.89	10.50	14.50	11.25
7	10.00	10.00	11.50	12.00	9.50	4.00	8.60	9.00	13.00	10.50
8	9.00	9.00	10.50	11.00	8.80	4.00	7.74	8.00	12.00	10.00
9	8.00	8.00	9.50	10.00	8.10	4.00	6.88	7.00	11.00	9.50
10	8.00	8.00	9.50	10.00	8.10	4.00	6.88	7.00	11.00	9.50
11	8.00	8.00	9.50	10.00	8.10	4.00	6.88	7.00	11.00	9.50
12	8.00	8.00	9.50	10.00	8.10	4.00	6.88	7.00	11.00	9.50
13	8.00	8.00	9.50	10.00	8.10	4.00	6.88	7.00	11.00	9.50
14	8.00	8.00	9.50	10.00	8.10	4.00	6.88	7.00	11.00	9.50
15	8.00	8.00	9.50	10.00	8.10	4.00	6.88	7.00	11.00	9.50
16	8.00	8.00	9.50	10.00	8.10	4.00	6.88	7.00	11.00	9.50
17	8.00	8.00	9.50	10.00	8.10	4.00	6.88	7.00	11.00	9.50
18	8.00	8.00	9.50	10.00	8.10	4.00	6.88	7.00	11.00	9.50
19	8.00	8.00	9.50	10.00	8.10	4.00	6.88	7.00	11.00	9.50
20	8.00	8.00	9.50	10.00	8.10	4.00	6.88	7.00	11.00	9.50

B) Flows[8] (Where average cost of a flat in 1996 equals 44 000 zl, requiring a NHF credit of 22 000 zl)

	deposits	bonds	domestic loan	foreign loan	credit 1	number of flats	credit 2	number of flats	capital subsidy	budget subsidy	budget bal. sub	Total subsidy
1	0 zl	0 zl	0 zl	0 zl	22 zl	1 000	0 zl	0		50 zl	0 zl	50 zl
2	0 zl	8 zl	0 zl	0 zl	104 zl	4 000	0 zl	0		150 zl	0 zl	150 zl
3	0 zl	60 zl	0 zl	0 zl	302 zl	10 000	0 zl	0	99.34%	300 zl	0 zl	300 zl
4	0 zl	360 zl	0 zl	0 zl	863 zl	25 000	0 zl	0	57.94%	500 zl	0 zl	500 zl
5	0 zl	800 zl	0 zl	0 zl	1 700 zl	40 000	0 zl	0	58.82%	1 000 zl	0 zl	1 000 zl
6	0 zl	1 100 zl	0 zl	0 zl	1 900 zl	40 000	0 zl	0	52.63%	1 000 zl	0 zl	1 000 zl
7	0 zl	1 270 zl	0 zl	0 zl	1 855 zl	35 000	0 zl	0	48.52%	900 zl	0 zl	900 zl
8	0 zl	1 000 zl	0 zl	0 zl	875 zl	15 000	0 zl	0	40.00%	350 zl	0 zl	350 zl
9	0 zl	1 000 zl	0 zl	0 zl	953 zl	15 000	0 zl	0	31.48%	300 zl	0 zl	300 zl
10	0 zl	1 000 zl	0 zl	0 zl	1 029 zl	15 000	0 zl	0	30.00%	309 zl	0 zl	309 zl
11	0 zl	1 100 zl	0 zl	0 zl	1 112 zl	15 000	0 zl	0	30.00%	334 zl	0 zl	334 zl
12	0 zl	1 250 zl	0 zl	0 zl	1 200 zl	15 000	0 zl	0	30.00%	360 zl	0 zl	360 zl
13	0 zl	1 400 zl	0 zl	0 zl	1 296 zl	15 000	0 zl	0	30.00%	389 zl	0 zl	389 zl
14	0 zl	1 900 zl	0 zl	0 zl	1 400 zl	15 000	0 zl	0	30.00%	420 zl	0 zl	420 zl
15	0 zl	2 500 zl	0 zl	0 zl	1 512 zl	15 000	0 zl	0	30.00%	454 zl	0 zl	454 zl
16	0 zl	2 950 zl	0 zl	0 zl	1 634 zl	15 000	0 zl	0	30.00%	490 zl	0 zl	490 zl
17	0 zl	3 300 zl	0 zl	0 zl	1 764 zl	15 000	0 zl	0	30.00%	529 zl	0 zl	529 zl
18	0 zl	3 300 zl	0 zl	0 zl	1 905 zl	15 000	0 zl	0	30.00%	572 zl	0 zl	572 zl

All flows are in millions of z³otys.

19	0 zl	3 400 zl	0 zl	0 zl	2 058 zl	15 000	0 zl	0	30.00%	617 zl	0 zl	617 zl
20	0 zl	3 600 zl	0 zl	0 zl	2 223 zl	15 000	0 zl	0	30.00%	667 zl	0 zl	667 zl

C) Description of Resources and Credits

Type	bonds	domestic loan	foreign loan	credit 1	credit 2
index progression instalments		-	-	-	7 7
type of interest rate	variable	variable	variable	variable	variable
index of interest rate	4	9	10	4	
estimated life	10	5	20	40	32
deferred instalment	- amortization in fine	-	-	2 dual index adjustable life	2 1° instalment fixed 6% progressive amortization 5%

D) Description of Charges : Management and Guarantee Fund

management expenses

bonds issue :	1.00% of issued volumes
deposit :	0.30% of deposit
loans instruction :	1.20% of instalments

loans management :	0.30% of outstanding loans
guarantee fund :	0.05% of outstanding loans

II) Estimated Accounts

A. Balance Sheet

	deposit	reserves	result	bond debt	domestic loan	foreign loan	subsidies	credit 1	credit 2	cash	total balance
0	0	0	0	0	0	0	0	0	0	0	0
1	0	0	0	0	0	0	50	22	0	28	50
2	0	0	8	8	0	0	199	129	0	85	214
3	0	8	28	68	0	0	494	450	0	148	598
4	0	36	58	428	0	0	981	1 368	0	135	1 503
5	0	94	88	1 228	0	0	1 956	3 220	0	146	3 367
6	0	182	164	2 328	0	0	2 906	5 438	0	143	5 581
7	0	347	229	3 598	0	0	3 731	7 756	0	149	7 905
8	0	576	276	4 598	0	0	3 984	9 153	0	280	9 433
9	0	852	252	5 598	0	0	4 178	10 581	0	298	10 879
10	0	1 104	220	6 598	0	0	4 372	12 012	0	282	12 294
11	0	1 323	231	7 698	0	0	4 585	13 583	0	255	13 837
12	0	1 554	243	8 940	0	0	4 815	15 301	0	251	15 552
13	0	1 798	255	10 280	0	0	5 065	17 181	0	216	17 397
14	0	2 052	264	11 820	0	0	5 336	19 234	0	238	19 473
15	0	2 316	271	13 520	0	0	5 631	21 475	0	263	21 738
16	0	2 587	279	15 370	0	0	5 951	23 919	0	267	24 186
17	0	2 866	288	17 400	0	0	6 297	26 579	0	272	26 851
18	0	3 154	301	19 700	0	0	6 673	29 472	0	355	29 827
19	0	3 454	310	22 100	0	0	7 080	32 617	0	328	32 945

20	0	3 765	322	24 700	0	0	7 521	36 032	0	277	36 308

B. Income Statement

	interest credit 1	interest credit 2	cash income	subsidy recovery	balance subsidy	interest deposit	interest dom. loan	interest for. loan	interest bonds	managmnt cost	result
0	0	0	0	0	0	0	0	0	0	0	0
1	0	0	1	0	0	0	0	0	0	1	0
2	3	0	5	1	0	0	0	0	0	2	8
3	18	0	13	5	0	0	0	0	2	6	28
4	56	0	20	13	0	0	0	0	12	19	58
5	158	0	16	25	0	0	0	0	71	40	88
6	336	0	15	50	0	0	0	0	184	53	164
7	518	0	13	75	0	0	0	0	314	62	229
8	650	0	12	98	0	0	0	0	432	53	276
9	690	0	20	106	0	0	0	0	506	58	252
10	709	0	21	114	0	0	0	0	560	64	220
11	822	0	20	121	0	0	0	0	660	72	231
12	946	0	18	130	0	0	0	0	770	80	243
13	1 082	0	18	139	0	0	0	0	894	90	255
14	1 231	0	15	149	0	0	0	0	1 028	103	264
15	1 395	0	17	159	0	0	0	0	1 182	118	271
16	1 575	0	18	170	0	0	0	0	1 352	133	279
17	1 771	0	19	183	0	0	0	0	1 537	147	288
18	1 985	0	19	196	0	0	0	0	1 740	159	301
19	2 218	0	25	210	0	0	0	0	1 970	173	310

20	2 473	0	23	226	0	0	0	0	2 210	189	322

C. Capital Transactions

	deposits	interest deposits	bond issue	credit amortizat	loans	subsidies	amortizat bonds	amortizat loans	instalm. credit 1	instalm. credit 2	cash fluctuation
0	0	0	0	0	0	0	0	0	0	0	0
1	0	0	0	0	0	50	0	0	22	0	28
2	0	0	8	-3	0	149	0	0	104	0	57
3	0	0	60	-18	0	295	0	0	302	0	63
4	0	0	360	-55	0	488	0	0	863	0	-13
5	0	0	800	-152	0	975	0	0	1 700	0	11
6	0	0	1 100	-318	0	950	0	0	1 900	0	-4
7	0	0	1 270	-463	0	825	0	0	1 855	0	6
8	0	0	1 000	-522	0	253	0	0	875	0	131
9	0	0	1 000	-475	0	194	0	0	953	0	18
10	0	0	1 000	-402	0	195	0	0	1 029	0	-17
11	0	0	1 100	-458	0	212	0	0	1 112	0	-27
12	0	0	1 250	-519	0	230	8	0	1 200	0	-3
13	0	0	1 400	-584	0	250	60	0	1 296	0	-35
14	0	0	1 900	-654	0	271	360	0	1 400	0	22
15	0	0	2 500	-729	0	295	800	0	1 512	0	24
16	0	0	2 950	-810	0	320	1 100	0	1 634	0	5
17	0	0	3 300	-896	0	347	1 270	0	1 764	0	4
18	0	0	3 300	-988	0	376	1 000	0	1 905	0	83
19	0	0	3 400	-1 087	0	407	1 000	0	2 058	0	-27
20	0	0	3 600	-1 192	0	441	1 000	0	2 223	0	-51

Development of the Polish TBS[9]

Background

[redacted]

This analysis was conducted December 11 - 18, 1995, and reflects conditions at that time. Professor Duncan Maclen pared this portion of the report.

associated infrastructure and commercial properties (an important consideration in integrated approaches to neighborhood revitalization) but also compete to take-over the management of existing communal housing and, perhaps, ultimately the ownership of such stock. These are long term goals.

the model was driven by the public budget.[10] Clearly, it will be some time before the TBS becomes a vehicle for attracting private finance rather than merely focusing the equity donations of partners (which may themselves become limited in the longer term). It is perhaps worth noting that most of the more, now, market-oriented 'not -for-profit' sectors of western Europe had similar configurations in their early phases.

Editor's note: As currently structured, the NHF is virtually dependent on the State budget, is not sustainable at the l ls of subsidy, and is not likely to attract investment from money markets.

Given the limitations of the present TBS approach, and a possible change in policy emphasis, one alternative would be to withdraw from technical assistance in this area. However, it is conceivable that the GOP will, under pressures from the gminas, merely push ahead with the present framework (increasingly supporting co-operatives), ending up in five years with few new apartments and no system change.

Recommendation: Continue with technical assistance at national and local levels that develop financial, fiduciary, accounting and performance criteria and competencies which make the transition to an incentive and privately financed system more likely.

[illegible] strategy, the allocation

[illegible] **calculation** of parameters to make a loan subsidy approach[11] work. In consequence, at the center, there has been no full review of alternative funding strategies for the TBS and there seems to be little awareness of the requirements to bring 'not-for-profit' loans to financial markets.

[illegible] housing finance, not just to get the system moving but also to create a culture change in the housing sector which will serve efficiency objectives in the longer term.

[illegible]

As adapted from the French experience.

Recommendation: It is imperative that the Ministry makes an immediate assessment, by letter or telephone, of how many TBS are being formed throughout Poland at present and how many are likely to seek funding in the first year of the program.

[illegible] which 'partner' support is sustainable.

[illegible] individually or in syndicates, to consider accessing loan finance sources. But, this will require the TBS to have rental revenues that **exceed** those required to pay operating costs and the subsidized loan from the NHF. **More private finance in the model will either require a reduction in costs or an increase in rents and this reality cannot be avoided forever.**

[illegible] target subsidy more effectively by purpose and income group. This could be achieved in two steps. First, the Ministry could indicate to the BGK that the maximum loan percentage to be granted should be varied in line with the activities for which the loan is sought; reducing this proportion reduces NHF subsidy rates on the project. Secondly, the requirement for a uniform 10% tenant equity input could be dropped with higher income or asset tenants being required to make larger injections thereby reducing the overall subsidy enjoyed by more affluent groups and possibly raising it for poorer households.

[illegible]

implemented through the 'not-for-profits' and it diversifies the social mix, reduces the burden on state funds and provides a basis for individuals to accumulate funds and move on into full owner occupation in due course. In Poland, the city of Srem formed a TBS in advance of the legislation and have built and occupied homes with tenants who put down a 25% equity stake, hence revealing a local market for equity sharing.

Recommendation: The Ministry should now give urgent attention to the possibilities for developing equity sharing arrangements within the TBS, helping them to become a bridge between renting and individual owner occupation.

[redacted] Ministry will relax the current level of rent control on the TBS, currently set at a maximum of four per cent of the replacement value estimated by the voivodships. Also, a simulation should be conducted on the alternative profiles of assets and debts that would build up in a grant led subsidy system in order to assess impacts on public spending and on the capacity of the TBS to develop an equity base for private borrowing.

Roles for TBS

[redacted]

that such a policy would have similar effects in Poland, but it is an important issue for exploration.

Recommendation: Financial and social implications of stock[12] transfers should be explored.

[illegible] developments including renting, equity sharing and full home-ownership as long as the latter category are clearly excluded from subsidies received.

[illegible]

[illegible] Ministry should publish their program priorities at least three months ahead of the budget year. If different segments of the program are, eventually, to attract different maximum proportions of loan subsidy then these rates should also be published at the same time.

Approving the TBS Charter

[illegible]

Existing gmina-owned housing stock.

charter of a TBS should it cease to conform to legal obligations? The draft Ordinance says nothing about the procedures to be followed in the event a TBS charter is revoked or what happens if the Supervisory Council of a company decides to cease operating as a TBS.

Recommendation: A statement should be prepared to guide what happens to tenants, housing assets and outstanding loans from the NHF in such instances. These may be covered by existing commercial or co-operative laws but this needs to be confirmed. The government should retain some right to repayment of subsidy in certain closure circumstances.

Screening Projects for Funds

[illegible] **Ministry will have to make the housing policy appraisal.** Three issues then arise; the screening criteria of the Ministry and the NHF; the order of screening, that is whether the Ministry or the BGK screens the projects first; and at what geographic level government screens for housing policy purposes.

[illegible] development will make to housing policy. It is, however, extremely important that the Ministry does not 'over-regulate' the TBS and what is required here is broad guidelines, and not detailed bureaucratic scrutiny of every project.

[illegible] **Recommendation:** The TBS should be required to submit a business plan[13] which covers all of their proposed activities over a forward period of 3 to 4 years with their loan

The business plan should set out: aims of the TBS; intended geographic areas of operation; intended activities and how t
be developed over time; constitution and arrangements for tenant participation and reporting performance to tenants; r
cies; tenancy agreements; repair policies; tenant selection policies; mechanisms for liaising with communes in ter

applications for a specific project. This will help both the BGK, in selection, and the TBS, by requiring them to have a clear forward view of their business and housing strategy. In future years, as the program matures, applications should also be accompanied by monitoring information relating to the past management and financial performance of the TBS.

[redacted] approvals are to be phased throughout a financial year as, when there is excess demand for funds, there is no guarantee that early submitted projects will be the best.

[redacted] the idea of TBS (after a year or two the Ministry should be checking where TBS have not appeared and why).

[redacted]

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ction and strategy development; staffing and intended development of staffing; a financial plan indicating likely future level port from funding sources. Obviously the first year of the plan will be firmer than the last and should be subject to a m sion every four years. There may also be merit in the Ministry receiving copies of business plans to facilitate understan ow the movement is developing.

each region on the basis of their strategic housing policy significance. This may also encourage gminas and other partners of the TBS within regions to make more competitive bids for funds rather than expect some allocation as a right.

Monitoring

[illegible] annual reports on the accounts, management performance and activities of the TBS they supervise (with guidance from the Ministry) and submit them, respectively to the BGK, the Organization of TBS and the Ministry.[14]

[illegible] **performers a joint investigation by the three bodies could suggest ways to improve.** As noted above poor performance could lead to de-registration and the transfer of TBS assets but to avoid local conflicts of interest (which are apparent for example in the proposed constitution for the Krakow TBS) this should be a decision for the three national partners rather than the local supervisory partners (though they could actively seek de-registration).

[illegible] interest. In the UK, in the 1970's, there were a number of scandals where contractors[15] on the committees of housing associations blatantly used their positions to secure subsidized work contracts without competitive tender. There, now, all contracts have to be competitively tendered and board members have to declare commercial interests and distance themselves from any decisions which involve their own companies. Such financial probity will be required if the TBS are ever to attract, in the longer term, finance from lending institutions. Some may argue that this may reduce contractor cash support for TBS, but it is arguable that contractors will only provide support up to the level of extra profits they might make from non-competitive tendering.

[illegible]

Editor's note: The specific circulation of these annual reports, as recommended, would be particularly appropriate for T[illegible] apply for and receive loans (or grants) from the NHF. However, the practice of producing such reports is hi[illegible]ommended as a means also to ensure transparency.

Editor's note: These comments on "contractors" apply also to developers, builders or even bankers who may sit on [illegible]rd of a TBS. The value of having such professionals on the Board is very positive, but adequate precautions must be ta[illegible] revent abuse.

such support has to be made clear on a project-by-project basis. Indeed, there may be some benefit in the TBS being allowed to have a competition amongst local contractors before submitting a specific bid so that they secure the best terms for the contract, a procedure which would also allow the contractor to provide their advice in the specification of the bid. The Ministry will have to set very clear guidelines for this process if local animosities are not to be heightened, though present commercial laws and legislation relating to public works may be sufficient to deal with these issues as long as monitoring takes place.

Schedule of Contacts

Bank Gospodarstwa Krajowego (National Economy Bank):
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Ms. Wolska
Ms. Chmielewska, Chair of BGK

[illegible] as well as
Ms. R_biasz, Vice Prezes
Mr. Terajski, Public Relations

Ministry of Physical Planning and Construction:
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Mr. Zycin_ski
Mr. Zielenski
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