



## **Cooperative Development Program Evaluation Case Studies from Poland**



**Submitted August 15, 2003**

**By**

**CHF International  
8601 Georgia Avenue, Suite 800  
Silver Spring MD 20910  
301-587-4700  
mailbox@chfhq.org**

## ACKNOWLEDGMENTS

Dr. Barbara Czachorska-Jones holds a Ph.D. in law from the Institute of Legal Sciences of the Polish Academy of Sciences. Before joining CHF International, she worked as a research associate and lawyer. With CHF since 1991, Barbara has been involved in privatization efforts in Poland, Russia, Hungary, Lithuania, Ukraine, and Kazakhstan. She participated in the design of CHF's projects in Poland, and managed the project implementation from 1992 and 2000. Since 1997, she has been actively involved in the Cooperative Development Program focusing on the development of cooperative governance.

*Cooperative Development Program (CDP) Evaluation. Case Studies from Poland* acknowledges the efforts of the whole team and in particular:

- Dr. Judith Hermanson, Vice President, for her overall guidance;
- Tamara Arsenault, Senior Program Development Officer, for her insightful and creative input;
- Maciej Tertelis, CHF International consultant, for conducting interviews and studies in Poland;
- Dr. Bruce L. Anderson, Cornell University, for providing his academic perspective;
- Heather Bowen, Communication Specialist, for her editorial assistance.

## **List of Tables**

- Table 1. CDP-Poland Beneficiaries
- Table 2. CDP-Poland Objectives and Role of Local Partners
- Table 3. CDP-Poland Implementation Problems
- Table 4. Comparative Data on Case Study Condominiums
- Table 5. Comparative Data on Leadership
- Table 6. Comparison of Role of Condo Association Board
- Table 7. Comparative Role of Board Officers
- Table 8. Comparison of Management Structure and Duties
- Table 9. Comparison of Loan Data
- Table 10. Types of Physical Improvements
- Table 11. Comparison of Cost Savings
- Table 12. Comparison of Levels of Delinquency
- Table 13. Comparison of Average Price per Square Meter
- Table 14. Average Percentage Gained per Square Meter 1999-2003
- Table 15. Comparison of Adjusted Financial Ratios for 2002

## **List of Attachments**

- Attachment 1: Outline/Contents of CDP Case Studies  
OCDC Financial Ratios for Cooperatives**
- Attachment 2: Cooperative Development Framework Checklist, Case Condo #1,  
Chopina Street, Sopot, Poland**
- Attachment 3: Cooperative Development Framework Checklist, Case Condo #2,  
Czyzewskiego Street, Sopot, Poland**
- Attachment 4: CDP-Poland Activities and Results by Project Objective (June  
1998 – November 1999)**
- Attachment 5: BBG/Millennium Condo Loans Portfolio Analysis**
- Attachment 6: Financial Analysis:**
  - 6.1: CHF's Adapted Ratios for Case Condo Associations for 2002**
  - 6.2: Comparison of Condo Budgets for 2002**

## Acronyms and Abbreviations

AWIM	Agencja Wspierania Inicjatyw Mieszkanowych (Agency to Support Housing Initiatives)
BBG	Big Bank Gdanski, S.A. (now <i>Bank Millennium</i> )
BGZ	Bank Gospodarki Zywnosciowej
BK	Bank Komunalny
CAI	Community Association Institute
CEE	Central and Eastern Europe
CIM	Centrum Inicjatyw Mieszkanowej (Center for Housing Initiatives)
CDO	Cooperative Development Organization
CDP	Cooperative Development Program
CHF	Cooperative Housing Foundation (CHF International)
Condo	Condominium Association
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
NCB	National Cooperative Bank
NHA	National Housing Authority
OCDC	Overseas Cooperative Development Council
PLN	Polish local currency (zloty)
PPP	Public-private partnership
SWM	Stowarzyszenie Wspolnota Mieszkaniowa (Society of Condominium Associations)
TBS	Polish acronym of a Social Building Society
TRC	Total Renovation Cost
USAID	United States Agency for International Development
VIP	Visiting International Professional

## EXECUTIVE SUMMARY

CHF International completed this case study as part of the organization's Cooperative Development Program (CDP), financed by the United States Agency for International Development (USAID). The study is one of a series of evaluations prepared at USAID's request, by members of the Overseas Cooperative Development Council (OCDC), seeking "to document, from a common perspective and in quantifiable ways, the development process and the *organizational* and *operational* capacities of the assisted cooperatives." Each OCDC member selected a specific cooperative assistance activity as an example of its development programs, and conducted a case study of the activity, utilizing the same, agreed outline and financial framework.

### Objectives of the Case Study

This case study examines CHF International's experience in Poland, from February 1998 to December 1999, as the organization worked to assist local partners in addressing the problems of transition and transformation of the housing sector. In particular, under CDP, attention was focused on issues concerning the existing housing stock, and expanding access to financing of home improvements and capital renovations. CHF International aimed at expanding the capacity of the newly formed condominium associations to better manage their stock, and to borrow funds for future renovations, which would result in a better quality of life and an increased efficiency of operation. Successful examples were shared with other newly formed associations, and the application of cooperative principles was strengthened.

Two condominium associations located in Sopot, Poland, take the center stage in CHF International's case study. The study attempts to capture changes since these associations were registered in 1995, their participation in a condominium (condo) renovation loan program with training and assistance from CHF during 1998 to 1999, and their current condition today. This case study examines:

- 1) The development process used by CHF International to provide assistance to the condo associations;
- 2) The capacities of the associations, before and after implementation; and,
- 3) Lessons learned from project implementation.

The study also examines the perspective of the partner bank and the partner city, because close collaboration between the condo, the city of Sopot, and Big Bank Gdanski (BBG) was necessary to make the loan program for condos successful. The study reflects a significant contribution made by CHF International through CDP, which resulted in a steadily growing loan portfolio, and continuous improvement in the housing stock in Sopot, as well as improvements in the governance structure and management of the two condo associations.

### Methodology

The CDP-Poland project aimed at assisting local partners in addressing the problems of transition and transformation of the housing sector, and developing local capacity to deal with their housing issues. Through a series of pilot projects, CDP facilitated physical improvements by working with partner associations, applying a "learning by doing" methodology, providing training, and capacity building. The expansion of access to financing of home improvements and capital renovations was addressed through developing link-

ages with local banks and municipal authorities, and the experience of one particularly applicable and successful condo loan program — that of Sopot and BBG — shared with other associations. Apart from working with newly formed condominium associations, CHF International trained and assisted other local NGOs in developing their capacity to provide technical assistance on a "fee-for-service" basis, and at the end of the program, left behind a significant body of knowledge and local expertise. Successful examples were shared with other newly formed associations, strengthening the application of cooperative principles even in other countries.

### **The Polish Economy and Housing Market**

It is important to understand the context and key elements of the Polish housing market, and the role of condominium associations.

- The housing sector was undergoing a structural transformation as the Polish economy transitioned from a planned to a free-market one.
- Condominium associations do not fit the mold of a typical production or service cooperative—the condo's primary objective is to preserve and increase the value of the housing stock they manage, and to ensure the highest level of efficiency at the most effective cost. The increased value is reflected in the increased market value of the individual units.
- The Unit Ownership Law, created in 1994, provides a legal framework for the creation of condo associations. However, the law neither addressed the issue of fifty years of deferred maintenance and responsibility for the physical conditions of the buildings, nor the overwhelming need for technical assistance and training to help new unit owners understand their responsibilities under the law.
- The sluggishness of the Polish economy at the time, coupled with the extremely poor conditions of the condos, created a difficult lending environment, which required significant financial input on the part of low-income condo members. However, the case study demonstrates that even under these difficult conditions, renovation loans can be successfully used to meet a condo's objectives, particularly when supported by a public-private partnership.

### **Impact**

This evaluation focused on one specific aspect of the CDP-Poland program: the experience of a lending program involving a public-private partnership, which resulted in a successful operation lasting to this day. At the center of the evaluation are two condo associations that participated in CDP-Poland activities and training. These associations were able to translate the acquired learning into a successful lending experience. Based on our analysis of the two condos, and the overall condo renovation loan program, CHF International has identified impact on a number of levels.

#### ***Impact on Program Participants***

- The improvements at the two studied condos would not have occurred as rapidly as they did, without the assistance provided by CHF International through CDP. We helped the condos better organize themselves so they could apply for, receive and repay the loans. Others also benefited from CDP condo-focused training in the Gdynia/Sopot area.<sup>1</sup> Activities included more than the two studied con-

<sup>1</sup> Sopot, with 40,000 inhabitants, is a part of three-city metropolitan area including Gdansk, Gdynia, and Sopot on the Baltic Sea coast.

dos, and involved a local facilitating agency and a consultation point established with the participation of the national Society of Condominium Associations (SWM). Viable condominium associations, that were able to operate in a business-like manner, were critical to the success of the program. CDP helped create a cadre of professionals that condos could approach for assistance.

- The studied condos would not have received the loans had it not been for the *cooperative methods* they applied to organize themselves. The membership structure gave them the organizational means to take collective action, and arrange management and loans for renovating the building for the occupants' mutual benefit.
- There is vast potential for replicating of this model, given the similar situation of existing housing in Central and Eastern Europe (i.e., poor physical conditions of the stock, economic difficulties due to transformation). While great opportunities exist, there is also the need for further research.

### ***Economic Impact***

- Due to participation in the loan program and the subsequent property renovations, assets of the condos and the individual members (i.e., units) grew in value.
- The opportunity to participate in the loan program spurred many condominium associations to explore the potential for generating additional revenues to help offset the expenses of the loan. (For example, converting a portion of the building to commercial space for rent, or converting basement space into an apartment.) Ultimately, though not all these actions were successful, the efforts show the willingness to engage in new enterprises, creativity, and renewed interest in building up an economic foundation for actions benefiting all owners.
- Investments in renovations have a broader economic impact through the local construction industry. In CHF's estimates, a typical renovation project of 8 months duration (calculation made for a typical condo building of 56 units) generates 244 person months of employment or over U.S. \$100,000 in value of local gross income generated.<sup>2</sup>
- The bank that participated in the program expanded its loan portfolio and diversified the client base. In the case of the studied bank, BBG (now Bank Millennium, S.A.), the number and the size of condo loans continues to grow.
- The city expanded its tax base, and improved its physical appearance, making it a more attractive place to invest.

### ***Governance Impact***

- The training offered through CDP provided the condo association members with knowledge of their roles and responsibilities, and the confidence to move forward and participate in the loan program. Striving successfully together to fulfill a common objective laid the foundation for the continuing successful management and maintenance of the buildings. Experience gained through participation in the repayment process contributed positively to the overall understanding of lending procedures by condo owners and helped establish good financial practices reflected in a rapidly declining rate of delinquency. Also, it inspired the majority of owners to help the few who had difficulty in meeting loan conditions.

---

<sup>2</sup> Barbara Czachorska-Jones, *Assessing Economic Development Impact of a Housing Program (on the Example of CHF-Poland Project 1992-1999, and Beyond)*. CHF's internal publication, April 2002, pp. 9-11.

- The positive experience of participating in the loan program encouraged the residents to tackle other projects such as the installation of new intercom systems, and renovation of ornamental and decorative parts of the exterior and interior.
- Participating in the training gave the condo managers the confidence to make decisions on whether to manage the property themselves or to hire a property management firm. Each of the two condos studied chose a different path with successful results.

### ***Business Support***

- CDP contributed to the development of the condominium/property management industry in Poland. Over 100 individuals were trained in the course of 4 major training workshops held at pilot locations. Local technical assistance providers (30 Agencies to Support Housing Initiatives or AWIMs<sup>3</sup> that CHF helped establish) were inspired to address condo issues, and trained to provide help. Manuals and information materials were published and disseminated, helping to educate a cadre of local specialists, who to this day, assist condos on a sustainable, fee for service basis.
- Independent consultants who participated as CDP staff or consultants, continue to serve the needs of the condo and cooperative housing market.<sup>4</sup>

---

<sup>3</sup> The acronym AWIM is based on their Polish, *Agencja Wspierania Inicjatyw Mieszkaniowych*.

<sup>4</sup> The *Bibliography* lists several publications prepared and published by former CDP-Poland staff members.

## I. INTRODUCTION

At the request of the U.S. Agency for International Development (USAID), Office of Private and Voluntary Cooperation, eight Cooperative Development Organizations are participating in review of USAID's cooperative development. As part of this process, each organization agreed to prepare one or more cases studies of recent cooperative development projects. A feature of each case study is an assessment of the financial strength of each studied cooperative.

This case study is CHF International's contribution to the series of evaluations prepared by the eight members of the Overseas Cooperative Development Council (OCDC)<sup>5</sup>. OCDC's mission is to strengthen the ability of member organizations to promote cooperative development in developing countries and emerging democracies, and the collective knowledge we have gained from participating in this program review, helps to fulfill that mission. The series of evaluations seeks "to document, from a common perspective and in quantifiable ways, the development *process* and the *organizational* and *operational* capacities" of the cooperatives which have been assisted by OCDC members. Each OCDC member selected a specific cooperative assistance activity as an example of its development programs, and conducted a case study of the activity, utilizing the same, agreed framework which was prepared by a design team comprised of staff from OCDC members. The standard outline, as well as a common set of financial ratios which was developed to facilitate comparative analysis, are included as an attachment to this evaluation (See Attachment 1: Outline Contents of the CDP Case Studies and OCDC Financial Ratios for Cooperatives).

We identified two condominium (condo) associations in Poland, which participated in our Cooperative Development Program (CDP) from 1998 – 1999, as the focus of our case study. Poland was selected by CHF International for three reasons:

1. Given the number of projects we currently implement in countries undergoing a similar political and economic transition (e.g., Romania, Serbia, Bosnia-Herzegovina, Kosovo, Montenegro, Azerbaijan, Uzbekistan, Mongolia), we thought the Polish experience would be particularly relevant, and that we might have "fertile ground" for replicating its successes.
2. The housing sector in all of these countries faces similar challenges and must develop ways to deal with the problems of recently privatized housing stock in poor physical condition. Residents are usually untrained, and lack the financial and managerial skills to meet the challenges. The Polish experience of building a public-private partnership (PPP) to implement a successful condo renovation loan program could provide a model for institutionalization and further replication.
3. The Poland study offered an opportunity to review a past program activity that applied cooperative methods, and significantly impacted governance structures and practices.

Through CDP-Poland, CHF International supported three pilot projects in Gdynia/Sopot, Warsaw, and Kutno. Gdynia/Sopot was selected for further study for two reasons:

---

<sup>5</sup> OCDC members include ACDI/VOCA, CHF International, National Cooperative Business Association, National Telecommunications Cooperative Association, NRECA International, Ltd., Americas Association of Cooperative and Mutual Insurance Societies, Land O' Lakes, Inc., and World Council of Credit Unions, Inc.

1. The condo renovation loan program that CDP-Poland helped to assess and implement in Sopot represented an example of a successful PPP between the city of Sopot (which provided an interest rate subsidy) and a local bank, Big Bank Gdanski (BBG/Millennium), with the potential to be replicated elsewhere in the country and the region.
2. Practical considerations also drove the selection, such as the availability of materials, interest on behalf of the condo representatives who participated in the study, as well as their readiness to share pertinent financial and institutional data with CHF International.

The two specific condo associations in Sopot were selected because representatives from both participated in CDP-Poland training sessions held in 1999, and both condos received renovation loans under the city of Sopot-BBG program, respectively, in 1997, 2000, and 2001. Finally, when contacted in May 2003, representatives from both groups were willing to share their experience as well as specific data for the purposes of this study.

In many respects, the two condos selected are representative of similar condos across Poland, and in some respects they are not. Built in 1910 and 1920, they are representative in the relative physical deterioration of the buildings and the extent of deferred maintenance, and similar in style and architecture to other buildings of the same era in Poland, particularly in the Gdynia-Sopot-Gdansk triangle. However, they are not representative of the prefabricated panel technology construction of the big "block" apartment buildings so prevalent in the '60s and '70s, and which blight the landscape throughout many former communist countries.

Both condos were registered in 1995, as were almost all other condo associations in Poland after passage of the legislation mandating the formation of associations in 1994. The two case study condos are also representative in that previously they were managed by a state-owned property management company, they contain residents from a cross-section of society, and the unit owners had no previous experience with property management or understanding of their role as members of a condo association.

The two condos are not representative in the sense of their relatively small size, only 9 and 13 units respectively. After the destruction of World War II in Poland, many multi-family buildings were constructed of much larger size, ranging from 100 – 1,000 units. However, we believe many of the lessons learned from this case study, and the recommendations can be applied in a context of much larger buildings. While resolving differences through consensus may become more complicated with a larger number of members and competing voices, the learning process of educating members and helping them to understand their roles and responsibilities as members of a condo association, as well as the potential to improve the conditions of their building through borrowing, is the same.

In Section II, this study examines the development and implementation process used by CHF International – our approach, project objectives, project human and financial resources, and the effectiveness of project implementation. In Section III, we describe the two case study condo associations and analyze their capacities both before and after implementation, looking closely at organization and governance, cooperative management and operations, business performance, and salience. Section IV summarizes the lessons learned from project implementation, while Section V presents a financial analysis, adapting the OCDC Financial Ratios for Cooperatives to the context of condo associations in Poland.

## **II. THE IMPLEMENTATION PROCESS**

This section provides a general description of the CDP, the focus of this case study. It also addresses the process of implementation, including CHF International's strategy, and approach to decision making, along with the problems and issues confronted. The impact of the program in Poland is also considered.

### **A. Project Description**

#### ***CHF's Global Perspective***

Through CDP, CHF International has been working to increase the availability of affordable housing services to underserved populations by promoting and strengthening cooperative housing systems. In 1997, work began in three original focus countries—Philippines, South Africa, and Poland. Our work in Poland started in spring 1998, and involved 14 percent of the overall CDP budget. Lasting 20 months, the work concluded in December 1999.<sup>6</sup> In the fall of 2002, activities began in Bosnia-Herzegovina, building on CDP-Poland's experience. In addition to the fieldwork, CDP included an institutional strengthening component. CHF International used CDP headquarters' funds to strengthen communications and outreach, management information systems, credit management systems, and to establish a network of professional volunteers and institutional and private members.

While CHF's headquarters is responsible for the overall management of the CDP, CHF field staff in Poland, Philippines, South Africa, and Bosnia, manage country-based activities. An important initiative of CDP was the establishment of a volunteer network. CHF recruits, orients and fields volunteers specializing in housing finance, land tenure policy, community development, membership outreach and management, and related sectors, with the ultimate goal of strengthening the capacity of local organizations to provide services to indigenous cooperatives. CHF has also established a membership base to encourage individuals and organizations, particularly those involved in cooperative development, to participate in CHF's programs.

### **1. Background and Overview**

#### ***Housing Sector Reform Process***

The process of democratization and economic reforms, that began in the early 1990s in Poland shifted responsibility for housing from central authorities to newly elected local governments. Faced with critical housing shortages, local governments looked for effective methods to stimulate the private housing delivery system. Innovative institutional arrangements and new ways of doing business were needed to match the high expectations about democracy and the free market. There was extreme pressure to meet the demand for improved housing, but little private sector capacity, and a state-dominated housing industry incapable of responding to the new demands of the free market. Newly elected local governments were overwhelmed with their new responsibilities and unsure of their roles in promoting housing construction. In theory, with the local government increasingly withdrawing from this sector and the private sector expected to mobilize itself successfully and swiftly, it was expected that housing would be provided in a new way.

---

<sup>6</sup> The total CDP budget (1997-2000) was U.S. \$2,995,355. The CDP-Poland budget was U.S. \$428,000. Since USAID was ending its assistance to Poland in early 2000, CHF International's exit strategy and post-exit sustainability issues were of utmost importance.

However, the private sector was very weak, with no organizations able to provide housing in accordance with free market principles.

CHF responded in the early 1990s with a series of activities, funded by USAID, to address these diverse sets of needs starting at the local level, and using models that could be easily replicated in communities across Poland. Building partnerships at all levels, CHF addressed both issues relating to new housing delivery, and those of the existing housing stock. Our work involved a wide variety of public and private sector institutions, including municipal authorities, housing cooperatives and newly formed home-owner/condominium associations, as well as residents interested in improving their living conditions. As a result of CHF activities from 1991 to 2000, 32 local nonprofit housing developers, Agencies to Support Housing Initiatives (AWIMs), were established across Poland, building close to 2,000 cooperative units.<sup>7</sup> The national Center for Housing Initiatives (CIM) based in Warsaw was established to provide support to the AWIM network and to serve as a self-sustaining catalyst for local change and improvement of affordable housing.



*The contrast between blocks of houses and smaller single family homes, desired by families living for years in over-crowded conditions, is quite striking. Under USAID funding, CHF assisted in establishing local facilitating agencies, AWIMs, which provided organizational and managerial assistance to small, democratic housing cooperatives building homes across Poland.*

Responding to other needs of the Polish housing sector, CHF also worked on issues pertaining to transition and transformation of the existing housing stock. CHF worked with several local housing cooperatives to adapt existing systems to new operating conditions, and assisted in the development of new managerial and financial approaches.<sup>8</sup> When a new legislation was passed in the mid-1990s, this need expanded to other forms of housing ownership, specifically, condominium associations. Even though legally not the same, housing cooperatives and condominium associations share many features which allow us to treat them as similar entities for purposes of this study.<sup>9</sup> Both are enti-

<sup>7</sup> CHF International's project *Strengthening Market-Oriented Housing Delivery System through NGOs, Poland 1991-2000*. Over half of these businesses function today providing "for fee" housing services to local clients.

<sup>8</sup> Barbara Czachorska-Jones, Judith A. Hermanson, Agnieszka Baumritter, James L. Womack, *Consolidated Project Report: A Pilot Project for the Management and Maintenance of Cooperative Housing in Poland*, (CHF internal publication, October 1993 to May 1994), reporting on activities implemented under RFS #38 under sub-contract to the Urban Institute.

<sup>9</sup> From a management standpoint, the differences are minimal. From a legal standpoint, condominiums and cooperatives are types of community associations developed around the turn of the century as an attempt to control the growth and use of real estate. They are created and governed by statute and/or contract and are intended to create communities for the common good of all its participants. Through such associations, people get quality housing at an affordable cost with many of the amenities and services they would otherwise be unable to afford. Detailed arrangements vary — individuals may purchase units, or the right to oc-

ties that exist for the development, sale, and administration of residential real estate, both are self-governed, with residents elected to serve on a board of directors and on committees for the betterment of the community. These common features and adherence to the majority of co-op principles<sup>10</sup> allowed CHF to broaden the traditional understanding of "cooperative" structure, and include condominiums in its programs. A number of technical assistance and training activities were implemented before the CDP-Poland started.<sup>11</sup>

### ***Cooperative Development Issues: The Condominium Challenge***

CDP-Poland was designed to promote local innovations and initiatives to address the complex problem of transition and transformation of the existing housing stock.

In 1994, before the introduction of the new form of "condominium or homeowner associations" in Poland, housing ownership comprised: individually owned units—43.5 percent, cooperative—27.7 percent, communal/state-owned—17.8 percent, and factory-owned units—11.0 percent.<sup>12</sup>

With the removal of the strictures of a planned economy, free market concepts came into vogue with enthusiasm. But often little attention was paid to the limitations created by the past system. In the case of housing, it was believed that rapid privatization would create forward-looking homeowners, bank loans for building renovations, and stimulate a wide range of private sector services, including property management.

---

copy a unit, whether it is a house, apartment, town house or garden apartment, and share common areas with other unit owners. Their common feature is that associations provide for a system of self-governance whereby residents elect one another to serve on a board of directors and on committees for the betterment of the community.

A *condominium* is the form of ownership under a master deed that describes the manner in which the property is divided into individual, separately transferable units. An individual owns a particular unit, and is a tenant in common with respect to ownership of the common elements in proportion to the relative value of their respective units. In comparison to a cooperative, membership in a condominium is automatic with the purchase of a unit.

A *cooperative* is a corporation that holds title to all of the units and the common areas. By lease or other form of contract, individuals receive shares in the co-op entitling them to exclusive rights of occupancy of a particular unit through an associated long-term "proprietary" lease. Technically, individual purchasers do not have ownership of a unit, only ownership of shares entitling them to exclusive possession of that unit.

<sup>10</sup> The most differing feature seems to relate to membership. Whereas voluntary and open in cooperatives, membership is automatic when purchasing a unit in a condominium association. Whereas cooperatives can select its members, condo members cannot, except by purchasing a unit, if available. Membership in a condo is automatically terminated when the unit is sold. Whereas cooperatives can terminate membership for non-adherence to rules, condos have less enforcement power, which is defined by statute or declaration.

<sup>11</sup> In 1996, under sub-contract to the Urban Institute, CHF implemented a series of activities under "A Pilot Condominium Project: Establishment of the Homeowner Association." Several selected condominium associations in Warsaw were assisted in taking over the management of properties. This specific project vividly illustrated the diversity of encountered needs and prepared the foundation for the CDP-Poland in June 1998.

<sup>12</sup> Data cited from a Housing Research Institute publication, *A Profile of the Housing Sector in Poland*, Warsaw, 1996, p. 93.



*Many buildings suffered from neglect and deferred maintenance. Typically, significant financial resources are needed for capital renovations and upkeep. L: Kutno, CDP-pilot building 1999; R: Sopot building, badly in need of renovations, condition of 1998.*

Unfortunately, these theories failed to take into account that participation in the benefits of the market economy would be uneven among the primarily low-income, often elderly, occupants of existing housing, and that fifty years of deferred maintenance had produced a housing condition far beyond the resources of all but the most affluent.

Throughout Poland, condominium associations and public entities were experimenting with creative approaches to this challenge.<sup>13</sup> In Gdynia/Sopot, the city government created an interest subsidy program, and formed a partnership with a local bank to provide renovation financing to condo associations. In Szczecin, the city government established a matching grant program for condo repairs. In Kutno, a nonprofit organization was formed to assume responsibility for managing city-owned stock, including the condominium buildings. In Krakow, a district management system was established as a step toward privatizing the property management system. Each of these initiatives offered a different approach to the transformation of the housing stock produced during the communist period. Some were more successful than others, but each represented a step away from the idea that there existed a single, comprehensive solution, and each was an opportunity to learn. The role of CDP was to facilitate these local initiatives with training, financial technical assistance, and dissemination of success stories so that they would be replicated in other locations.

#### ***a. Project Setting and Target Groups***

The new Polish government, democratically elected in 1989, decided to transfer ownership of the majority of state-owned buildings to local governments. However, these same local governments had also assumed responsibility for many other aspects of public service delivery, including the costly obligation to rebuild much of the basic infrastructure. Municipalities quickly discovered that the cost of operating and maintaining the former state housing stock was a major drain on local resources, so they endorsed the idea to continue the unit sale method established by the former government.<sup>14</sup>

<sup>13</sup> See more on background conditions and situation in the mid-1990s in C. Banks, S. O'Leary, C. Rabenhorst, *Comparative Analysis of Housing Privatization and Condominium Initiatives in Poland, Hungary, Slovakia, and Romania*, (Conference on Privatized Housing, Warsaw, Poland, 1996), pp. 3-4, 10-11, 14, 18.

<sup>14</sup> In 1975, the Polish central government owned approximately 2,056,400 residential units and state-owned enterprises owned another 936,200 units. Starting that year, the central government began to sell individual units to residents, thus decreasing the overall number of units it was responsible for. The continuation of this method after 1989 relieved municipalities of, at least, some of the cost of operation, and generated revenues for other municipal purposes. However, municipalities also took an additional step that would prove to further confuse matters. In many instances, municipalities specifically retained ownership of the ground level com-

Initially, current residents were quite willing to purchase their unit at a nominal cost. Pride in ownership is deeply rooted in Polish culture, and buyers saw the opportunity to purchase a unit as a way to gain control over their lives and to control living costs. Unfortunately, the urgency for ownership led many buyers to ignore the true cost and management obligations associated with condominiums. The impulse to buy was simply the desire to wrest control of the unit from the public entity. The driving concern was for the unit, not the building, and the experience under communism had made people resistant to arguments for collective responsibility of the common areas of the building itself.<sup>15</sup>

According to official statistics from the State Office for Housing and Urban Development, in 1997, although 32 percent of the total condominium stock was privately owned, only 14 percent of condominium buildings had a majority of privately owned condominium units.<sup>16</sup> Mixed ownership has produced an unfortunate and potentially intractable conflict between public entities and private condominium owners. It was generally agreed that the buildings were in need of substantial renovation, but in the absence of either public or private resources to solve the problem, buildings deteriorated further. Public entities tried their best to minimize further investment in their units so that resources could be used for other purposes, and current private owners used their limited resources to improve the interiors of their units. But this solution was not sustainable, and building conditions could not be ignored for long. New approaches and innovative solutions were badly needed.

### ***Cooperative Law and Regulations***

#### ***Unit Ownership Law of 1994***

In 1994, the state legislature passed a formal legal framework for condominiums. Unfortunately, it added to the existing confusion and conflict. Instead of creating a practical, legal guide for the creation and management of condominiums, the compromise that emerged among the lobbying forces led to an unpopular law.

The Unit Ownership Law, passed on June 24, 1994, addresses the legal structure and management of condominiums. Its essential guidelines include the following:

- All condominiums must be registered in the public record prior to sale.

---

mercial spaces and diverted the often-substantial rental revenues to the general city budget. The newly privatized industries for their part followed the same path as the municipalities, and began an aggressive unit sales program to relieve themselves of the costly management and operation of their stock of deteriorated housing.

<sup>15</sup> To compound matters, two social safety net laws were passed to protect the interest of low-income people. The first was a complicated rent control law designed to protect residents of publicly owned or operated buildings from rapid rent increases. Although well intentioned, this measure inadvertently reinforced the idea of guaranteed low-cost housing established by the former government, and essentially removed much of the incentive to purchase units. The second, ultimately reversed, required a municipality to continue to subsidize the operating cost of any building in which it owned units. This measure attempted to protect private condo owners from public entities that might walk away from the obligation to share the cost of operation. However, it also served to discourage the complete sale of the units in a particular building and to disguise the true costs of building operations because of the particularly obscure methods by which local governments subsidized housing. These disincentives, combined with the increasing realization among potential buyers that the units were more of a financial liability than an asset, ground the unit sale method to a virtual halt. A more recent study conducted by CHF in the spring of 2003 confirms that only very few units were sold this past year and mixed ownership continues.

<sup>16</sup> Currently estimated at 60 percent to 40 percent, respectively.

- "Common area" is defined as any aspect of the building not used for residential or commercial use. The law also establishes a formula for determining the common area.
- Condominium fees are established to cover the cost of common area operation, maintenance, and improvement.
- The condominium fee is apportioned to uses of the property based on the size of the individual unit, whether publicly or privately owned.
- All condominium buildings, whether newly constructed or an existing mixed ownership building, must be formally registered in the public record. Each condo has to establish an association of all of the members and a supervisory executive committee.
- Alternative forms of property management are defined, and the supervisory committee must to formally determine which method it will use and register that decision in the public record.
- Decision-making and operating procedures for the condo association and the executive committee are defined.
- Uniform accounting and financial reporting procedures are established.

On the surface, each of these provisions appeared quite reasonable, and in fact, they work fairly well for newly constructed condominiums. But for the much larger issue of mixed-ownership condos, a very different situation emerges.<sup>17</sup>

By far, the most difficult and divisive aspect of the new law as applied to mixed ownership condominiums, was the requirement that all owners, private and public, contribute to a fund for the renovation of the building. The law of 1994 failed to appreciate the limited consensus that existed regarding responsibility for the repair and renovation of these buildings. No national level funding program has been created to recognize that the condition of the buildings is a function of often shoddy construction and decades of deferred maintenance by state agencies. Local governments assumed responsibility of the stock on the assumption that the units could be sold quickly. The unit sales method was essentially a process of passing along the responsibility for deteriorating housing stock to unsuspecting buyers. To many people, passing the Unit Ownership Law of 1994, without the commitment of national funds, was like the proverbial "passing of the buck." Municipalities and the condo owners alike found themselves explicitly responsible for creating a renovation fund to repair the deteriorated buildings.

Yet, in spite of all the problems faced, there were specific advantages for condos — the ability to sell or rent a condo apartment, no need to pay a rental fee, owners had the

---

<sup>17</sup> We include a few examples to illustrate this point. The allocation of the condo fee based on the size of the unit did not recognize that in many cases it is extremely low-income elderly who now occupy these units, and their ability to pay has little to do with the amount of space they now occupy. The requirement that the common area be accurately determined did not recognize that building records are often inadequate or unavailable, and complying with this provision required the costly re-measuring of entire buildings. Disputes continue to date. The provision requiring the creation of an executive committee allows for the creation of a single person committee (with pay), creating an opportunity for one individual to control the future of the entire association and its property. Finally, the uniform accounting procedures did not recognize that for many small condo buildings, the cost of a professional accountant was neither warranted nor possible.

freedom to make decisions about the maintenance and conservation of the building, and the ability to act jointly with other condo owners.<sup>18</sup>



*Following legal changes, renovation work across the country picked up in the middle of the 1990's. Visible contrast between "the old" and "the new" provided incentives to engage financial and human resources. Pictured: typical sights from Sopot, February 1999.*

### *CDP- Poland's Programmatic Goals*

Against this background, CDP-Poland was designed to assist in addressing the complex problems related to the transition and transformation of the existing housing stock, especially developing capacity and expanding access to financing for home improvement and capital renovation projects.

A strategic choice had to be made whether to focus CDP-Poland on the mechanisms of delivery of new units, or rather, to address problems concerning to the existing housing stock. Several arguments favored the second area of focus:

- CHF had already been addressing housing delivery issues through a number of on-going programs. CDP offered an opportunity to expand our focus.
- In mid-1990, the existing condo-owned housing stock in Poland amounted to over 1.3 million units,<sup>19</sup> most of which was poor quality due to deferred maintenance. At the same time, people wanted to improve the physical condition of their housing in order to improve their "quality of life."
- Legislative actions had already been undertaken resulting in the formation of condominiums. However, it was not combined with preparatory actions that would ensure the needed social support. As a result, widespread lack of understanding, confusion, high anxiety, and discontent was widely voiced by residents who perceived the restructuring process as an inadequately prepared shifting of responsibility. Quick action was needed to address these concerns.

<sup>18</sup> Wanda Urbanska, *A Guidebook for Condominium Associations in Poland*, Conference Materials, (Conference on Privatized Housing, Warsaw, Poland, 1996), pp. 2-3.

<sup>19</sup> Based on statistics from the State Office for Housing and Urban Development for 1997:

- a) Units owned by the state and transferred to local government control: est. 2,000,000, including:
  - b) Units retained permanently by municipalities: 751,600
  - c) Units organized as condominiums (in 76,733 buildings): 1,304,800
- Within the latter category (condominiums):
- Condo units owned by private individuals: 426,700
  - Condo units owned by municipalities: 878,100
  - Units owned by former state enterprises (in 18,920 buildings): 91,200

- Given the level of deferred maintenance, the cost of needed renovations in most cases went far beyond the resources of all but the most affluent. This contrasted sharply with the characteristics of the average condo resident—low-income, often elderly occupants. Innovative solutions were badly needed to ensure creation of conditions leading to bank loans for building renovations and the stimulation of a range of private sector services, including property management.
- Similar conditions characterized the existing housing stock in other countries in the region, providing fertile ground for replicating lessons learned and sharing experiences.

All these considerations favored CHF's strategic choice to focus on issues relating to the existing housing stock.

#### *Underlying Implementation Considerations*

Another area of strategic importance was the availability and the effective use of human and financial resources at CHF's disposal. CHF International was already addressing various problems related to the Polish housing delivery mechanisms and the production of new units through locally established NGOs. Working through CDP with condo associations, we had an opportunity to expand our outreach, to build links between the programs, and to maximize our impact by widening the scope of reach of the technical assistance NGOs (AWIMs) which we helped create and train. This tied in with the need to build exit and sustainability mechanisms into the program in view of the anticipated withdrawal of USAID from Poland in early 2000.

A final strategic consideration concerned the application of cooperative structures, methods and mechanisms, while at the same time using the knowledge and experience developed in the United States in this area. As one of the strategic CDP objectives, cross-country sharing of knowledge and experience was an important tool in promoting the cooperative methodology and a vehicle of restoring confidence in the efficiency of these mechanisms in dealing with housing issues. Since the Polish legislation introducing condo associations entered into force in 1995, no preparation or transition time was allowed for these new concepts and structures to gain popular acceptance. On the other hand, U.S. experience with housing cooperatives and condominium associations was considerable, as was the opportunity to build linkages and learn from it. The U.S. approach could also prove useful in establishing more effective links between the private and public sectors, including associations, local governments and financial institutions, in order to make credit for renovations more accessible to potential borrowers.

#### *a. Intended Beneficiaries*

<b>Direct Beneficiaries</b>	<b>Intended Benefits</b>	<b>Expected Number of Beneficiaries</b>	<b>Actual Number of Beneficiaries</b>
Target condo associations and residents	<ul style="list-style-type: none"> <li>• Improved living conditions</li> <li>• Increased understanding of the structure of a condo association</li> <li>• Enhanced skills needed to participate actively in the</li> </ul>	Units improved: 50 x 4 people/unit: 200	Units improved: 128 x 4 people/unit: 512

	<p>management</p> <ul style="list-style-type: none"> <li>• Improved awareness of housing issues, expanded capacity to address problems facing condo associations</li> </ul>		
Financial institutions assisted with lending for home improvements	<ul style="list-style-type: none"> <li>• Exposure to working with private and public sectors in partnership</li> <li>• Exposure to working with condo associations as borrowers and gaining awareness of issues confronting these groups;</li> <li>• Revision of lending criteria to allow for specificity of associations as borrowers</li> </ul>	3 financial institutions	<p>BBG (Big Bank Gdanski): lending overview</p> <p>Bank Komunalny, Sopot: participating in training and lending</p> <p>Bank Gospodarki (BGZ) Warsaw: entered into brokering agreement with CIM</p>
Local governments participating in program	<ul style="list-style-type: none"> <li>• Experience with public-private partnerships</li> <li>• Practical exposure to working with private owners and private condo associations</li> <li>• Exposure to working with private finance institutions</li> </ul>	3 municipalities	5 municipalities: Gdynia, Sopot, Kutno, Zychlin, Warsaw
Local CDP-Poland partners: CIM and AWIMs	<ul style="list-style-type: none"> <li>• Gained practical knowledge of building partnerships with local governments, financial institutions, condo associations</li> <li>• Expanded services to meet condo market</li> </ul>	1 national NGO (CIM) 32 AWIMs	<p>CIM/BGZ brokering agreement;</p> <p>32 AWIMs trained, serving condos</p>
Condo residents and general public	<ul style="list-style-type: none"> <li>• Increased awareness and knowledge of housing privatization mechanisms and condominium issues</li> </ul>	2,000 reached through workshops, studies, publications	<p>100+ trained through formal sessions; 100+ through consulting;</p> <p>1,500 condos reached through Database</p> <p>Estimated 500 reached through publications</p>

## 2. Project Objectives and Strategy

To achieve the goal of assisting local partners in addressing the transition and transformation of the existing housing stock, with particular attention to expanding access to fi-

nancing of home improvement and capital renovations, CHF International developed a set of practical objectives, in close collaboration with our local implementation partners, including CIM and the AWIMs. In the course of a series of discussion meetings, these objectives were shared with representatives of local governments and financial institutions to ensure their input and buy-in to the proposed methodology.

#### *a. Objectives*

##### *Objective # 1: Facilitating Physical Improvements (Pilot Projects)*

Following a "learning by doing" methodology, CDP-Poland decided to work with a selected group of pilot condominiums in order to assist them in taking control over managerial and financial issues, and to facilitate physical improvement of the units. Through a small number of such projects, CDP-Poland was to provide positive examples, and to validate public-private partnerships and innovative lending mechanisms. Model pilot projects, expected to produce 50 improved units, were treated as a "learning laboratory," providing easily understandable samples of procedures used to achieve successful results.

##### *Objective # 2: Building Local Capacity through Education*

A significant input in training and capacity building was needed. Condominiums were new legal creations and started to function only two and a half years prior to the start of CDP-Poland. The concepts, structure, and procedures were completely new to those involved, and new decision-making mechanisms were beginning to take shape. The local organizational and managerial capacity had to be significantly expanded before difficult financial issues could be addressed. CDP training, networking, and sharing of knowledge was expected to involve all partner organizations in order to assist:

- CIM to become a national resource center for AWIMs, providing them with technical assistance in condominium management and maintenance;
- Participating AWIMs to develop technical services to be offered to local condo associations on a fee basis;
- Pilot condo partners to develop institutional capacity and skills to ensure quality management; and,
- Local governments and financial institutions to form partnerships and address the specific challenges faced by condo associations.

##### *Objective # 3: Manual Development*

To facilitate the learning process, CHF's objective was to develop training programs and materials to facilitate implementation and ensure continuity of learning. Thus, training modules were to be developed and offered through seminars, workshops, and other training events. Publication and dissemination of information would take place in partnership with local networks such as CIM and the AWIMs, and the Society of Condominium Associations (SWM). Collaboration with the latter organization was particularly important, pursuant to the principle of cooperating with sister-organizations in order to widen the impact and reach of the program.

##### *Objective # 4: Leverage Non-USAID Capital*

Conforming to our global CDP strategy, CDP-Poland would target \$50,000 in non-USAID capital for the development of the pilot projects. Successful examples of public-

private partnerships were to reinforce methodologies taught and approaches promoted through training.

*Objective # 5: Dissemination of Knowledge and Experience*

Knowledge and experience in condominium management, including experience gained through implementation of pilot projects, was to be shared and disseminated by CDP-Poland using Polish and international experts. In particular, the experience of U.S. volunteers was deemed essential so that practical lessons learned and examples of solutions applied in the course of many years of dealing with these issues in a market-based economy could be shared.

**b. Implementation Strategy**

CHF International used a three-pronged implementation strategy.

1. *Work with selected pilot projects to provide an opportunity for "learning by doing."* Organizing demonstration projects to validate the theories presented and taught would speed up the practical learning process. Pilot projects were selected in different regions in Poland to allow for different local conditions. Where possible, these projects were to be located in places where AWIMs were currently operating to build on existing programmatic linkages, and to build local institutional capacity to continue after CDP ended. Based on these criteria, pilot projects were located in:
  - Sopot/Gdynia (the focus of this study), in collaboration with an active and rather successful AWIM-Gdynia;
  - Warsaw, in collaboration with CIM, AWIM-Warsaw, and the Society of Condominium Associations (SWM); and,
  - Kutno-Zychlin, in collaboration with the Social Housing Society/AWIM-Kutno.
  
2. *Concentrate the attention of new property and/or condo managers on the critical issues relating to renovating the housing stock* including:
  - Planning for day-to-day and capital renovations;
  - Financing issues in the complex economic environment;
  - Involving financial institutions, municipal authorities, and residents in finding solutions that work; and,
  - Strengthening participatory mechanisms in the decision-making process to ensure buy-in and support, once difficult decisions needed to be implemented.



*Gdynia pilot project focused on improving energy efficiency. CDP and AWIM advisors helped in planning the replacement of old, inefficient pipes until now routinely fixed by duck tape (L, condition in April 1999) with a newly installed heating boiler (R, November 1999).*

3. *Use the available and accumulated knowledge of U.S. experts.* As professionals and practitioners who had faced the same issues, their comments and experience were potentially more easily understood and adapted by the local participants. Also, bringing practical experience rather than just theories, their contributions seemed more applicable in developing market conditions.

Within the context of these strategic goals, CDP-Poland planned to focus on closer collaboration with local financial institutions and municipal authorities to promote public-private partnerships and lending schemes which would allow condo residents to expand available financial resources in a new manner. Following an early assessment, the situation existing in all three pilot locations seemed favorable. In particular, CDP-Poland planned to concentrate on expanding relations two potential partner banks, Warsaw-based BGZ and Gdynia-based BBG, both offering condo loans and interested in deepening and strengthening their collaboration with nascent local NGOs.<sup>20</sup>

**c. Conditions Expected at the End of the Project**

At the end of the project, CDP-Poland expected to

- Demonstrate the viability of its methods through the practical improvement of at least 50 units.
- Establish/strengthen/instill the practice of setting up Renovation Funds for capital improvements for condos.
- Increase the knowledge and understanding of condo issues.
- Expose at least three communities to lending programs.
- Leverage at least U.S. \$50,000 in non-USAID funds.
- Leave CIM and AWIMs with capacity to offer for-fee services for condos.

<sup>20</sup> Collaboration with BBG was further strengthened through the study tour organized by CHF International in November 1997, *Historic Preservation and Economic Development*. The tour included participants from Sopot city authorities and positively influenced their understanding of the need for public-private partnerships in housing, and the correlation between successful municipal policies and private housing development and management.

- Share lessons learned with other condos, using SWM in particular.

## B. Project Implementation

### 1. Project Management and Organization

#### a. Staffing

CDP-Poland employed one expatriate as the director for CDP-Poland, and two local specialists to serve as CDP coordinators. Table 2 shows our local collaborating organizations, and their role according to each objective.

<b>Table 2. CDP-Poland Objectives and Role of Local Partners</b>	
<b>Objective</b>	<b>Local Partners and Activity Purpose</b>
1. Facilitating physical improvements (pilot projects)	<ul style="list-style-type: none"> <li>• AWIM-Warsaw, AWIM-Gdynia, TBS/AWIM-Kutno: assist in implementing projects, provide links with condos, learn by doing pilots</li> <li>• Two condos in Warsaw, one condo in Kutno, one condo in Gdynia: learn while designing and implementing renovation/improvement projects</li> <li>• Local banks and/or local governments partners: gain experience, and expand knowledge of condo issues</li> </ul>
2. Building local capacity through education	<ul style="list-style-type: none"> <li>• CIM: develop its capacity and build relations with banks</li> <li>• Staff of 32 AWIMs: become familiar with condo issues, develop and offer condo services for fee</li> <li>• SWM: develop capacity to provide and adapt training to practical issues experienced by condo associations.</li> </ul>
3. Manual development	<ul style="list-style-type: none"> <li>• CDP-Poland staff: design manual, conduct training, and gather feedback</li> <li>• SWM: provide feedback and participate in training, use manual to continue training and advisory services</li> </ul>
4. Leverage non-USAID capital	<ul style="list-style-type: none"> <li>• CIM: develop capacity and build relations with banks</li> <li>• BBG: review underwriting practices, and increase lending portfolio</li> <li>• BGZ/Warsaw: develop capacity to work with housing NGOs such as CIM, to lend to condo associations</li> </ul>
5. Dissemination of knowledge and experience	<ul style="list-style-type: none"> <li>• All participants: gain from experience of other individuals and organizations</li> </ul>

#### b. Organization/Activities Plan

Given the relatively short implementation period (February 1998 to November 1999), work on all objectives progressed simultaneously. A memorandum of understanding was developed and signed with our local partners CIM and SWM. The pilot projects were selected in collaboration with the AWIMs. Each pilot represented a slightly different set of challenges in order to augment the learning process and widen the scope of gained experience. Training activities were planned throughout the period to build on the momentum and interest. The scopes of work for volunteer assignments were developed and

candidates identified. (For additional information, see Attachment 4: CDP-Poland Activities and Results).



L: AWIM Director B. Kowalska and W. Kalinowski of Warsaw-based Society of Condominium Associations (SWM) took active part in training activities. R: J. Conlon, one of CHF's volunteers, offered U.S. perspective and practical advice. November 1999.

## 2. Project Reporting/Monitoring

### a. Baseline Data and Performance Monitoring

At the commencement of CDP-Poland activities, there was no specific body of knowledge or documentation which would reflect base-line conditions in the condominium sector or in project-partner institutions. CHF International helped the pilot condos to:

- Take stock of existing conditions and their documentation (or recovering of proper documentation from municipal officials);
- Assess the needs, in particular with regard to renovation;
- Determine priorities in order to make informed decisions; and,
- Conduct specialized assessments (in particular, preparing and performing energy audits which were required before application for subsidized thermo-energy loans).

On the implementation level, these early assessments helped CHF International to formulate our numeric targets (see Table 1, Intended Beneficiaries).

### b. Levels of Output

(See Attachment 4: CDP-Poland Activities and Results by Project Objective)

### c. Implementation Problems/Issues

Several practical problems were experienced throughout the implementation of CDP in Poland. Table 3 summarizes the issues and the actions taken to resolve them.

<b>Problems Experienced</b>	<b>Actions Taken Toward Resolution</b>
Partner condos expected that money would be provided to finance <i>their condos'</i> renovation projects.	Overcame unrealistic expectation through training and education (including sharing CHF's methodology and knowledge of condo issues regarding financing of renovation projects).
Pent-up frustration and feeling of discontent on the part of	Helped condo owners understand new condo concepts and

condo owners (often expressed anxiety and even hostility toward authorities, managers, advisors).	<p>structures, and resulting benefits.</p> <p>Helped owners realize their responsibility for housing stock and the need to take action themselves without much outside help.</p> <p>Through practical examples, showed owners that management changes will result in economic benefits through cost savings and improved housing conditions.</p>
Local banks did not recognize the opportunities and showed lack of interest in condos as potential borrowers.	<p>Through practical examples, demonstrated that condos can be good borrowers. Convinced banks through pilot projects that condos are a market niche that can be profitable.</p> <p>Provided a forum for practical informational exchanges between condos and banks to increase banks' awareness of condo needs.</p> <p>Let banks and participating municipal authorities experience work through their partnership.</p>
Lack of "legal entity" status according to the Polish Law of 1994 (a condo association is not a legal entity).	<p>Determined practical consequences and what (if any) difference it makes.</p> <p>Assisted in organizing awareness/legal advocacy campaign to change status.</p>
Local governments reluctant to engage in housing partnerships; lack of funds in municipal budgets for capital renovation projects.	<p>Explored different conditions and attitudes in different parts of the country (i.e., differences caused by location, condition of local economy, and average affluence level of the population).</p> <p>Helped create and/or promote replicable solutions to assist condos in financing renovations.</p>
Mild interest expressed by participating AWIM's in condo services as new business area.	<p>Helped explore local conditions in the particular city or part of the country in order to determine business opportunities.</p> <p>Provided training and shared experiences throughout the country.</p> <p>Learned from successful examples of lending programs involving local municipal authorities.</p>

### C. Impact of the Project

#### 1. Impact on the Target Population

A table reflecting CDP-Poland program activities and results by objective is included as Attachment 4. Below are the highlights of the identified areas of impact relating to CHF's work in Sopot. Wherever applicable, we make references to other CDP locations.

##### *Impact on Local Governance and Democratization<sup>21</sup>*

- Mobilized a large number of people (i.e., condo residents) to take matters into their own hands and actively participate in the process of transferring property and its management from public to private hands.

<sup>21</sup> The findings relating to governance are confirmed by CHF International's March 2003 survey of six Warsaw condominium associations. See B. Czachorska-Jones, *Emerging*.

- Strengthened and popularized voting mechanisms and the understanding of representative mechanisms among condo association members.
- Through training, significantly expanded knowledge about the role of annual member meetings and condo issues, and increased attendance at meetings and adherence to decision-making procedures.
- Strengthened accountability mechanisms such as regular preparation of budgets, following the law on types and frequency of voting, and strengthened knowledge of representatives on boards.
- Improved good governance principles: residents now want transparency in the decision-making process, accountability of their representatives and managers, and the rule of law (for example, recourse to law in the case of conflicts or disputes).

#### *Economic Impact*

- **Management:** Enabled condo associations to become "self-governing" in financial management by becoming managers of their own property, borrowers from new lending sources, and more efficient in dealing with local government authorities and financial institutions in matters relating to their property.
- **Income and Expenditure:** Better management resulted in lower costs and consequently, in savings for the condo owners (See Table 11, Part III, Section 3, and Attachment 6.2 Comparative Condo Budgets for 2002).
- **Employment:** Residents now make decisions regarding the hiring of contractors and suppliers of goods and services, and they seek better quality performance and lower costs.
- **Ownership and Assets:** The renovations increased property values compared to other properties in Sopot that have not been restored (CHF's estimate: net gain per square meter between 1999 to 2003 due to renovation: 23.5 percent, and 4.5 percent for each of the studied condos, respectively; see Table 13, Part II, Section 3).
- **Credit:** For the first time, the condo associations became borrowers. Once they paid off the first renovation loan, many applied for a subsequent loan (15 "repeat" borrowers among condos lending from the studied bank).
- **Banking Sector:** The primary partner bank (BBG/Millennium) expanded and strengthened its lending program, becoming one of the most successful banks in the country.
- A new group of businesses, the AWIMs, expanded their area of business into professional condo management or advisory services.<sup>22</sup>

<sup>22</sup> Per CHF International's survey of March 2003, several AWIMs are currently serving local condo markets, including AWIM-Gdynia, which was actively involved in CDP activities.



Since 1995, new cadres of condo professionals provide advisory services to condo associations across Poland. Many of them boast of earlier affiliation with CDP-Poland. Pictured on L: Ms. Ciesielska and Mr. W. Witakowski, CDP-Poland advisor, Warsaw, May 2003; R: AWIM-Gdynia Director B. Kowalska with local Condo President and Board Member, February 1999.

### *Demographic and Gender Impact*

- Older residents and women became much more involved than before in decision-making and governance aspects of condo activities, as well as in practical management.<sup>23</sup>

### *Social and Cultural Impact*

- The feeling of responsibility for common property was strengthened. In addition, higher levels of care for the property, and "help your neighbor" attitudes were observed.
- Lending as a mechanism leading to improved quality of life and increased property value has been popularized; available funds are used more efficiently. The perception of a loan as being "too difficult," or "too burdensome," was counter-balanced by positive examples.

## **2. Potential for Institutionalization**

CDP-Poland recognized the value of a successful condo renovation loan program and its potential for replication across Poland and Central and Eastern Europe (CEE).<sup>24</sup> This was why BBG and the Sopot-based condos were selected as targets to work with and involve in the potential lending program.

In 1999, BBG was already working in partnership with the city of Sopot. Together they created a successful program for condominium improvement loans in Poland. Given the perceived potential for replication, CDP-Poland decided to provide support, evaluate the program in order to better understand it, and disseminate information on this successful example of public-private partnership. A U.S. volunteer, through CHF's Visiting International Professional program (VIP), conducted the assessment. The volunteer was, at the time, Deputy President of the Lending Division of the National Cooperative Bank based in Washington, DC.<sup>25</sup>

<sup>23</sup> These findings are confirmed by our March 2003 survey and report on Warsaw-based condos.

<sup>24</sup> The housing stock in all of the CEE countries is dilapidated and the need for improvements is substantial. A well-organized and well-functioning lending program could serve as an example across the region.

<sup>25</sup> The volunteer assignment was fourfold: (1) to work with BBG and Sopot to review the program structure and the portfolio of current condominium loans and compile these findings into a summary document; (2) to offer BBG specific recommendations for program improvements; (3) to prepare and present findings and recommendations at a workshop in Warsaw; and (4) to offer CIM advice and recommendations in becoming self-sustaining since funding from USAID was coming to an end.



*L: In February 1999, CDP Volunteer J. Glantz, NCB, presented results of his assessment and his recommendation to BBG bank officers. R: CHF volunteer, M. Rupp, worked with city officers advising on management of communal and privately owned housing stock. Zychlin, November 1998.*

The VIP's final report in 1999 identified the following reasons for the success of the program in Sopot:

1. The Sopot local government was working toward privatizing the housing stock, and property management companies simultaneously with the passage of the Ownership Law of 1994.
2. The Sopot local government, BBG-Sopot branch, the residents of the condominium associations, and the property managers worked together to privatize and repair housing stock.
3. The City Council and Executive Board provided the political support necessary to provide interest subsidies for the condominium association loans.
4. The local government had a consistent development strategy and housing policy.
5. The development of a positive relationship between the Sopot local government and BBG.
6. The residents changed their way of thinking and took charge of improving their living conditions.
7. Property managers educated the residents, and communicated the benefits of the program and of repairing the common areas. The property managers facilitated the application process with the Sopot local government.

### III. THE PARTICIPATING CONDOMINIUM ASSOCIATIONS

This section examines the selected condominium associations vis-à-vis governance, business operations, viability, and the impact on their members.

Two condominium associations in Sopot were selected for the case study and surveyed in May 2003.<sup>26</sup> Sopot is part of a metropolitan area composed of three cities — Gdansk-Sopot-Gdynia — located on the Baltic Sea coast. It is a well-known, popular tourist center, whose estimated population in 2003 was 41,300.<sup>27</sup> As of December 31, 2002, 672 condo associations were registered in the city.



Two Sopot condo associations were selected for this case study. Pictured on L: Condo # 1, Sopot, Chopina Street; R: Condo # 2, Sopot, Czyzewskiego Street, May 2003.

Both associations registered as condos in 1995. They are rather typical of condos in Sopot, although not necessarily for the rest of the country. Both buildings were constructed in the early twentieth century, and are rather small in size.<sup>28</sup>

<b>General Information</b>	<b>Condo # 1</b>	<b>Condo # 2</b>
Number of units	13 (all residential)	9 (all residential)
Usable area of building	863.62 square meters	816.54 square meters
Number and share of privately owned units	7; 51% private owners' share	9; 100%
Demographic information about residents	Average age of owner: 40 Average number of residents per unit: 2 Estimated monthly income: 2,250 PLZ Education: 30% Higher education, 40% high school educa-	Average age of owner: 50 Average number of residents per unit: 3 Estimated monthly income: 2,500 PLZ Education: Most resident have higher education

<sup>26</sup> Respecting the confidentiality of condo members, in this material we will be referring to them as "Condo # 1" and "Condo # 2. When appropriate, comments refer to both.

<sup>27</sup> There seems to be a slight decrease in population from 42,300 in 1999 (official statistics). Together with the population of Gdansk and Gdynia, the metropolitan area had a population of 254,687 as of June 30, 2000.

<sup>28</sup> "Small" is less than 10 units per building. In many cities across Poland, post-World War II construction of high-rise neighborhoods is predominant, with buildings containing anywhere from 100 to 1,000 units per building.

<sup>29</sup> This section of case study summarizes the results of Cooperative Development Framework designed by OCDC and attached to this report as Attachment #1 (for Condo #1) and 2 (for Condo #2).

	tion, 30% elementary education	
Year of construction	1920	1910
Year of registration as condo	1995	1995
Management	city-owned management company Management board composed of 2 owners elected for a 1-year tenure	Self-managed Management board composed of 3 owners, 3-year tenure
Number of loans taken	1	2

Both condos participated in CDP-Poland activities conducted in the course of 1998/1999, including training workshops and consultations educating condo members with regard to:

- specific condo structure (based on the Law of 1994)
- condo members' rights and duties
- condo management options
- planning and financing renovation

In all activities, CDP-Poland was assisted by AWIM-Gdynia, which facilitated contacts with local condo owners, and provided logistical and other support. Through this work, AWIM-Gdynia was gaining practical exposure to condo issues, while learning to provide managerial services, and expanding its areas of business.<sup>30</sup>

As a result of the training and CDP's advisory services, residents of the two studied condos received renovation loans through two local banks: BBG and Bank Komunalny (BK). CDP-Poland was working with BBG to review its underwriting criteria and procedures to best meet condominium needs and to increase its loan portfolio.<sup>31</sup> Section V. Financial Analysis and Attachment 5: BBG/Millennium summarize the results of this work, and compare 1999-2003 data.

#### **A. Cooperative Organization and Governance**

This section of the case study summarizes the results of a detailed survey conducted in May 2003 with the two participating condo associations. Specific categories reported on follow the agreed upon OCDC Cooperative Development Framework. (See Attachments 2 and 3 for the full survey text.)

##### **1. Mission Statement**

The mission of both condos is clear: to maintain the property, and improve its condition and increase its value through cost-effective management. Both condos are clearly fulfill-

<sup>30</sup> It is worth noting that AWIM-Gdynia continues to provide such services to date, serving local condos on a fee-for-service basis.

<sup>31</sup> J. E. Glantz, *Volunteer Assignment Report: Condominium Development Project: Assessment of Condo Loan Program*, May 1999.

ing their primary mission: common property is better managed, owners are satisfied and better off than before, property values are increasing, and the whole community enjoys the improved quality of the buildings.

The mission is clearly understood by board representatives and residents alike, and clearly reflects the members' interests and needs. It also reflects their vision of living in a renovated and well-maintained property. In the view of owners surveyed, this vision is realized mainly through a series of activities leading to the renovation of the building, as well as optimizing the cost and quality of management services.

Articulation of the condo's mission is sometimes done through a document called the Condo Statute or a Condo Declaration. Even though the Law of 1994 does not require that Polish condos pass such a declaration, many do. The studied Sopot condos did not formally pass such acts, citing their relatively small size as the reason. The situation was similar with respect to by-laws: neither of the condos had a set of by-laws, but both were using general provisions of the Law of 1994 to define the respective rights and duties of condo representatives and owners. Both condos did have internal regulations providing daily rules of conduct.

## 2. Leadership and Decision Making

The Law of 1994 defines condo rules pertaining to representation and decision-making processes, terms of office, and duties of the board and individual members/tenants. These rules apply directly to condos without a separate Condo Statute, such as the two studied in Sopot.<sup>32</sup>

	<b>Condo # 1</b>	<b>Condo # 2</b>
Management board structure	Two members from among owners	Three members from among owners
Cooperative by-laws	Rules determined by Law of 1994; no formal document	Rules determined by Law of 1994; no formal document
Frequency of meetings	<ul style="list-style-type: none"> <li>• Annually, all members (required by law)</li> <li>• As needed</li> </ul>	<ul style="list-style-type: none"> <li>• Annually, all members (required by law)</li> <li>• As needed</li> </ul>
Term of office	One year	Three years
Problems with attendance at annual meetings	Not experienced; owners representing more than half the shares in common property present	Not experienced; all owners participate (however, many owners are elderly/retired which may account for higher degree of participation in meetings)
Election of officers	<ul style="list-style-type: none"> <li>• Every condo member has a right to be elected; candidates for officers recruited from among all members</li> <li>• The same officer has been re-elected from year to year</li> </ul>	<ul style="list-style-type: none"> <li>• Every condo member has a right to be elected</li> <li>• Election rules defined by law of 1994</li> <li>• No problems experienced</li> </ul>
Significant liabilities or disposition of assets	No assets are owned by a condo association; owners of units also own a share in the common area as defined by law	No assets are owned by a condo association; owners of units also own a share in common area as defined by law
Dissolution or	Not applicable	Not applicable

<sup>32</sup> If a specific condo decides to change the rules defined in the Law of 1994, it may do so, but to be valid, the change and the vote need to be notarized by a Notary Public.

merger		
Appointment of auditors	Law of 1994 does not require financial audit (see comments to "business activity"); none appointed by this condo	Law of 1994 does not require financial audit (see comments to "business activity"); none appointed by this condo

Both condos have management boards composed of condo owners. In view of the survey results, all rights and duties of board members are well known to them. The board enjoys a significant level of trust on the part of condo members.



Older residents often get actively involved in condo matters, taking on managerial responsibilities, planning renovation projects, and providing daily monitoring and care. Pictured on L: President and Board member of Warsaw condo on Grochowska Street, R: President of the Board of one of the Sopot condos interviewed for this case study, May 2003.

<b>Table 6. Comparison of Role of Condo Association Board</b>		
<b>Function</b>	<b>Condo # 1</b>	<b>Condo # 2</b>
Conformity to co-op principles	Yes; Law of 1994 embodies these principles.	Yes; Law of 1994 embodies these principles.
Election of board members	All elected	All elected
Board decisions	<ul style="list-style-type: none"> <li>• Sets, reviews, modifies organizational policies.</li> <li>• Establishes strategic/financial objectives.</li> <li>• Represents member interests.</li> <li>• Reflects the interest and concerns of members in decision-making process.</li> <li>• Hiring, monitoring, and evaluating management.</li> </ul>	<ul style="list-style-type: none"> <li>• Sets, reviews, modifies organizational policies.</li> <li>• Establishes strategic/financial objectives.</li> <li>• Represents member interests.</li> <li>• Reflects the interest and concerns of members in decision-making process.</li> <li>• Hiring, monitoring, and evaluating management.</li> </ul>
Oversight of acquisition and preservation of condo assets	Yes	Yes
Preservation of cooperative character	Yes (in broader sense of a membership based and run organization).	Yes (in broader sense of a membership based and run organization).
Assessment of performance	Yes, through continuous monitoring of the level of satisfaction of members.	Yes, through continuous monitoring of the level of satisfaction of members.
Voluntary or	Two voluntary members.	Three voluntary members.

paid service		
Publication/ distribution of information, materials	Property manager does this under board supervision.	Yes.
Open participation	Yes; every condo member is welcome to participate. In this condo, more participation observed than required by law.	Yes; every condo member is welcome to participate. Condo as a whole decides on the level of monthly condo assessments.
Engagement in conflicting activities	N/A (since condo is not a legal entity and cannot conduct "business" in strict sense of the word).	N/A (since condo is not a legal entity and cannot conduct "business" in strict sense of the word).

The Law of 1994 sets rules concerning voting and decision making. There are two basic ways in which decisions are made:

- at a meeting of owners (no quorum requirement is set by law as the vote is related to the share an individual owner holds in common property); and,
- by individual vote (when a member of the management board goes from one unit owner to the next, explaining the rationale of the decision and asking for the owner's vote and documenting it; once all owners are consulted, the results are tallied).<sup>33</sup>

Both methods are used. Based on the survey, the biggest problem is not the level of participation in the decision making, but finding new candidates for office, since owners are often unwilling to devote their time and efforts to the association. In the case of the two Sopot condos, the majority of owners are older retired people, which may explain why they have no attendance problems. On the other hand, they recognize the recruitment problem and what it means for the condo for the future. So far, however, no specific efforts seem to have been made to address this issue.



*Training sessions, workshops and conferences popularized new concepts and helped educate a group of condo managers and professional advisors. Condo board members were usually eager to participate and learn. Pictured on L: Training for partner AWIMs conducted in Bialystok, 1999 by CDP Director Greg Polk; R: CDP Training in Gdynia, 1999.*

<sup>33</sup> As other CHF International studies have shown, Polish condo members have developed practical skills to choose between each method depending on the results they wish to achieve. They often use the second one (i.e., "one person one vote" method) in cases they wish to out-vote the municipality holding the larger share of common area. B. Czachorska-Jones, *Emerging Governance within Polish Condominium Associations*; CHF study conducted in Warsaw in March 2003.

Definition of the types of decisions a condo handles is also provided by the Law of 1994, which accords condo associations a rather peculiar status—it provides for a separate organizational and managerial structure, the condo association, but does not recognize it as a separate legal identity. Therefore, a condo association does not have "assets" of its own, and is limited in its activities to the "business" of managing the common property. The major area of responsibility is planning and implementing capital improvements.

### 3. Membership and Member Participation

The Law of 1994 also establishes rules pertaining to membership. All unit owners become condo members automatically upon creation of the association (registration through the land registry is required). All owners, as represented by the management board, govern the association.

<b>Office holder</b>	<b>Condo # 1</b>	<b>Condo # 2</b>
Chairman (President)	Same president elected from year to year. First elected three years ago when the city ceased to be the condo's managing agent. Performs all duties including: <ul style="list-style-type: none"> <li>• Setting agendas;</li> <li>• Providing information;</li> <li>• Facilitating deliberations of board; and,</li> <li>• Ensuring decisions are made and recorded.</li> </ul>	<ul style="list-style-type: none"> <li>• The current president is serving for the second time. Performs all duties including: setting agendas;</li> <li>• Providing information;</li> <li>• Facilitating deliberations of board; and,</li> <li>• Ensuring decisions are made and recorded.</li> </ul>
Treasurer	None. Financial work is done by the management company and approved by the president of the board.	None, but one of the members of the board, emeritus accountant plays the role of treasurer.
Secretary	No secretary due to small size of condo.	No secretary due to small size of condo.

## B. Business Operations

In contrast to production cooperatives, the "business" of a housing cooperative or condominium association is focused on the upkeep and management of property, rather than on the production of goods or services. This section describes the management operations.

### 1. Management (Policies, Procedures and Personnel)

In order to appreciate the degree of progress made by Polish condo associations in managing their affairs, two circumstances specific to the situation in Poland need to be highlighted.

- All associations started from "zero." Before the Law of 1994 was enacted, municipal management companies provided property management services, with no meaningful participation on the part of residents. Thus, managing and operating condo property was entirely out of the hands of residents who, at the best of times, only took care of the upkeep and renovations of their individual units.

- In most cases, the "before" and "after" picture of a specific condo association is very difficult to ascertain, because there is no information available for the period prior to 1995, when management was provided by municipal units.

Yet, based on the relatively flexible rules established by the Law of 1994, there is a variety of managerial arrangements that may be observed. The studied Sopot condos provide for different pictures in this regard, even though both are rather small (13 and 9 units, respectively). Given their size, there is relatively little administration involved and condo members fulfill many functions.

**Table 8. Comparison of Management Structure and Duties<sup>34</sup>**

	<b>Condo # 1</b>	<b>Condo # 2</b>
<b>Manager</b>	A third-party property management firm was hired. The company used to be operated by the city, but went through a reorganization and privatization process in 1995. The firm was selected based on competitive bids. It continues to provide services to condos and city-managed properties.	Until year 2000, condo was managed by city-owned management company. Once all units were privatized, owners decided to manage themselves. In order to save on costs, board members perform the role of a manager.
<b>Engagement of employees; monitoring of job performance</b>	Yes. A janitor is engaged.	No employees are engaged; members perform all services in order to save on costs.
<b>Drafts policies, ensures conduct and performance</b>	As applicable. No formal policies are written (small size of condo given as reason).	Members perform all services in order to save on costs. No written policies (small size of condo given as reason).
<b>Payment of employees; performance evaluations</b>	A negotiated management fee is paid by the condo for managerial services. No employees are engaged besides a janitor.	N/A
<b>Relation to board; accountability</b>	Yes. Manager attends all board meetings, which usually take place in manager's office.	N/A
<b>Initiative and leadership for group-based activities</b>	Rarely applicable given small size of the condo.	N/A
<b>Managing risk</b>	Rules are informal; manager advised the board in matters of general, property-related risks	Board members acting as managers.
<b>Overall satisfaction with manager's performance</b>	According to the condo president, in most cases the manager's performance is satisfactory. Sometimes legal issues arise exceeding the scope of the manager's responsibilities and legal advice is sought (pending availability of funds to pay for legal fees).	N/A

<sup>34</sup> The sequence of questions and responses summarized in this table reflects the detailed questionnaire, Cooperative Development Framework Checklist, attachments 2 and 3.

## 2. Business Activities

For purposes of this evaluation, we assume that the "business" of the condo associations consists of managing and operating the condo property, and if possible, increasing its value. In fact, since condo associations in Poland lack legal entity status, difficulties may arise if a condo wants to conduct "regular" business activities outside the management arena. CHF International has learned from survey responses, that in cases where there was a perceived need to conduct "business," condo members were actually advised by local experts to formally register as an association, that enjoys the status of a legal entity. Such a situation may arise when there is a fence, swimming pool, parking lot, or road, which, even though not owned by the condo itself, is part of the common property in which all condo owners hold shares according to their usable space. The Law of 1994 does not provide applicable regulations—owners have to manage common property based on binding provisions of the civil code. Though this is possible, civil code restrictions make it difficult. For example, in the case of a significant decision, such as a renovation, the owners' vote would have to be unanimous, which in practical terms, is almost impossible to achieve. Establishing a member-based association, with the status of a legal entity, makes it possible for the association board to do the job, since members vote based on majority rule.

Due to the legal reasons explained above, there must be a degree of flexibility when talking about the "business" aspects of a condo's operations and its "viability" as a business. In many cases, it does not make sense to adhere strictly to the Cooperative Development Framework Checklist developed by OCDC in order to assess a cooperative's "business activity."<sup>35</sup> For the purposes of this case study, however, we will consider a renovation loan as a "business activity." Applying and qualifying for a loan requires a significant amount of work, and a significant level of sophistication is needed prior to taking the loan. Also, a lot must happen *after* the loan is taken so that it is repaid and the renovation project is successfully completed.

CHF International, through CDP-Poland, contributed considerably to developing the condo associations' knowledge and expertise, without which this most important "business activity" could not have happened. There is also an immediate link with member satisfaction and perception of the fulfilled organizational mission — the proper upkeep and long-term condition of the property is of utmost importance to members, and it determines their level of satisfaction with the organization, the board, and the community in which they live.

### *a. Planning and Performance*

In a significant number of Polish condo associations, only a one-year operational budget is developed. Usually, the management company prepares the budget, which includes two parts:

- an operating budget—receivables and common property expenses for regular upkeep and maintenance; and,
- a capital budget (or Renovation Fund) — amounts received monthly from condo owners for future common area capital renovations.

---

<sup>35</sup> With a few exceptions (for example, #105, #107), Sections III-A-H of the OCDC Cooperative Development Framework Chart are largely not applicable.

The budget for Condo # 1 was prepared by the property management firm, while the management board acting as managers, prepared the budget for Condo # 2. (See Attachment 6.2 Comparative Condo Budgets for a comparison of their 2002 budgets).

Both condos have two bank accounts—typical for all condo associations. The first one is used to collect “regular” monthly assessments from owners for the upkeep and management of common areas, and is used directly by the management board to pay day-to-day maintenance and utilities expenses. The second account is for a capital/ renovation fund assessment.

As far as long-term financial planning is concerned, the situation seems rather inadequate, and a certain contradiction is noticeable from the evaluation survey. On the one hand, studies of the balance sheets show careful identification of the beginning- and end-of-year balances, as well as the amounts collected each year through the Renovation Fund.<sup>36</sup> At the same time, both studied condos lack precise long-term plans outlining the use of these funds for future capital renovation. The CHF International consultant conducting the surveys suggested a link between the lack of long-term planning and the age of the residents—“they do not particularly care what happens after they are gone.” At the same time, increasing common property and unit value suggests that condo boards need to devote more attention to this issue in order to maximize the benefits for members.



*Condo managers seek assistance in planning and implementing their renovation projects. Through the CDP project, CHF International offered international volunteers including (L) Joseph Conlon (inspecting the piping system, November 1999). (R) Bank Millennium offers assistance of its loan officers, May 2003.*

### *Condo Renovation Planning Process*

A typical process includes the following:

- Owners who approve a renovation vote on the condo resolution.
- A contractor selection process is initiated and conducted (through a formal or informal bidding process).
- The selected contractor prepares a feasibility analysis of anticipated renovation work—scope of work, cost calculation, projected results, and technical documentation of the investment and architectural project.

<sup>36</sup> In Poland, the fiscal year is the same as the calendar year (January 1-December 31).

- A financing plan is developed.

In order to finance the renovation, a condo association typically faces two options: cash financing by owners through special assessments, or taking a renovation loan to be repaid through regular monthly assessments with a possible subsidy through city or national programs.<sup>37</sup> If a loan is decided on, the condo association must take the following steps:

- come up with a 10 percent down payment of the total renovation cost (TRC);
- submit the scope of work and feasibility analysis to the municipality for examination and approval;
- obtain the municipality's guarantee to cover repayment of interest once a loan is taken;
- work out the details of the municipality's share of the expenses if it owns units in the building (as is the case in Condo # 1 with 51 percent private ownership and 49 percent municipal),<sup>38</sup> and,
- obtain bank approval for co-financing the investment. The bank follows its own procedures to verify whether all the owners have enough income to pay off the loan payment.

Obviously, the process consumes time and energy and requires the condo leadership to have a workable, agreed-upon approach, and sophistication in understanding the rules. The renovation loan process does not happen by itself; it takes learning, and technical assistance, and dedication on the part of all parties involved. Our data shows that from 1996 through May 2003, Sopot condos continued to increase the number of loans they took, the scope of renovations, and the size of loans. Also, more loans go to larger buildings. This means that with time, condo associations are gaining confidence in lending procedures, as well as in their own ability to repay loans. As presented in greater detail in Attachment 5: BBG/Millennium Condo Loans Portfolio Analysis, out of 672 condominiums registered in Sopot, as of May 2003, 164 took one renovation loan, and 15 took two loans.

#### *Loan Application and Repayment Process*

Due to their lack of legal status, Polish banks do not lend to condo associations, but to individual owners using a verification process in order to determine the eligibility and reliability of each borrower. This puts a considerable burden on the bank. It was identified as one of the barriers to condo lending and was specifically addressed through the CDP consultancy with BBG (now "BM") in March 1999.

The bank transfers to repay the loan are made from funds accumulated in the condo's bank account. Payments to contractors renovating the building are made upon presentation of invoices, and upon verification and approval by the city of Sopot and the condo manager. The bank is authorized as the only entity allowed to make transfers to the contractor.

<sup>37</sup> In addition to the interest subsidy program offered by the city of Sopot, other cities offered programs, and there was a national thermo-modernization program aimed at achieving energy savings, and programs to avoid damages to life and health, etc.

<sup>38</sup> In Sopot, the city usually pays its loan portion through direct transfers to the participating bank, without directing the money to the condo association's bank account.

Condo # 1 was obliged to open a bank account in BBG to serve the repayment of their improvement loan. The Law of 1994 demands that a condo handle all of its financial transactions through a bank account, although it is not clear whether a condo has to have its own account, or whether it is enough to use a third-party management company account.

The role of the condo association in the repayment process is limited but important. As noted in the case of surveyed Condo # 1, two out of eight owners did not qualify in view of the BBG rules, because their income was too low, and they had to take personal loans from another bank (They claimed they did not "like" BBG, and that it acted "unprofessionally". The bank's side of the story was different). In the end, it was the other residents' support and assistance that allowed the loan to happen.

### ***b. Transparency/Accountability***

Given the small size of the associations, relations between condo members and the board, as well as actions taken by the board, are quite transparent, as are the rules of accountability of board members for decisions taken. In larger condos, comprised of hundred(s) of members, things may be different.<sup>39</sup>

## **3. Financial Analysis**

In order to assess the impact of the loans, CHF International looked at the financial status of the studied condo associations before and after the renovation loan was taken.<sup>40</sup> We looked at selected factors, remembering that a Polish condo association is not recognized by law as a legal entity, and any lending for condo renovation projects goes to the individual owners, rather than to the condo association. Therefore, the financial statements provided by the condos do not show the loan amount.

	<b>Condo # 1</b>	<b>Condo # 2</b>
Number of Loans	1 (2001)	2 (1997, 2000)
Loan # 1		
Loan type/scope	Extensive (see below)	Roof renovation
Source		Small Improvements Program
Total Renovation Cost (TRC)	92,280 PLN	61,075 PLN
Down payment	22,280 PLN or 24.24% of TRC (Condo received a 10,000 PLN donation from the Historic Preservation Office allowing it to reduce the down payment)	11,075 PLN or 18.13% of TRC
Loan capital	64,400 PLN	50,000 PLN
Repayment term	2.5 years (29 payments)	3 years (35 months)
Commission		1% of loan amount = 500 PLN
Interest	The city of Sopot covered 100% of in-	12.39%, city of Sopot covered

<sup>39</sup> CHF-Poland worked with a small number of pilots, and condos. The evaluation survey did not allow for a more extensive comparison of cities and organizations.

<sup>40</sup> Unfortunately, complete, detailed financial information was not available from both condos. All calculations and analyses are based on the financial data made available to the CHF International consultant.

	terest in the first year, 90 % the second year, and 75 % in the last 6 months	100% the first year, 90% the second year, and 75% the third year
<b>Loan # 2</b>	N/A	
Loan type/scope		Whole property and its surrounding area (so-called capital renovation)
Source		Revitalization Program
Total Renovation Cost (TRC)		109,000 PLN
Down payment		9,000 PLN or 8.26% of TRC
Loan capital		100,000 PLN
Repayment term		5 years (59 payments)
Commission		0.8% percent of loan capital = 800 PLN
Interest		11.99%, city of Sopot paid 100% during the first 3 years, 90% in the fourth year, and 80% in the fifth year
<b>Collateral</b>	No information available	In both cases, collateralized with in blanco promissory note as well as a few mortgages on individual units.

The impact of these loans is assessed below with respect to the following factors: types of physical improvements achieved; impact on cost savings; delinquencies; and increase the individual unit's value.

### 1. Physical Improvements

<b>Condo # 1 (One Loan)</b>	<b>Condo # 2 (Two Loans)</b>
<ul style="list-style-type: none"> <li>• Roof renovation</li> <li>• Replacement of interior pipes in chimneys</li> <li>• Restoration of stained-glass windows</li> <li>• Restoration of a portal above the entrance door</li> <li>• Installation of domestic phone set</li> <li>• Replacement of vertical installation of cold water</li> </ul>	<ul style="list-style-type: none"> <li>• Roof renovation (loan # 1)</li> <li>• Replacement of basement insulation</li> <li>• Updating exterior (plastering, painting)</li> <li>• Replacement of electrical installation/wires</li> <li>• Repainting staircases</li> <li>• Landscaping of building's surroundings</li> </ul>

As shown above, the positive experience Condo # 2 had with the first loan, motivated it to proceed with additional renovation projects and a more extensive second loan, helping to reduce its upkeep costs.

### 2. Impact on Cost Savings

<b>Cost category</b>	<b>Condo # 1</b>	<b>Condo # 2</b>
<b>Upkeep Costs</b>	12.57 PLN per 1 square meter annually (cost includes fee to third-party management company)	5.52 PLN per square meter annually (no outsider management cost)

Outside management costs	Yes	No, management provided voluntarily by owners
Outside employees	One janitor	None; all cleaning done by condo owners themselves

More extensive renovation work conducted by Condo # 2 allowed it to achieve significant savings and reduction in per square-meter cost of upkeep and maintenance. The savings were further increased by diminished management and administrative needs.

### 3. Delinquencies

Year	Condo # 1	Condo # 2
1995	20%	20%
1996	10%	Data not available
1997-1999	Data not available	Data not available
1999	2%	Data not available
2003	0.79%	1%

As shown above, both condos achieved a drop of 60 percent in the delinquency rate over three years. As noted by representatives of Condo # 2, there is practically no delinquency now. The improvements implemented through the loans made owners realize the importance of timely payments. They now realize that delinquency would cause trouble in their relationship with the bank and/or municipality, and they do everything they can to avoid it.

### 4. Increase in Unit's Market Value

	Condo # 1		Condo # 2	
	Before Renovation	After Renovation	Before Renovation	After Renovation
1999	U.S. \$800-900	U.S. \$1,000-1,100	U.S. \$1,000-1,200	U.S. \$1,400-1,600
2003	U.S. \$1,000-1,200	U.S. \$1,200-1,400 (comparable to new development)	U.S. \$1,600-1,700	U.S. \$1,600-1,800 (comparable to new development)

	Condo # 1	Condo # 2
Gain for renovated property	52.9%	54.5%
Gain for unrenovated property	29.4%	50%
Net gain due to renovation	23.5%	4.5%

Due to the renovation, Condo # 1 owners increased their property value by 23.5 percent, while for Condo # 2, the increase was only 4.5 percent which may be due to location or other factors. While we recognize the disparity, time constraints did not allow us to further investigate or analyze the differences. Even though these are just two examples, and the value added differed significantly, the important thing is that value was added.



*Ornamental elements in the stairwell were carefully reconstructed by Condo #2 in order to restore the 1930's ambiance so characteristic for old Sopot homes.*

### *Summation*

Thanks to USAID-funded assistance programs, including CDP, Polish condos have significantly improved their understanding of the business environment within which they operate, and increased the economic benefits they were able to achieve due to improved access to funds. They have become quite sophisticated in dealing with a long list of issues including:

- *The need for borrowing.* Both condos took out loans to expand the resources available to them.
- *Adapting to a new environment.* In order to borrow the condo associations needed to: 1) realize they could not wait for others to do it for them; 2) understand that current resources would not cover the cost of needed renovations; 3) educate their members about the loan's impact; and, 4) agree to the consequences, both financial and social, of borrowing)
- *Becoming knowledgeable about the technical side of renovation projects.* The process of identifying improvements had to be worked out within the condo, among members. What undoubtedly helped, was the understanding of the overall mission and the ultimate goal (i.e., improving and increasing the value of their asset);
- *Carrying the economic burden of renovating their home.* Both condos repaid or are currently in the process of repaying the loans. Both condos continue to gather funds for future renovations and plan to continue with upkeep and renovations of their property.

## **4. Salience**

### **a. Value/Importance to Members**

Better-managed and renovated condos mean increased value of the individual units, which in turn, improves the image of the community, and makes resale at a higher price

easier for the owners. Given limited options in the existing housing market for current members to move to other reasonably priced accommodations, it is imperative that they find a way to make the condo association management work to serve their interests.

Given the conditions of the housing market specific to Poland in the late 1990's (illiquidity of real-estate market and immobility of the working population), increasing the value of individual units, in turn increasing the owner's ability to sell or rent it constituted a significant advantage of condo ownership.<sup>41</sup>

**b. Significance to the Community**

The city of Sopot has actively sought its citizen's support and involvement in its renovation/revitalization program. A number of legislative and regulatory actions implemented in the course of the late 1990s have so far resulted in a series of citywide improvements, including the central part ("the Mall") which continues to constitute a major tourist attraction.



*Renovated neighborhoods attract tourists and potential investors. Cities across Poland realize the value of improvements. They are becoming more willing to engage in innovative projects implemented through public-private partnerships. Pictured: Czyżewskiego Street, Sopot, May 2003.*

The city's willingness to support condo associations and participate in the renovation of condo stock through the loan-interest subsidy, demonstrates a positive, proactive attitude, and evidences the significance it places on condo associations. All of these factors contribute significantly to the success of the lending program. By actively assisting condo owners in housing stock renovations, the city is renovating its own portion of the stock and using external financing to do it, rather than tying up available cash. This gains support as an easier, more reasonable use of the city's financial resources. As our analysis shows, the financial involvement of the city in both programs, Small Improvements and Revitalization, has been steadily increasing and through 2002 reached a combined value of 3,315,432 PLZ or U.S. \$872,481.

	1997	1998	1999	2000	2001	2002	Combined value
In Polish Zloty	83,629	314,698	382,421	757,103	978,456	799,125	3,315,432

<sup>41</sup> W. Urbanska, *A Guidebook* .... p. 2.

Today, condo associations represent 19 percent of the housing stock in the city of Sopot, serving a significant portion of the population.<sup>42</sup> Given that many local governments still own the majority share, participation in the lending program and resulting renovations benefit both the private and public sectors, contributing to the well being of the citizens. As the loan portfolio analysis shows, the number of condos with majority municipal ownership participating in the lending program increased significantly.

Through the units maintained in the associations under city ownership, the city meets an important social need of the community by providing affordable housing to low-income families. Well-run condo associations have a broader economic impact on the community as well, since better looking housing increases the value of the urban community, and makes the city, in general, a more attractive place in which to live and invest.

#### ***a. Importance in the Business Sector***

As we have noted, condo associations do not contribute to the business sector in the way a more traditional production cooperative would. However, the services purchased by the associations, including construction, financial, and property management, do have a ripple effect throughout the local economy.

Job-generation results related to home improvement projects implemented by condo associations, CHF's estimates show that on average, through a typical 8-month-long renovation project (assuming a medium-size condo building with 50-56 units), over 200 person-months of employment equivalent to over U.S. \$100,000 of local gross income are generated. On average, each improved unit generates 4.36 person-months of employment equivalent to U.S. \$2,096 in gross local income.<sup>43</sup> Condo renovation projects, thus, provide a strong impetus to the local job market.

As far as financial services are concerned, the condo-lending program offers indications of the growing importance to the local economy. In the Gdynia/Sopot area, three banks are currently providing financial services to condos, with BBG/Millennium enjoying the largest share of the market.

From available information, 80 percent of a total number of Sopot-based associations are serviced by Millennium, although this number includes general financial services provided to municipalities. A smaller number of condos are served by BK (Komunalny), which mostly works in Gdynia. Operations of BP (Pocztowy) are still very limited, but the city has been recently promoting it as a potential partner in condo-lending (so far one loan to a condo was issued in 2003, with the city of Sopot participating in a similar manner as with Millennium).

Getting a loan requires close collaboration between the condo, the bank and the city of Sopot. Through this partnership, public and private capital is combined and condo renovations applied for, helping the condos gain a proper place in the local economy. Even with the Millennium-Sopot successful lending program, local condos are still struggling to be recognized as an attractive client and market opportunity.

---

<sup>42</sup> According to data received from a Polish consultant, as of December 31, 2001, the breakdown on ownership of residential units in Sopot: city-owned units: 18 percent; privately owned units bought from the city/condominiums: 19 percent; housing cooperatives: 38 percent; developers: 3 percent; remaining: 22 percent.

<sup>43</sup> B. Czachorska-Jones, *Assessing Economic Impact...*, pp 9-11.

Major findings of the BBG/Millennium Condo Loans Portfolio Analysis are included as Attachment 5.<sup>44</sup> In this part of the case study we want to bring attention to the major trends indicated by this analysis,<sup>45</sup> as in our view, they reflect the growing importance of the lending program and its success.



*CDP volunteer, J. Glantz (L), worked with the bank and city officers (R) in 1999 to streamline procedures and make loan application processes easier for condo associations. Today, in partnership with the city of Sopot, Bank Millennium provides condo renovation loans with interest subsidized by the municipality.*

The CHF International study comparing the data and lending portfolio of BBG/ Millennium) from 1999 - 2003 reflects significant progress and a positive tendency. The analysis of the bank portfolio revealed three important positive trends

- In 2003, the bank has refocused its lending toward Revitalization Program loans, which are larger and have a longer term than the Small Improvement Program loans that characterized the portfolio until 2002. This shows that the bank is able and willing to take on more credit risk, having established that the condo loan program is profitable.
- Many condo associations have become repeat borrowers. They have either taken a second loan under the Small Improvement Program, or have utilized the larger Revitalization Program loans to make more significant improvements.
- Despite the economic difficulties and the significant internal restructuring in 2001 and 2002, BBG/Millennium has continued its partnership with the municipality and the condo associations by providing loans to condo members.

Today, Sopot condominiums:

- More often consider borrowing to augment available resources; out of a total number of 672 Sopot-based condos, 164 or 24.4 percent took one loan, and 15 condos took two loans. The number of borrowers is steadily growing;

<sup>44</sup> We used the following indicators: (1) total number of loans to condos and repeat borrowers information; (2) total renovation costs; (3) average renovation cost; (4) total and average loan size; (5) repayment terms; and, (6) number of housing units affected by renovation lending.

<sup>45</sup> Note that the data is aggregated on an annual basis and as a result, the data sets for years 1999 and 2003 are incomplete and cannot be used to compare to other years. However, we use data for year 2003 to make our own projection with respect to lending to condo associations.

- Include cases of repeat lending—after paying of the first one, 15 condos have taken a second loan;
- Share their positive experience in lending and necessary know-how with other neighborhood condominiums. From the bank's perspective, making loans to condos turned out to be a good and safe business. As a result, the bank also gained confidence and developed positive approaches to serve bigger condos, needing more significant financing to carry out more extensive renovation projects.

#### IV. LESSONS LEARNED

With this case study, we have chosen to focus on the particular experience of two condominium associations in Sopot, as a way to further explore the impact of a lending model that we believe has particular relevance for the rest of the region. This section of the case study extrapolates lessons learned not only from the two condos highlighted, but from our experience throughout Poland, based on other analyses, and across the whole implementation experience of the Cooperative Development Program.

In this section we explore lessons learned during project implementation related to the objectives we selected, the strategy we chose, and the process of implementation. We also present lessons related to the specific impediments and problems we faced in the Polish context. Finally, we share the insights of participants in CDP to help better understand the achievements and benefits of the program from their perspective.

##### A. Lessons Learned during Project Implementation

###### *Importance of Public-Private Partnerships*

The success of the pilot projects in the Gdynia/Sopot location reinforced the importance of successful public-private partnerships (PPPs) in addressing issues of availability and affordability of quality housing, and the unique problems faced in post-communist settings with housing privatization. We have confirmed our understanding of the critical factors for a partnership to be successful: clear vision of the partnership and setting its direction, building trust and understanding among the stakeholders, and developing sustainability and grounds for replication.<sup>46</sup>

In CDP-Poland's experience, it was the level of public sector's participation which made a difference and greatly contributed to the success of the program. The local municipal authorities' willingness to provide an interest subsidy for the condo loans, captured and held the interest in the program of both private sector partners: condo associations (because it allowed condo owners to augment the resources available for capital improvements) and the participating bank (because it guaranteed against potential losses). In the context of an economy in transition such as Poland, this had three important consequences: 1) ensured banks' interest in the program even though the volume of the overall condo lending portfolio was negligible from the point of view of the banks' overall portfolio; 2) helped diffuse or neutralize public perception that after years of mismanagement and deferred maintenance, housing renovation problems were no longer a municipal responsibility and were entirely put on the shoulders of housing owners; and 3) provided municipal authorities with a way of addressing problems of a group of low income citizens by continuing to own units in condo properties in which they resided. Outside of Sopot, the "public" element of the PPP was missing or weaker, making the results achieved at the two other CDP locations in Poland much less impressive. The particular value of the Sopot partnership rested in the fact that it allowed the combination of private and public financial resources and directed them to capital home improvement which

---

<sup>46</sup> These and other factors are discussed at a greater length in conjunction with another highly successful program CHF implemented in Romania where public-private partnerships resulted in significantly expanded economic opportunities for CHF's local corporate and individual partners. See *Partnering for Success. A Manual of Public-Private Partnerships for Local Economic Development*. CHF-Romania, Timisoara, April 2002, pp 27-28.

would otherwise not have taken place. Indeed, inability to find willing public partners has been pointed out by BBG/Millennium as the reason for its own lack of success with replication at other locations in Poland. Similar situation can be observed across the whole CEE region illustrating the need for PPPs with regard to housing.

In our view, the Poland example illustrates the proposition that the private sector alone cannot be relied upon to deal with the entire complex legal, financial, managerial, and social issues involved in rebuilding post-communist societies, including its housing. Examples of successful PPPs in this difficult sector should therefore be widely popularized, and conditions of their replication across the region studied further. Similarly, further research should focus on the role played by organizations applying cooperative methods (i.e., cooperatives, condominium associations, homeowner associations) in the light of potential linkage between their successes and stability and prosperity of communities.

For CDP-Poland, this conclusion was confirmed by the somewhat less impressive (compared to Gdynia/Sopot) results achieved at other pilot locations, namely in Warsaw and Kutno. While at each of these locations CDP strived to forge a lasting relationship with banking and municipal partners, the public partner was more difficult, less inclined, or unable to engage, given the local political environment. In fact, the difference in a city's size and the stability of local political forces is often cited as a "make or break" element of success. In the case of Sopot, the smaller size of the city, general support for the city's strategic revitalization policy, and continuity of its implementation provided conditions more conducive to a successful PPP. It helped that city representatives participated in a CHF study tour to the United States and had a chance to familiarize themselves with a number of ways that such housing partnerships work in the U.S. context. The condo lending program was perceived as benefiting the community as a whole, rather than individual unit owners, and thus was more readily supported by municipal authorities. In contrast, at other locations, at least at the time of CDP implementation, there was much less stability, less continuity of action, and therefore less willingness to engage in creative initiatives. In hindsight, focusing more on the public sector element of the CDP partnerships, perhaps involving the associations of Polish cities, would have ensured a more lasting impact.

From the perspective of future PPPs, CDP-Poland offered several recommendations which could transfer the success in Sopot to other cities throughout Poland. Among them: 1) Local banks should establish goals and strategies for continued future growth and support for the loan programs; 2) Local banks, even without local government support, should provide other loans to condominium associations, for example loans under the Thermal Modernization Act or similar later legislation;<sup>47</sup> 3) Both local banks and the local governments should recognize the condominium association as a legal entity which will result in a more effective and efficient loan program, rather than the current loans to individual unit owners; 4) Local banks should collateralize the loans with a pledge of assessments, as opposed to an individual note payable from each unit owner, which will increase the effectiveness and efficiency of the loan program.

A set of recommendations was also offered to local governments: 1) local governments should develop a specific housing strategy and policy regarding the privatization of their

---

<sup>47</sup> Other CHF International studies show the deficiencies of some of these national loan programs to support energy efficiency improvements: too rigid/too high requirements for the level of future energy savings; significant financial input required on the part of condo association before lending application is accepted; length and complexity of procedures; doubts as to the quality of reviews provided by designated energy audit firms, etc. See B. Czachorska-Jones, *Emerging Governance*.... pp 13-17.

housing stock and property management companies, 2) Local governments should develop a range of incentives (i.e., interest subsidy or other), which will attract residents to purchase and renovate condominium units, 3) Local governments and local banks should utilize the expertise and knowledge of non-profit organizations such as CIM which can assist in educating residents and communicating the benefits of loan programs in addition to facilitating the application process established by the local governments.

### ***Selection of Pilot Projects***

In an ideal world, "pilot" projects would be selected in such a way as to accurately reflect the "average" location in a given country, and even some particularly difficult environments would be selected in order to test whether the approach could work even under trying circumstances. Unfortunately, the latter would imply that "failure" is acceptable, and quite often, particularly with a relatively small budget with a short timeframe, there is intense pressure to pick a "winner." The incentive is to identify locations where you know you will succeed; there is no time to have an unsuccessful example.

If a pilot site is too "unique," it may turn out not to be representative enough of the country as a whole. In Poland, given the particularly short timeframe due to the close-out of the USAID program, there was not room for experimentation. Sopot looked like it had the elements of success – in hindsight, some (only some) of those elements were relatively unique to Sopot. The condominiums tend to be much smaller with fewer units allowing for easier cooperation among association members, and facilitated the ability of the bank to arrange loans with individual unit owners. Also, Sopot benefited from a stable political environment and did not suffer the radical political party shifts that many other cities in Poland faced which provided continuity in their housing strategy. Even given "unique" qualities, we believe that the model has merit.

From the perspective of other CDP countries, pilot project selection was a sensitive process. For example, in the Philippines, a list of selection criteria was agreed upon between CHF International and our local partner, the National Housing Authority (NHA). Efforts were made to select the most typical and representative sites, and we selected three out of 80 cooperatives registered with NHA. In order to escape land acquisition and legal process difficulties, it was agreed that to serve as a pilot, a cooperative must own land for its future housing project. As it turned out, unfortunately, only one of the three selected pilots was able to avoid land-related problems. In one case, the land owned by the pilot cooperative turned out to be unsuitable for housing construction, in the other case, an outside party challenged the cooperative's rights as legal owner and an ensuing law suit remains unresolved to this day. Even with an understanding of conditions on the ground, and the additional perspective of NHA, which was supposed to know the cooperatives best, it was impossible to avoid mishaps. Flexibility and adaptation of applied processes was required, as well as learning from failed examples as much as from the successful ones.

Yet another set of difficulties was faced in South Africa, where CHF International was working in an entirely new environment for cooperatives. The newness of cooperative concepts and the need for extensive ground work, organization, and registration before pilot activities could even start, considerably slowed down the implementation process.

### ***The Power of Private Ownership and Collective Action***

The case study illustrated the power of democratic action and changes in attitude. Polish condo associations learned by doing and by taking control of their own situation. Since 1995, they moved from the situation of complete reliance on municipal management to complete independence of that system. Members developed an understanding of the new structures, as well as the need for, and use of collective action. They realized their inter-dependency and the benefits for collaboration around mutual interests. The resulting self-reliance at the managerial level and willingness to search for creative solutions to augment available financial resources, allowed them to turn their vision of a better quality of life into reality. In the end, what was important was not so much the structure (a hybrid between individual ownership and a cooperative; we refer to it as a "cooperative-like" structure), but the use of cooperative approaches: democratic control by members, education and information which allowed members to adopt democratic and accountable leadership which encouraged greater individual investment in the process.

In an economy in transition, with continuing illiquidity in the housing market, these cooperative-like structures provided an additional alternative for moderate or lower income people living in a multi-family setting. Unable to afford moving to a single-family home, they still enjoy the benefits of ownership: the ability to sell, bequeath, lease or rent their unit, and to draw the additional proceeds. Their choices as consumers expanded to include condominium associations, cooperatives (limited and market value), and/or rental market opportunities.

### ***Perspectives on Institutionalization***

The short timeframe of the CDP hindered the ability to institutionalize the results in Poland. Despite this limitation, organizations assisted and trained by CHF International, including CIM and AWIM-Gdynia, in particular, operate to this day and continue to provide services to this market. CIM offers feasibility, cost and energy efficiency analyses, as well as planning for capital projects. AWIM-Gdynia offers property management services and consultations to condo members and/or boards.

The decision to select pilot projects in locations where there was an active, innovative AWIM did contribute to the institutionalization of the project. Close to 30 AWIMs, established with CHF International assistance between 1994 and 1999, benefited from CDP training. At least half of them continue to operate to this day, providing consulting, property management, and training services apart from construction planning and development. In our experience, given that not all AWIMs started operations at the same time, the ones that previously engaged in single home construction had a greater interest in diversifying their services, compared to those which started as new institutions from scratch. AWIM directors saw the developing condo market as an opportunity to add-on to their skills and to expand their area of operations. This allowed them to capture new local markets or to fill an existing niche. Such expansion also made their businesses a little less vulnerable; with a weak local economy, the market for single-family home construction became saturated relatively quickly, whereas demand for services relating to multi-family homes is still quite significant.

However, the condo market is still a relatively "poor" market with the inability to pay much for external services, given the typically lower income levels of tenants. In the course of implementation, the CDP training and training materials, including the manual which remained with CIM, were offered free of charge. To condo boards, training and consultation were offered in collaboration with the Society of Condominium Associations

(SWM). In hindsight, perhaps it would have been better to charge a fee, increasing the amount over time.

Institutionalization of this aspect of CDP activities had mixed success. We do not have information as to whether or how such training is offered at this time by CIM. SWM and similar associations have experienced difficulties in generating outside funding to support their activities, and some time ago SWM had to close its consultation centers which provided free-of-charge assistance to condos and their members. Experts who provide countless pro-bono hours are looking for help in training new cadres willing to provide similar services in their communities. Given the limited income of the tenants, it is unrealistic to expect full cost recovery on all services offered, and grant funding would need to support such efforts. Finally, pursuing yet another of the cooperative principles, cooperating with other cooperatives, it may have lead to better results for SWM and CIM to join forces with other associations of cooperatives to explore the potential for greater market power in joint purchasing, and possibly even lending. Vendors and banks are often more interested in a "hassle free" approach (i.e., guaranteed collections, financing, etc.) and would rather work through a large, respected entity rather than with individual small associations, and may be willing to take a discount to facilitate the effort.

#### ***Volunteers – Pros and Cons***

Through the first phase of CDP we placed a total of 11 volunteers in the three target countries. Overall VIP experience was very positive.

*Pros:* (1) VIPs were able to show that they grapple with similar problems and that to many of them, solutions have already been found. They provide practical examples of successful interventions to resolve similar problems. (2) VIPs had a significant mobilizing effect on local beneficiaries. By contextualizing their advice to the needs experienced by local partners, VIPs were able to instill enthusiasm in the application of new solutions and in the vision of a better quality of life. (3) Assignments had an equally significant effect on VIPs, who went back to their communities to share their international experience in home communities. These actions continue to help build a positive atmosphere around foreign assistance programs and the needed popular support.

*Cons:* (1) There were limitations resulting from the relatively short period of VIP assignment (average of two weeks). Scopes of work had to be narrow enough to be realistic, and the timing of assignments had to be "just right" to maximize effectiveness. If the VIP does not go at "just the right time" in relation to the project implementation phase, there is less impact and less interest on the part of beneficiaries. For example, in one case in another CDP country, the VIP's assignment focused on property management issues, whereas construction of the project was still at the early stage of organization and planning. As a result, the attention of the implementers was focused on a different set of issues and the VIP impact was limited. (2) Assignments require labor and time-intensive preparatory work. In most cases, assignments are difficult from the logistics point of view with a need to coordinate with diverse personal, institutional, and programmatic goals and schedules.

Overall, however, CHF International's experience with the VIP program has been very positive. It allowed us to test some hypotheses we made at the program's outset. One such hypothesis was that advertising volunteer assignments with and drawing on volunteers from CHF International's institutional members, such as the National Cooperative Bank (NCB) and the Community Association Institute (CAI), would build a stronger rela-

tionship with our members, and would facilitate the potential for long-term institutional relationships between our members and the counterpart organizations overseas which they assisted.

Our experience was mixed. In the case of Poland, the fact that three volunteers drawn from CAI provided assistance to condo associations and had a positive experience, did lead to the donation by CAI of a library of reference materials to CIM. However, efforts to stimulate a longer-term mentoring relationship were unsuccessful. As a domestic organization serving the needs of its members, CAI did not place a priority on international outreach and partnerships. In the case of the Philippines, lasting institutional relationships did not result from contacts developed through a study tour to the United States, although the tour itself was facilitated by a VIP who had completed an assignment in the Philippines. The tour also resulted in significant progress made by the National Housing Authority (NHA) in structuring its relationship with the Land Bank of the Philippines (examples observed while in the United States helped participants to refine and set up a lending scheme designated specifically for cooperatives).

As a result of our CDP experience, we have a more realistic view of the role that U.S. "practitioner" associations can play. – while they may be willing to recruit and advertise volunteer assignments, provide guest speakers for study tours, and invite our beneficiaries to attend their annual conferences, without solid external funding support, since their mission is to meet the needs of their U.S. members, their involvement is very limited. In many cases, international work is viewed as an interesting "sideshow," or in some cases is even prohibited by their board of directors.

## **B. Lessons Learned in Addressing Problems/Issues**

### ***Broader Economic Impact***

The program had a spin off impact of not only the increase in property values, but also the jobs generated through the local construction industry. As illustrated by other CHF International studies, home improvement projects have a distinct job creation effect that should be pointed to when efforts are made to engage the public sector or stir its interest in lending programs or PPPs. We estimate that the 128 units improved through CDP-Poland activities, generated 558 person-months of employment and \$268,398 in value of local gross income.<sup>45</sup> Renovation and rehabilitation programs benefit the local economy, as well as the whole community, through the increase in the quality of life.

Another broader impact to be considered is the average square meter gain in property value due to renovation. A detailed calculation for the two Sopot condos (see tables 13 and 14 above) reflects a net gain from 1999 - 2003 of 23.5% for Condo #1. For Condo #2, the gain was only 4.5%; however, this may be due to other factors such as the property's location. While we recognize the disparity, time constraints did not allow further investigation of the causes. In any case, even though these are just two examples, and the value added differs rather significantly, the important conclusion is that there is value added. This is, indeed, a positive trend which should increase both private and public interest in investing in home improvement. Following higher quality home properties

<sup>45</sup> The estimate covered the needs assessment, including facilitating AWIM salary, feasibility study and design services (architecture and trades), local government approvals and processing, condo administration and loan officer's services, and basic construction including technical infrastructure work (i.e., water, sewage, electric or telephone systems), construction (all trades), transport and delivery, interior work and finishes. See detailed calculation in B. Czachorska-Jones, *Assessing Economic Impact...* pp 10-11.

there is an expectation of further investment and economic development for the whole community.

Contribution to the services sector is yet another impact of such programs. A whole new sector of property management firms has developed around the needs of condominium associations, successfully competing with municipally-owned management companies. Privatization efforts are ongoing in various cities across the country, continuing the need for a positive working relationship between condo associations and municipal authorities vis-à-vis co-owned condo properties. For the financial sector, condominium associations still constitute a small group of clients, out-weighted by interests of larger private or public clients. At the same time, this section of the financial services market is growing. As the example of Sopot and BBG/Millennium illustrates, this bank is serving the financial needs of around 80% of local condo associations, of which about 20% participated in the condo lending program. As CHF's analysis has shown, the program is growing, which is definitely a positive tendency. If it continues, as can be expected, condo lending will expand well beyond the current level providing local banks with more business (currently the value of the condo loan portfolio constituting less than 1% of BBG/Millennium's overall portfolio). Also the fact that there are repeat borrowers is encouraging, since it shows that with time, condo associations are becoming bolder and more willing to use credit instruments.

#### ***Replication Is Harder Than It Looks***

Through workshops and case study materials, CDP-Poland worked to disseminate the experience of the Sopot-BBG lending model, as did subsequent USAID-funded programs (e.g., the Local Government Partnership Program) with relatively limited success. If we are to explore the potential for adapting the model to other country contexts, we need to better understand why it failed to spread in Poland. Our analysis identifies a number of potential reasons:

- BBG, which should have been one of the major promoters of the program went through a re-organization process relatively recently (it is now "Bank Millennium"), which slowed down its outreach efforts and its focus on the program;
- Apparently, at different points in time, BBG bank officers expressed interest in offering similar arrangements in other cities where it has branches, but the corresponding interest and willingness to participate by the city governments was lacking. Without the interest subsidy, there was too much of an economic burden placed on the typically low-income residents, and the condo lending program did not gain popular support;
- Given other priorities, the bank did not have enough man-power or resources to assist condos with the practical aspects of the lending process. A lack of understanding of condo issues on the part of bank officers, as well as a lack of education and understanding of issues on the part of condo owners also constituted disincentives and barriers to successful replication;

The lack of willingness of city governments to engage in partnerships with local banks and condos was sometimes linked to the political situation in a given city. In the case of Sopot, it was often pointed out that the city had reached a certain degree of political stability which ensures the continuation of the policies and their implementation. This is not the case in other Polish cities. For example, we learned during our March 2003 survey of condo associations in Warsaw that the manager of one Warsaw condo (over 100 units)

worked for more than two years with district officials to work out an interest subsidy arrangement for a capital renovation project for the building. Unfortunately, at the same time as the agreement was finalized, local elections took place and resulted in a new group of officials taking office. They distanced themselves from the previous government, and decided not to continue with the earlier arrangement.

In conclusion, in order to replicate successfully elsewhere, there needs to be a continuous interplay between all public and private partners, grounded in an understanding of each one's respective roles and objectives, and the challenges this diversity poses to the overall PPP goal. Involvement of NGOs such as CIM, SWM, or associations of cities should be actively sought as conduits of successful practices, facilitators and educators, or involved partners. They help to maximize the impact of lessons learned through their membership base, and can provide a unifying, neutral forum for discussion and "ironing out" of implementation issues.

### ***Beware the Technocratic Solution***

Perhaps driven by the short timeframe of project implementation, we tended to focus on the "technical" aspects of condo management and maintenance, and overlooked the importance of the "political" aspects of the broader context in which they operate – and the importance of helping to broker lasting relationships. As noted above, and throughout this case study, the role of the municipality in addressing issues related to affordable housing for low-income families, and the renovation and maintenance of buildings in which they often own units, is critical. In hindsight, throughout implementation of the program we needed to focus more specifically and aggressively on the cities' role – and perhaps would have had more success working through the three Polish associations of cities. By including such associations as active partners in the implementation process, they could have become powerful allies in helping to educate cities about the importance of the issues facing condo associations, and the importance of having a long-term, consistent housing strategy, as well as helped in disseminating success stories to their members.

In addition, while through CDP-Poland we provided a lot of "technical" assistance to CIM, SWM, and the participating condo associations, we could have provided more "political" assistance by helping them to understand how to lobby more effectively and advocate more aggressively for solutions to the problems they faced, and for assistance from both the local and national government levels. Effective demonstrations and letter writing campaigns by residents forced to live in crumbling, decaying buildings, may have gone a long way to getting the attention of the politicians. Involvement of the media in this regard may have also have had a positive effect.

### **C. Participant Perspectives on the Value of Project Assistance**

Based on information obtained from our field work and interviews, we would like to offer the following selected quotes which contribute to an understanding of the CDP-Poland achievements, benefits, and issues from the point of view of the participants:

James E. Glantz, VIP (February 1999, May 2003): "The role of the condominium association residents in the condo loan program is very important: understanding the right and obligations as unit owners, taking a proactive role in the maintenance and renovation repair of the entire building, not only individual units require changes in thinking by needing to help yourselves. These changes do not happen at once. They require time and effort on the part of all participants. (...)

I consider my VIP assignment in Poland as a very rewarding personal and professional experience. It gave me an opportunity (...) to make a small contribution to the mission of CDP/CIM, to BBG's program, and to the condominium housing sector in Poland. This small contribution is highlighted in the various recommendations to BBG, to workshop participants, and CDP/CIM (...)."

Dr. Krzysztof Kaminski, Director, Center for Housing Initiatives, Warsaw (November 1999, during CDP-Poland closing conference): "Condo market in Poland is only now developing and the needs are enormous. We are planning to concentrate on energy and feasibility studies for condo renovations because this is a difficult area and noticeably in need of assistance. Thanks to CDP activities, we were able to look beyond new construction and focus on preserving and increasing the value of existing housing stock."

Barbara Kowalska, Director, Agency to Support Housing Initiatives (AWIM-Gdynia) (November 1999, during CDP-Poland closing conference): "I really appreciate the fact that CHF included AWIMs in CDP activities. Through CDP, I had a chance to learn about condominium associations, their specific needs, and the assistance I can provide. Since AWIM is developing its advisory and facilitating functions, this is very important. It expands my economic opportunities."

P. Kwiatkowski, President of one of the two studied condos in Sopot (interviewed in May 2003) "There is no doubt that the training and educational activities helped a lot. In fact, it helped us to find the way out of the chaos of the first years following the new condo legislation and restructuring."

Maciej Tertelis, former CDP-Poland staff member, now Condo expert and manager (May 2003): "My experience as CDP specialist was very important to me. It allowed me to sharpen my skills in all areas of condo management and gain practical insights into the problems the condos. Since my assignment with CHF, I have published several books and articles on condo matters, and advise numerous associations as well as municipal authorities."

#### **D. Cooperative Development Learning Agenda**

As a result of this evaluation, and our experience over the years, CHF International would like to propose three areas for further research to contribute to the future learning agenda for USAID, OCDC, and other organizations interested in promoting cooperative development.

- *Developing public-private partnerships (PPP) to address various issues arising in the context of economies in transition.* In our view, the private sector alone cannot be relied upon to deal with the complex legal, financial, managerial, and social issues involved in the transformation of the housing market. Examples of successful PPPs should be popularized, and conditions of their replication studied further. In particular, the role of organizations applying cooperative methods (such as cooperatives, condominium associations, and homeowner associations) should be explored in the light of the potential linkages between their successes, and the stability and prosperity of communities.
- *Cooperative organizations as "incubators" of democratic leaders.* In the course of the CDP, we neither had the chance, nor the time to study these relationships, but we had indicators, and anecdotal evidence to conclude that such linkages exist. Organizations applying cooperative methods to manage their activities seem

to understand that apart from the structures and methods they use, there are also political aspects to contend with, which influence their success. In our experience, cooperative types of organizations can play an important role in helping to shape and develop a "democratic culture." People who have participated in democratic structures at the grassroots level, such as their condo association board, may be more likely to engage in decision-making processes at the local or national government levels.

- *Expanding and financing volunteer activities benefits and enhances the application of foreign assistance programs.* Through CHF's Visiting International Professionals (VIP) program, we were able to provide additional resources to local partner organizations, broaden the impact of our programs, influence the general living conditions in partner communities, and provide an important link to the U.S. cooperative movement. Volunteer programs are valuable and deserve further financial support, and there may be innovative ways to provide the service of volunteers as a way to start connections in new countries, or to revive links with previous local partners in countries where CHF International is no longer active. Additional research would be helpful to understand the impact that the volunteer assignment has on the volunteer, and the extent to which they share the experience with others in their home community.

## V. FINANCIAL ANALYSIS

The main documents supporting financial analysis of the studied condos are retained by CHF International as source materials. This narrative reflects the methodology we used to generate the most meaningful results.

For several reasons, the uniform reporting system for financial analysis of cooperatives developed by the OCDC team did not adapt well to the Polish context (See Attachment 1: OCDC Financial Ratios for Cooperatives for the complete spreadsheet). The main reason was that by Polish law, condo associations are not legal persons; therefore, their financial statements do not comply with Generally Accepted Accounting Principles (GAAP) or International Accounting Standards (IAS) rules. Thus, while there is a cash flow statement and an income statement, there is no balance sheet that actually balances. The result is that the OCDC financial analysis framework cannot be applied in a meaningful manner to the two condos chosen for this case study. CHF International attempted to apply the framework, but the results were meaningless.

For this reason, we decided to evaluate the financial status of the Polish condos using financial ratios standard for the U.S. condo industry, and specifically, those used by the National Cooperative Bank (NCB) in its loan programs targeted at U.S. condo associations. Even though these are U.S. standards, we consider them to be applicable to the Polish condo situation. We consulted with NCB on this issue, in the course of preparations for this case study, and we confirmed the ratio's general applicability. Detailed tables for each of the two studied condos are included as Attachment 6.1.<sup>49</sup>

The results of this analysis show a positive picture. With the exception of two ratios -- Cash/Liquidity and Capital (Replacement) -- both studied condos largely meet the standard industry targets. This means that to a large extent their financial operations are carried out correctly and should continue successfully into the future:

Ratio Name-Description	Target	Condo # 1	Condo # 2
<b>Balance Sheet Analysis</b>			
<b>1. Cash/liquidity</b>			
1.1. Cash+Reserves)/ Annual Gross Income	> 5%	Requirement is met at 41.95%. It is high because the condo is collecting funds for future capital improvements.	It is impossible to measure this ratio. <sup>50</sup>
<b>2. Delinquency</b>			
2.1 Delinquent Amount per Year/ Annual Gross Income	< 5%	Requirement is met at 2.92%.	Requirement is met at 0%.
2.2 Number of Delinquent Unit Owners /	< 10%	Requirement is not met at 12.50%. <sup>51</sup>	Requirement is met at 0%.

<sup>49</sup> Analysis based on source information contained in annual budgets for 2002.

<sup>50</sup> The condo assessment is built to cover only management costs. No cash is available to be used by the condo association at the end of year. Also, the condo is not building improvement reserves until the current loan is paid off.

Total Number of Unit Owners			
<b>Income Statement Analysis</b>			
<b>3. Debt</b>			
3.1 Debt Service Coverage Ratio	1:1	Requirement is met. <sup>52</sup>	Requirement is met. <sup>53</sup>
4. Capital (Replacement) Reserve	Based on engineering survey and updated on a regular basis	Requirement is not met. Because of high costs of surveys, capital reserve fund is not based on engineering surveys.	Requirement is not met. See note in left hand column
<b>5. Assessment After Debt Payments</b>			
5.1 Increase of Assessments over Life of the Loan	<40-50%	Requirement is met at 25.35% increase.	Requirement is not met at 155% increase. <sup>54</sup>
<b>Other Ratios</b>			
6. Life of the Loan	<15 years	Requirement is met (loan of 2.5 years).	Requirement is met (loan of 5 years).
7. Owner Occupancy Requirement	>50	Requirement is not met at 49.22%. <sup>55</sup>	Requirement is met at 100%.
<b>8. Loan to Value</b>			
8.1 Loan/Assessed Value of Condo Units	<15%; NCB average of 5-7%	Requirement is met at 2.98%.	Requirement is met at 3.83%.

The condos' liquidity is managed well, with the condos calling on their members in cases when the cash balance falls short of meeting the association's current needs. Condo delinquency is also fairly low, with the members helping each other out in cases where a condo member is not able to make a payment. The condo associations meet their capital improvement needs by either making capital assessments (Condo #2) or borrowing (Condo #1). The fact that the municipality is 50% owner of Condo #1 is actually viewed as a positive fact, since it allows the condo association to rely on the municipality's financial strength. Overall, given the limited information available, the financial health of the two associations is positive.

<sup>51</sup> Only one of the eight members was delinquent; however, it is not that serious a problem since whenever one person is behind, the other tenants help out when there are difficulties.

<sup>52</sup> This ratio cannot be calculated because the loan is given to condo owners rather than the association as a whole. However, we consider the requirement met because condo owners have not been late in repaying their individual portions while continuing to pay condo assessments.

<sup>53</sup> Same as above.

<sup>54</sup> However, the increase has been factored in when the bank has made the loan and the members have been deemed to be a good credit risk. Given that this is the second loan they have taken, the owners have experience in budgeting and managing their cash flow.

<sup>55</sup> Even though the target is not quite met, the majority owner is the municipality of Sopot, which is generally considered to be less risky because of its financial resources, and increases the credit worthiness of the association.

## Bibliography

Banks, C., O'Leary, S., Rabenhorst, C. *Comparative Analysis of Housing Privatization and Condominium Initiatives in Poland, Hungary, Slovakia, and Romania*, Conference Material, Conference on Privatized Housing, Warsaw, 1996.

Czarnecki, Jan and Brown, Mark R. *Condominium Rehabilitation How-To Manual*, published by PADCO, Inc., Warsaw-Washington, August 1997.

Czachorska-Jones, Barbara. *Assessing Economic Development Impact of a Housing Program (on the example of CHF-Poland Project 1992-1999, and Beyond)*, CHF internal publication, April 2002.

-----, *Emerging Governance Within Polish Condominium Associations*, CHF's internal publication, Washington, DC, 2003.

Czachorska-Jones, B., Hermanson, J. A., Womack, J. L., *Consolidated Project Report: A Pilot Project for the Management and Maintenance of Cooperative Housing in Poland*, October 1993-May 1994, reporting on activities implemented under RFS #38 under sub-contract to the Urban Institute.

*Conference on Privatized Housing and Condominium Development in Poland and Central and Eastern Europe*, March 12-13, 1996, Warsaw. Conference Materials.

Dominiak, W., Grabowska-Laszek, A., Kozłowski, E., Krzekotowski, J., Urbanska, W., Zaniowska, H. *A Profile of the Housing Sector in Poland*. A publication of the Housing Research Institute (IGM), Warsaw, 1996.

Glantz, James E., *Volunteer Assignment Report: Condominium Development Project: Assessment of Condo Loan Program*, May 1999, CHF' internal materials.

Hermanson, Judith A. *Cooperative Housing in Poland: Issues and Potential*, CHF's internal publication, November 1990.

Hermanson, Judith A. *Cooperative Housing Around the World: Examples and Experience. (in) Articles of Lasting Value for Leaders of Cooperative Housing, A Collection of Articles from the Cooperative Housing Bulletin and Cooperative Housing Journal*, NAHC Vol. 1, pp 14-20, 1999.

Kalinowski, W., Appelt, J., Kaminska, A., Olszewska, B., Sieminski, W., Tertells, M., Witkowski, W. *103 Wzory dokumentow, pisl i procedur z objasnieniami (103 samples of Documents and Procedures, with Commentary)*, Zielona Gora 2001.

Kaminski, Krzysztof. *Oplacalnosc remontow i modernizacji budynkow mieszkalnych. Poradnik dla wlascieli i zarzadcow budynkow wielorodzinnych ( Feasibility Analysis of Renovation and Modernization Projects in Residential Multi-family Buildings. A Guidebook for Owners and Managers of Multi-family Buildings)*, CIM, Warsaw-Krakow 2001.

*NCB Financing Criteria and Terms for Community Associations. NCB Prequalification and Preliminary Loan Approval Forms*. NCB materials, Washington, DC, June 2003.

Parliament, C., Parliament, S. B., and Regmi, A. "The Effect of Ownership on Housing Operating Costs. Cooperative vs. Rental", [in] *General Materials and Information on Cooperative Housing. A Collection of Articles from the Cooperative Housing Bulletin and Cooperative Housing Journal*, NAHC, Vol. 1, December 1997.

*Początek wielkiej Rewitalizacji (The Beginnings of a Large-scale Revitalization)*, A series of articles discussing revitalization programs of several Polish cities, Monthly "Miasto", February 2003, pp.12-29.

Taylor, M. P. "Is it Time to Rethink Cop-Op Structure?" *Cooperative Business Journal*, April 2003, pp. 10-11.

Tertelis, Maciej. *Communal Housing Management Restructuring*. USAID sponsored manual, Local Governance Partnership Program, Municipium, Warsaw 2000.

-----, *Financial Management of a Condominium Association*, 2001. C.H. Beck, Warsaw 2001 (2 volumes + disc).

-----, *Condominium Association F&Q*. C.H. Beck publication, Warsaw 2001 & 2002 (2-nd edition).

-----, *Property Management and Leasing Agreement*, C.H. Beck publication, Warsaw 2003.

Urbanska, Wanda. *A Guidebook for Condominium Associations in Poland*, Conference Materials, Conference on Privatized Housing, Warsaw, 1996.

Welty, Joel David, *The Challenge of the Second Rochdale Principle. Democratic Control*. (in) *Cooperative Housing Governance. A Collection of Articles from the Cooperative Housing Bulletin and Cooperative Housing Journal*, NAHC, Vol. 2, October 1997.

*Wspólnota Mieszkaniowa – Poradnik Szkoleniowy (Condominium Association – Training Manual)*, Warsaw 1999, CHF publication.



# ATTACHMENT 1

## Outline/Contents of the CDP Case Studies

(Documenting the Effectiveness and Impact of the CDP)

Objective: To document, from a common perspective and in quantifiable ways, the development *process* and the *organizational and operational* capacities of the assisted cooperative(s).

Procedure: Each CDO will identify/select a specific cooperative assistance activity to serve as an example of its development programs and conduct a case study of the activity utilizing, to the extent possible, the outline presented in this document.

The outline is intended to provide a structure for organizing the case study and provide categories for assessing the assisted cooperative(s). Utilization of the outline will help to ensure the presentation of the same kinds of information in the studies, as well as similar measurements of achievement and key indicators of cooperative business development.

Perspective and Assumptions: The case study should be presented from the perspective that cooperative business development is an important developmental tool.

We need to keep in mind that the subjects of the case studies are to be *cooperative* businesses that (to the extent possible) operate in keeping with cooperative principles (voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community). The study should indicate the status of the cooperative(s) vis-à-vis the principles, the political/regulatory environment, whether officially registered and, if so, under which cooperative law.

Indicate the basic assumptions of your CDO that make a cooperative approach to business (or to economic development) an important tool for development, e. g., cooperatives empower members; increases community awareness and identification.

Elements of the Study: Each case study will examine/analyze: (1) the CDO's development process (implementation); (2) the capacities of the assisted cooperatives [before and after implementation]; and, (3) lessons learned from project implementation.

Specific to the development process, the study should examine the CDO's approach, project objectives, project human and financial resources, and the effectiveness of project implementation.

Specific to the assisted cooperatives, the study should examine cooperative organization and governance, cooperative management and operations, business performance and salience.

= = = = =

### Outline/Contents

Executive Summary  
Acronyms

**PART I—THE IMPLEMENTATION PROCESS** (In addition to providing a general description of the project/activity, this section focuses on the process of implementation, including the CDO's strategy, decision making, problems/issues confronted, and an examination of the impact).

**A. Project Description**

1. Background and Overview
  - a. Project Setting and Target Groups
  - b. Intended Beneficiaries
2. Project Objectives and Strategy
  - a. Objectives
  - b. Implementation Strategy
  - c. Project Components
  - d. Conditions Expected at EOP

**B. Project Implementation**

1. Project Management and Organization
  - a. Staffing
  - b. Organization/Activities Plan
2. Project Reporting/Monitoring
  - a. Baseline Data and Performance Monitoring
  - b. Levels of Output
  - c. Implementation Problems/Issues (including issues related to the operating environment, level playing field vis-à-vis other businesses, cooperative law, etc.)

**C. Impact of the Project**

1. Impact on the Target Population
2. Potential for Institutionalization

**PART II—THE PARTICIPATING COOPERATIVE(S)** (This section examines the cooperative(s) vis-à-vis governance, business operations, viability, and impact on members).

**A. Cooperative Organization and Governance**

1. Mission (purpose), Status
2. Leadership and Decision Making
3. Membership and Member Participation

**B. Business Operations**

1. Management
  - a. Policies, Procedures
  - b. Personnel
2. Business Activities

- a. Planning and Performance
- b. Transparency/Accountability
- 3. Financial Analysis
- 4. Saliency
  - a. Value/Importance to Members
  - b. Significance to the Community
  - c. Importance in the Business Sector

**PART III —LESSONS LEARNED** (a set of lessons drawn from field experience with supporting examples that validate each lesson).

- A. Lessons Learned during Project Implementation (lessons related to the objectives, strategy, process of implementation, monitoring, and evaluation).
- B. Lessons Learned in Addressing Problems/Issues (lessons related to specific impediments and problems, operational environment; areas of significant achievement).
- C. Participant Perspectives on the Value of Project Assistance (information obtained from field interviews that contributes to an understanding of the achievements, benefits, and issues from the point of view of the participants).

**PART IV—FINANCIAL ANALYSIS**

**Background**

At the request of USAID, the Cooperative Development Organizations are participating in a cooperative development program review, during which each organization will prepare one or more cases studies of recent cooperative development projects. A feature of each case study will be an assessment of the financial strength of each studied cooperative. This paper is intended to serve as an outline for the financial analysis. The cooperative development organizations and the business sectors they represent are as follows:

<b>Cooperative Development Organization</b>	<b>Business Sector</b>	<b>Members of Case Study Co-operative</b>	<b>Age of Case Study Co-operative</b>
NRECA	Rural electrification	150,000-250,000	25-40 yrs.
NCBA	Agriculture cooperative business development		
CHF	Cooperative housing	1,000	
ACDI/VOCA	Agriculture technical assistance		
WOCCU	Credit unions		
NTCA	Telephone cooperatives		
AAC/MIS	Insurance cooperatives		
Land o' Lakes	Dairy cooperatives	500	10 yrs.

It is clear that there exists substantial diversity among both the business sectors and the characteristics of the case study cooperatives.

### **Objective**

It is the objective of this report to outline a set of ground rules for presentation of financial results for the coops in the case studies, so that their level of financial sustainability can be determined. It is neither the intent to permit comparisons between cooperatives across business sectors nor to prepare a set of fixed comparison measures that would be applied to all case studies. It is desirable that the cases studies be evaluated based upon their performance on a series of measures for liquidity, solvency, and profitability commonly used for the specific business sector. Financial sustainability of the case study coop will then be determined through comparisons against target values that are developed by the CDO based upon the conditions in the country of operation.

### **Methodology**

The fundamental tools of any business financial analysis are the operating statement, sometimes called the income statement, and the balance sheet. In some cases, the CDOs have developed their own financial reporting forms for these three tools. For instance, NRECA has adopted various modifications of the REA (now RUS) Form 7 for its overseas clients, and WOCCU has developed the PEARLS software which directly reports performance ratios. It is expected that these organizations will utilize their standard reporting forms. A set of generic reporting forms has been developed and is attached for the use of those organizations that do not have their own.

Once the data has been collected, it must be consolidated and analyzed. Development of key ratios based on data from the reporting forms is normally the method used for presenting a consolidated picture of the operations, and some standard of comparison must be used to determine whether a particular value of a specific ratio is good or bad. Useful comparisons can best be developed through benchmarking, or the collection of information from a number of entities known to be successful and carrying out statistical comparison of ratio values of the test case and the known "best practices" organizations. This strategy will not be possible in this study, so the CDO's will have to establish benchmark values based on their experience for the key ratios. Some suggested values have been extracted from the document "Analyzing a Cooperative Business" designed for grain and farm supply cooperatives and published by CoBank in February, 2002.

Attached are a series of Excel spreadsheets that list the ratios, how to calculate them, and the chosen target values for each. The spreadsheets are arranged so that the values of key ratios will be calculated automatically from data in the generic operating statement and balance sheet provided. Use of sector specific operating forms will require hand calculation of the ratios. The forms are designed to be filled out in local currency, but in order that the results may be comparable regardless of currency variations, a second set of spreadsheets convert the local currency values to US dollars, and the ratios are calculated from the dollar spreadsheets.

## **Conclusion**

An effort has been made to prepare a uniform reporting system for financial analysis of the cooperatives included in the case studies. This system should not be considered prescriptive or fixed, and should be refined as the studies progress, though such modifications should be made in a formal manner, i.e. with notification to the design group. A fundamental assumption in the preparation of this mechanism is that data required can be obtained, and it is anticipated that lack of data may well be the principle problem in its execution.

Contributors to this analysis method include:

James VanCoevering, NRECA International, [JamesVanCoevering@compuserve.com](mailto:JamesVanCoevering@compuserve.com)

Barrie Lasure, Land o' Lakes, [BRLasure@landolakes.com](mailto:BRLasure@landolakes.com)

Andrew Turner, World Council of Credit Unions, [aturner@woccu.org](mailto:aturner@woccu.org)

Tamara Arsenault, Cooperative Housing Foundation, [TArsenault@chfhq.org](mailto:TArsenault@chfhq.org)



## ATTACHMENT 2

Cooperative Development Framework for  
Case Study, Condominium Number 1  
Chopina Street, Sopot, Poland

Cooperative Development Framework – Condo 1		
No.	Item description	Checklist
1	<b>I. Governance</b>	
2	A. Mission/Goal	
	1. The cooperative has a <b>clearly articulated mission</b> .	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
3	<p><i>As verbally articulated by the President of the Management Board:</i></p> <p><input type="checkbox"/> to live in a renovated and well maintained real estate.</p> <p><i>The Condo implements this vision through renovations of the building as well as through optimizing the cost and quality of management services.</i></p>	
	2. The cooperative has set <b>business goals to benefit its members</b> .	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
4	<p><i>Verbally articulated by the President of the Management Board:</i></p> <p><input type="checkbox"/> to provide quality and cost effective maintenance allowing to increase the value of property</p> <p><i>The property includes 13 separate residential units, out of which 7 are owned by individual owners and 6 are owned by the City of Sopot. Total usable space: 425.10 square meters; private owners share equals 51%.</i></p>	
5	3. The cooperative's mission and operations are <b>consistent with generally accepted international cooperative principles</b> .	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
	<i>Confirmed by the President of the Management Board.</i>	
	4. The cooperative is <b>properly registered and operates in accordance with local laws and regulations</b> (that should provide an enabling environment).	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
6	<p><i>The condo was established in 1995, based on provisions of the Law on Housing Units Ownership of June 24, 1994 (further referred to as "UWL". There is no formal registration procedures based on this act. A Condo comes into being starting with the moment of sale of the first unit (be it residential or commercial) by the 'previous' owner. In this case, until 1995 the property (originally built in 1920) was owned and managed by the local government.</i></p> <p><i>The Condominium has its own statistic number (REGON), tax number (NIP) and bank account.</i></p>	

7	<p>5. Does the coop mission reflect the member's interests and needs?</p> <p><i>Yes (as confirmed by the President of the Management Board in the course of interview). The main need of the members is to provide quality management at the lowest possible cost. Also, there are still issues to be worked out with the municipality, for example with regard to the costs of cleaning of the surrounding area.</i></p>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
8	<p>B. Cooperative By-Laws</p> <p><i>No separate act since not required by Polish law.</i></p> <p><i>Important note: condos may establish Internal By-Laws (called "Condominium Statute" or "Condominium Declaration") in order to define precise rules of operation. Usually, these document adopt applicable rules specified in the UWL. If Condos decide to change the UWL rules, a formal procedure involving a Notary Public certification is required. Studied Condo 1 has not passed a condo statute and is governed directly by provisions of the UWL.</i></p>	<input type="checkbox"/> Y <input checked="" type="checkbox"/> N
9	<p>1. By-laws address fixed terms of office for officers.</p> <p><i>Based on UWL: 1 year tenure. Current President of the Board composed of 2 members has been presiding since 2000, when the municipality withdraw from management and the condo took over.</i></p>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
10	<p>2. By-laws clearly define the duties of cooperative members, the Board and General Manager.</p> <p><i>These are defined in UWL. Although there are no formal By-laws, it is quite obvious that members of the Condo Management Board know their responsibilities well. There are 2 members of the Board. Condo hired a professional property manager (third party).</i></p>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
11	<p>3. By-laws set quorum requirements.</p> <p><i>There is no requirement for quorum in condominium in Poland. UWL defines two ways a decision can be voted on: first, when a vote is taken in the course of a meeting, and a second one, with individual voting by each condo member ("kwerenda", "obiegowka"). In the second case, the Member of the Management Board meets each owner separately, in their apartments, explains the rationale of the decision and gets the owners' vote ("one man one vote" technique).</i></p>	<input type="checkbox"/> Y <input checked="" type="checkbox"/> N
12	<p>4. By-laws define extraordinary circumstances and procedures when cooperative members may petition for general meetings.</p> <p><i>This rule is described in UWL and can be applied directly even if there are no separate By-Laws passed by the Condo.</i></p>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
13	<p>5. By-laws determine how officers are nominated and voting is conducted.</p> <p><i>The Condo took over management in 2000. There are 2 members of the Management Board and they are elected for a period of 1 year. Both people are credible to other owners so that they were re-elected each year.</i></p>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N

14	6. By-laws articulate the procedure and responsibilities of general meetings. <i>These procedures are also defined by the UWL and directly applied by the Condo. Owners seem to know them very well..</i>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
15	7. By-laws define requirements for eligibility for members. <i>Owners become condominium association members upon purchasing a unit. There is no room for an eligibility requirement under UWL. It would be illegal. However, it still exists in cooperatives in Poland.</i>	Y <input checked="" type="checkbox"/> N
16	C. Membership Meetings/ Member Responsibilities	
17	1. Meetings are open, broadly advertised and convened at least annually. <i>Annual meetings are required by the law and held by the condo around March of each year.</i>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
18	2. Annual meetings are attended by significant portion of membership. <i>No problems with participating in annual meeting of owners are experienced. Individual condo owners represent more than 1/3 shares in a common property (7 units). The city holds ownership of the remaining 6 units.</i>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
19	3. General meeting holds democratic election of officers and opportunity is provided for multiple candidates for open positions. <i>Every condo member has a right to become member of the condo management board. It is quite common, also in other condos all over the Poland, that the most active people are re-elected year by year, particularly if they are experienced in management and have enough time to spare. The same scenario applies to Case condo. There is one leader (interviewed by CHF consultant) who enjoys continuous support of the other members and hold President's position since year 2000.</i>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
20	4. Members determine how:	
21	• Directors are elected or appointed, fixed terms of directors, quorums <i>No problems with basic management rules. They are defined in UWL and applied directly.</i>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
22	• Cooperative by-laws are approved and amended <i>As mentioned above (see point 8), no separate written document exist or is needed. Provisions of the law are applied directly.</i>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
23	• Significant liabilities or disposition of cooperative assets are undertaken and approved <i>Condominium owns no assets since it is not recognized by law as a legal entity. Owners own their units and co-own with other members an undivided share in common areas.</i>	Y <input checked="" type="checkbox"/> N
24	• Dissolution or merger of cooperative are handled <i>No need for dissolution or merger. This situation does not apply to our condo.</i>	Y <input checked="" type="checkbox"/> NA
25	• Cooperative auditors are appointed	Y <input checked="" type="checkbox"/> N

	<p><i>Neither UWL, nor any other Polish financial legislation requires financial audits. Condominiums in Poland are managing their housing stock and are not considered suitable organizations for other business undertakings and not even recognized as legal entities (coops or regular associations are a different matter). Therefore the law does not define an obligation to hire an accountant, to keep the books or audit them. We are following various financial procedures, but doing it in a much simpler manner.</i></p> <p><i>The condo uses formal budgeting and financial reporting tools prepared by its management company (copy of financial statement for 2002 is attached). Common property expenses do not show central heating or central hot water expenses because owners use individual gas burners.</i></p>	
26	<p>5. Members understand basic business operations of a cooperative; can make distinction between coops and other business forms.</p> <p><i>Does not apply.</i></p>	Y <input checked="" type="checkbox"/>
27	D. Board of Directors	
28	<p>1. Board decisions are consistent with generally accepted international cooperative principles.</p> <p><i>(This respondent): Board decisions are certainly consistent with generally accepted Polish principles. We are not sure whether we should compare this to international rules as condos in other countries may have different organizational and legal status.</i></p>	<input checked="" type="checkbox"/> N
29	2. The Board limits itself to:	
30	<ul style="list-style-type: none"> <li>Setting, reviewing and modifying organizational policies</li> </ul>	<input checked="" type="checkbox"/> N
31	<ul style="list-style-type: none"> <li>Establishing strategic and financial planning objectives</li> </ul> <p><i>The main issue here is planning further home improvements for common areas of the building. The board had to learn ways of making recommendations and decisions in these matters. So far, a loan was taken in June 2001 under program involving gmina and private bank BBG (now Millennium). Renovations included: roofing (very timely! Roof collapsed just before the project was started!), replacement of interior pipes in chimneys, restoration of stained-glass windows, restoration of a portal above the entrance, installation of domestic telephone set system, replacement of vertical installation of cold water. Repayment terms: 2.5 years, 29 payments. Gmina is providing coverage its share of expenses plus additionally, 100% of interest during year 1, 90% in the second year, and 75% in last 6 months of loan repayment. At this time, we are getting close to repayment.</i></p>	<input checked="" type="checkbox"/> N
32	<ul style="list-style-type: none"> <li>Representing the interests of the cooperative to members, authorities and the general public</li> </ul>	<input checked="" type="checkbox"/> N
33	<ul style="list-style-type: none"> <li>Reflecting the interests and concerns of members in the decision-making process</li> </ul>	<input checked="" type="checkbox"/> N
34	<ul style="list-style-type: none"> <li>Hiring, monitoring and evaluating management in accordance with cooperative policies, plans and job descriptions</li> </ul>	<input checked="" type="checkbox"/> N

	<i>In this condo, an outside firm is engaged to provide. It is too early to say that the management board has an effective tool for monitoring and evaluating the management company. There is a simple evaluation done at the end of each year – especially with regard to completion of annual management plan.</i>	
35	<ul style="list-style-type: none"> <li>Oversee acquisition and preservation of cooperative assets</li> </ul> <i>As mentioned before, there are no common assets.</i>	Y NA
36	<ul style="list-style-type: none"> <li>Preserve the cooperative character of the organization</li> </ul>	Y NA
37	<ul style="list-style-type: none"> <li>Assess the cooperative's performance</li> </ul> <i>We are slowly getting used to doing this. Today, condo members appreciate the investments done so far and are proud of how the building now looks like.</i>	Y N
38	<p>3. Board members serve in a voluntary and unpaid capacity. (However, they may be reimbursed for costs associated with Board service).</p> <i>All board members serve as volunteers.</i>	Y N
39	<p>4. The Board ensures the timely publication of agendas, minutes, financial returns, audit reports and any other materials required by laws and/or by-laws to promote cooperative accountability and transparency.</p> <i>This job is done by the property manager. Generally, everyone is informed and so far, there were no complaints.</i>	Y N
40	<p>5. The Board is composed of elected members and/or limited numbers of non-elected or advisory members appointed under by-law guidelines. (Government officials do not serve on the board).</p>	Y N
41	<p>6. Board meetings are announced well in advance, are conducted in accordance with cooperative by-laws and are open to members.</p> <i>Every condo member is welcome to participate in management board meetings. The Condo is open to the participation of regular condo owners within every-day decision making-processes (even more so than required by UWLI).</i>	Y N
42	<p>7. Board members do not engage in business or activities placing them in direct competition with any business unit or service offered by the cooperative.</p>	Y N
43	E. Board Officers	
44	1. Chairman	
45	<ul style="list-style-type: none"> <li>Sets meeting agendas</li> </ul>	Y N
46	<ul style="list-style-type: none"> <li>Ensures information needed by the Board is available</li> </ul>	Y N
47	<ul style="list-style-type: none"> <li>Facilitates deliberations of the Board</li> </ul>	Y N
48	<ul style="list-style-type: none"> <li>Ensures that decisions are taken and recorded in meeting minutes</li> </ul>	Y N
49	2. Treasurer	

	<i>There is no treasurer among the members of the management board. Financial work is done by the management company and is approved by the president of management board.</i>	
50	<ul style="list-style-type: none"> <li>Ensures that cooperative accountants keep accurate, up-to-date records of all financial activities and provides written financial reports each month to the Board and annually to cooperative members.</li> </ul>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
51	<ul style="list-style-type: none"> <li>Oversees the compliance of financial records to audit procedures and guidelines.</li> </ul>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
52	<b>3. Secretary</b>	
53	<ul style="list-style-type: none"> <li>Keeps thorough minutes of cooperative meetings (records of members present, date, place, who presided, conclusions, reports)</li> </ul>	Y <input checked="" type="checkbox"/> N
	<i>There is no secretary in this condo (it is too small). Meetings, etc. are organized and information managed by the outside management company.</i>	
54	<b>F. Management</b>	
	<i>This Condo hired a third party property management company (called "PATPOL"). Until 1995, PATPOL had the status of gmina's organizational unit but when the city of Sopot went through the first part of its restructuring process, communal housing stock management was privatized. Then PATPOL won the bid and now operates as one of 3 private property management companies that provide managerial services to communal properties (i.e. buildings owned 100% by gmina). PATPOL also manages condominiums in which gmina has only a share. Usually, gmina prefers to have such properties managed by the same company that manages its units in condominiums.</i>	
55	1. Manager formulates both short- and long-range operational plans in compliance with cooperative goals and objectives.	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
	<i>There is only a single year operational budget (attached separately for 2002). It is developed by PATPOL, as condo's property management company.</i>	
56	2. Manager facilitates and ensures that employees perform their functions as described in job descriptions.	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
57	3. Manager has drafted written policies and procedures for employee conduct and performance; policies and procedures are made readily available to coop members and staff.	Y <input checked="" type="checkbox"/> N
	<i>No formal written procedures were developed so far. CHF consultants introduced the idea of Total Quality Management system during a property management conference held in Sopot back in late 1999. So far, such procedures were not developed.</i>	
58	4. Manager ensures that cooperative employees are adequately paid within cooperative guidelines.	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
	<i>Compensation received by employees of the management company seems satisfactory to them.</i>	
59	5. Manager establishes and communicates clear standards of performance and regularly evaluates employees according to these standards.	Y <input checked="" type="checkbox"/> N

	<i>Too demanding for the level of development of Polish property management companies.</i>	
60	6. Manager is clearly accountable to the Board with respect to organizational policies, planning, etc. Manager attends Board meetings and presents detailed operational and financial reports.	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
	<i>Board meetings usually take place at the property manager's office.</i>	
61	7. Manager is entrepreneurial and provides leadership for group-based business activities. Condo members seem satisfied with the firm.	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
62	8. Manager has procedures and processes for managing risk. <i>These are informal (not written), since the condo is small. We are talking about basic procedures that enable property manager to manage risk related to property management.</i>	Y <input checked="" type="checkbox"/> N
63	9. Manager is accessible to cooperative employees and ably addresses individual employment concerns (e.g., educational and career development, relations with other employees).	Y <input checked="" type="checkbox"/> N
64	10. Can the Manager get the Job Done? <i>In most of cases, yes. There are few problems pending, mostly legal issues, and the manager should get advice from a lawyer to resolve them. He does not, and excuse is: he cannot afford it!</i>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
65	<b>II. Finance</b>	
66	<i>A. Planning</i>	
67	<b>1. Annual Budgeting</b>	
68	<ul style="list-style-type: none"> <li>A regular budget process is developed and integrated into annual operating plans.</li> </ul> <i>The property manager (PATPOL) is responsible for developing drafts of annual operational budgets. They do it in a proper manner: a copy of financial statement for year 2002 is attached to the report.</i>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
69	<b>2. Long-Term Financial Planning</b>	
70	<ul style="list-style-type: none"> <li>The cooperative's long-term financial planning addresses sources and allocation of capital that is consistent with competitive strategy (i.e., planning favors increases in cooperative's net worth and the volume of cooperative business).</li> </ul> <i>The condo manages its housing stock but does not carry out other economic activity.</i>	Y <input checked="" type="checkbox"/> NA
71	<ul style="list-style-type: none"> <li>A business plan whose sophistication is correlated with the significance of the investment of individual members has been prepared.</li> </ul>	Y <input checked="" type="checkbox"/> NA
72	<ul style="list-style-type: none"> <li>Non-member business is handled following guidelines determined by</li> </ul>	Y <input checked="" type="checkbox"/> NA

	cooperative by-laws.	
73	B. General Accounting	
	1. The cooperative has a bank account in its own name.	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
74	<p><i>Our condo was obliged to open a bank account in partner bank BBG in order to repay the improvement loan. Polish law (UWL) demands that a condo makes all its financial transactions through a bank account, although it is not clear whether a condo has to have its own account or it is enough that it uses other accounts (e.g. one belonging to its management company).</i></p> <p><i>As is usually the case, there are two bank accounts opened for our condo. The first is used for regular payments by condo owners (e. g. monthly assessments). Amounts gathered are later used by condo management board to pay various maintenance and utilities' expenses. This account is also used for collection of renovation fund contributions/payments. From that account, the loan is being paid off. The other, second account, is opened only for the loan. Into that account the Bank is transferring loan payments upon (1) presentation of invoices by a contractor renovating the building, and (2) approval by the City of Sopot and the condo manager. The bank is the only entity authorized to make a transfer to the contractor.</i></p>	
75	2. A full financial audit of the cooperative is undertaken annually, under the supervision of qualified accountants appointed by the Board.	<input type="checkbox"/> Y <input checked="" type="checkbox"/> N
	<i>This does not apply to Sopot condominiums yet.</i>	
76	C. Resource Mobilization and Management	
77	1. Member Equity	
	<ul style="list-style-type: none"> <li>The cooperative has mechanisms in place to ensure that member equity is proportional to patronage.</li> </ul>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
78	<p><i>This follows the law on condominium associations (UWL). A condo member is required to participate in covering expenses of the management, maintenance and renovation, at the level corresponding to the member's share in common property.</i></p> <p><i>There are legally defined procedures (managerial, financial etc.) which implement this legal obligation.</i></p>	
	<ul style="list-style-type: none"> <li>Members continue to own the cooperative.</li> </ul>	<input type="checkbox"/> Y <input checked="" type="checkbox"/> N
79	<p><i>Condominium is not a legal entity. Polish law defines a condo association as a group of physical or legal persons that own unit's in the same real estate. A Condo cannot be an owner because it is not a legal entity and this causes some problems. If a condo buys anything – it is co-owned by all condo members, with co-ownership share proportional to individual owner's share in the common property.</i></p>	
	<ul style="list-style-type: none"> <li>The cooperative maintains its net worth-to-liability ratio at a level that is consistent with prudent industry norms.</li> </ul>	<input type="checkbox"/> Y <input checked="" type="checkbox"/> N
80	<p><i>The Condo does not perform business activities other than management of its building. It cannot be evaluated using business-related indexes or terms applicable to entities conducting other types of economic activity.</i></p>	

81	<ul style="list-style-type: none"> <li>Equity ownership and voting control should only be held by the current membership of the cooperative, and should not reside with interests external to the cooperative.</li> </ul>	<input checked="" type="checkbox"/> Y	<input type="checkbox"/> N
<i>This condo keeps voting control within the hands of condo members.</i>			
82	2. Equity Redemption		
83	<ul style="list-style-type: none"> <li>The rate of stock dividends in the cooperative should not exceed the short-term savings rate of the country where the cooperative operates.</li> </ul>	<input type="checkbox"/> Y	<input checked="" type="checkbox"/> NA
84	<ul style="list-style-type: none"> <li>Allocated equity is distributed to members in proportion to member patronage.</li> </ul>	<input type="checkbox"/> Y	<input checked="" type="checkbox"/> NA
85	D. Auditing		
	1. Auditing ensures economically efficient use of cooperative funds.	<input type="checkbox"/> Y	<input checked="" type="checkbox"/> NA
86	<i>It is possible and happens sometimes that a condo hires a third party auditor to survey current management of condo finances by the manager or management board. It does not apply to Sopot yet.</i>		
87	2. Cooperative audits generate information relative to future decision-making.	<input type="checkbox"/> Y	<input checked="" type="checkbox"/> NA
	<b>III. Business Activities</b>		
8	<i>CONSULTANT'S NOTE: Condominiums in Poland are not considered legal entities (as it is under Polish law).do not execute business activities apart from managing their housing stock. Therefore, most of the following items are NOT APPLICABLE (NA). On the other hand, home improvement activities may be understood as "business activity." Therefore, in answering some of business-related questions below, we are providing generic answers rather than Sopot-case study-specific.</i>		
89	A. Cooperative start up or new business activities		
90	Cooperative has:		
	1. Sound feasibility plan for its economic activities.	<input checked="" type="checkbox"/> Y	<input type="checkbox"/> N
91	<i>When a condo plans to proceed with a renovation project relating to its common areas, the first thing is to have a condo resolution for improvement voted upon. Next step is to find a contractor (through formal or informal bidding) and have him prepare a detailed scope of work and cost calculation.</i>		
	<i>Next step is to develop a financing plan. A condo has to: (1) guarantee an up-front payment of 10% of total renovation costs (TRC), (2) get gmina's approval for the improvement and its promise to repay interests on the loan; (3) the bank needs to approve gmina as partner co-financing the investment.</i>		

**Comment:** TC told me to pick a variable measure appropriate to the country where the coop operates.

92	<p>2. Marketing/member recruitment plan for its business.</p> <p><i>When a condo develops a financing plan for a contemplated investment, there are a few options to choose from. One option is to finance improvements through so called special assessments (an owner pays his/her share in the investment with cash). The other option is to take a loan and pay it off with regular renovation fund assessments. Gmina acts differently and usually pays off its loan portion through a direct transfer to bank (in another words: the money does not go through condo's bank account but directly between gmina and bank). In order to use a home improvement tax shelter, condo owners who are physical persons have to have proof of transfer of money specifically into condo's bank account, not contractor's or bank's account.</i></p> <p><i>In case of this condo: two owners (out of a total of 8) decided to take a loan in a bank other than BBG. According to the President of the Board, both of them refused to participate in BBG loan program and preferred another bank. One of the reasons given by them was that BBG did not treat them as professionally and client-friendly as a bank should. The bank claimed that these two owners did not meet bank's requirements and would not be eligible for a loan anyway.</i></p>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
93	<p>3. Comparative advantage over its competitors.</p> <p><i>Condo does not compete on the market. NA</i></p>	<input type="checkbox"/> Y <input checked="" type="checkbox"/> NA
94	<p>4. Sufficient membership base to operate profitably.</p> <p><i>In case of this condo, there is a sufficient membership base to operate in an efficient manner. Not many people are willing to become involved as members of the management board, but still, two owners that are currently actively involved do a good job (for the building and the condo).</i></p>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
95	<p>5. Sufficient business transactions by potential members to operate profitably.</p>	<input type="checkbox"/> Y <input checked="" type="checkbox"/> NA
96	<p>6. Competitive location.</p> <p><i>The street where this condo is located is close to the major and Poland-famous street, called Sopot "Deptak" ("the Mall"), in area called "Lower Sopot", close to the Sopot beach. The street was identified by City authorities as a "priority" for renovation and revitalization programs. Commercial space rentals (retail, office etc.) are not as high as on the Mall, but residential units are recognized as valuable and a good place to live. From residential standpoint, the case condo's location is undoubtedly competitive.</i></p>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N
97	<p>7. Capacity to attract investments.</p> <p><i>Medium, lower than the Mall region with its surroundings.</i></p>	<input checked="" type="checkbox"/> Y <input type="checkbox"/> N

	8. Successfully transitioned from voluntary to professional management.	Y <input checked="" type="checkbox"/> N
98	<i>Current management firm owner, Mr. JP, used to be Sopot gmina employee until 1995, working in gmina owned organizational unit called ZGM. In 1995 gmina privatized the management of communal housing stock and 3 companies were formed, mostly based on prior communal employees. Out of the three, the company led by Mr. LP was selected to provide the management. So far, unfortunately, not much has changed as far as quality of service is concerned. It is less expensive for the condo, but most of "bad old habits" characteristic for a communal manager still remain unchanged.</i>  <i>Condo Owners currently consider changing the management company once again, and selecting a new one that is not related to "old" structures and quite separate from gmina office.</i>	
99	B. Operating cooperative	
100	1. Rate of annual growth in cooperative members.	<input checked="" type="checkbox"/> NA
101	2. Percentage of members doing business with the cooperative:	<input checked="" type="checkbox"/> NA
102	3. Percentage of growth in:	
103	• Assets	<input checked="" type="checkbox"/> NA
104	• Business volume	<input checked="" type="checkbox"/> NA
105	C. The cooperative is significant to the economic sector in which it operates (e.g., 8-15% of turnover in the sector).	Y <input checked="" type="checkbox"/> NA
106	D. The cooperative is improving the local community where it operates.  <i>Definitely, this condo improves local environment and the community (including improvements to the quality of housing stock and organizational changes in the city's management structures). The condo plans to implement further projects, taking more improvement loans. This contributes to improving the outlook of the building, and further, contributes to the well-being of the city and its residents.</i>  <i>Major improvements to the local community achieved by this Condo have shown that people can take active care of their common properties, can implement renovations, can look for reasonable financing, etc.. All of this can be done not just waiting for the gmina to do everything - like some other condominiums do.</i>	<input checked="" type="checkbox"/> Y N
107	E. The cooperative is increasing the economic welfare of its individual members (e.g. increased profit based on business volume).  <i>This is definitely true when we consider the price at which an owner sells his unit after improvements are completed. It is obvious that the increase in value of the whole property has a positive impact on the value of individual units. Well planned, well organized and completed investment projects increase economic welfare of individual members.</i>	<input checked="" type="checkbox"/> Y N
108	G. Cooperative gains solid financial record in a limited number of types of business activities prior to diversification	Y <input checked="" type="checkbox"/> NA

109	<p>H. Primary cooperatives are linked through secondary or other structures to increase business volumes and efficiencies</p> <p><i>There is no need for dividing the Case condo into a number of condos regarding the small size of the building and few owners grouping the condo.</i></p>	<p>Y <input checked="" type="checkbox"/> NA</p>
110	<p><b>IV. General Measurements</b></p>	
111	<p>1. Are Members Satisfied?</p> <ul style="list-style-type: none"> <li>• Value of Cooperative</li> <li>• Willingness to Commit (patronage, equity, products, serve)</li> <li>• Leadership</li> <li>• Direction</li> </ul> <p><i>Today, every condo member but one is actively involved in the management process. The one who is not, is always 'against' something or other and by now condo owners got used to it.</i></p>	<p><input checked="" type="checkbox"/> N</p>
112	<p>2. Trust</p> <ul style="list-style-type: none"> <li>• Between Board &amp; Management</li> <li>• Among Members</li> <li>• Between Members &amp; Management Team</li> </ul> <p><i>Definitely there is a degree of trust between condo members and the management board. The well planned and organized improvements prove it.</i></p>	<p><input checked="" type="checkbox"/> N</p>
113	<p>3. Transparency in Governance:</p> <ul style="list-style-type: none"> <li>• Decision Process and Rules are Clear</li> <li>• All Players Understand Process and Their Respective Roles</li> </ul> <p><i>Since the condo does not perform other business activity, management of the condo association and of common property is not overwhelmingly complex. There is also valuable assistance of the City officers when implementing improvement investment projects.</i></p> <p><i>The management board members understand their roles well and there are presently no conflicts within the organization.</i></p> <p><i>There is some friction between the Condo management board and Sopot City officers responsible for housing. An example of such conflict area is the responsibility for cleaning the green belt surrounding the building. As this is gmina's land, not condo's, the condo requested that gmina bears the costs related to cleaning and maintenance of the area. However, Gmina tells the condo owners that they are the ones using the land so they should cover the costs related to this piece of land.</i></p>	<p><input checked="" type="checkbox"/> N</p>

	<p>4. Collaboration Across Cooperatives</p> <ul style="list-style-type: none"> <li>• Coop Associations</li> <li>• Ability to Learn from Each Other</li> </ul>	<input checked="" type="checkbox"/> N
114	<p><i>Manager, Mr. PL, complained that there is not much assistance available to condominium members, especially free-of-charge assistance. Indeed, there is no formal condo association in Sopot. The CHF-CDP consultant encouraged condo members to participate in an internet forum focusing on practical problems of condominium associations. This consultant himself is often present as one of experts. The address of the forum is: <a href="http://www1.gazeta.pl/forum/790620,30353,790602.html?f=523">http://www1.gazeta.pl/forum/790620,30353,790602.html?f=523</a></i></p> <p><i>On the other hand, good advisory job is being done by the City of Sopot Housing Department providing legal and organizational assistance to any and all condo members willing to come and present their problems. However, using assistance provided by gmina might be problematic in cases where there is friction between both parties (which indeed, is the present situation; see comments above under 113).</i></p>	
115	<p>5. Organization "Culture" or Philosophy</p> <ul style="list-style-type: none"> <li>• Open</li> <li>• Supports Learning at All Levels</li> <li>• Need for Ongoing Education: Managers, Directors, Members, Staff</li> </ul>	<input checked="" type="checkbox"/> N
<p><i>Members of condo management board are always willing to share their experiences with other condos in Sopot and all over Poland. CHF's consultant was hosted and treated in a friendly manner and could easily find a person deeply involved in the management process to talk to.</i></p> <p><i>Management Board members seem to be willing to hear and learn about new techniques and management tools. CHF's consultant was asked many technical questions and was pleased to answer them.</i></p>		
116	<p>6. Operates within best practices in its sector</p>	<input checked="" type="checkbox"/> N
<p><i>In 1999 members of the Condo Management Board participated in a conference organized in Sopot under USAID sponsorship. The event was focused on how to provide quality and cost effective property management services, on management privatization issues and on various revitalization tools. Experts (including earlier CHF-CDP staff member) planned the conference agenda to be the most successful educational event. Many Polish experts presented their programmatic experiences. There were also foreign experts invited (e.g. from the Institute of Real Estate Management, Chicago IL, from IREM Polish Chapter and its faculty members) and they made the conference even more valuable to those enrolled. Practical improvements made in managing the case study property, as well as many other Sopot condos prove that CDP and other USAID-funded activities in Sopot had, indeed, disseminated the best practices of the property management industry.</i></p>		



### ATTACHMENT 3

Cooperative Development Framework for  
 Case Study, Condominium Number 2  
 Czyzewskiego Street, Sopot, Poland

Condo Number Two: Checklist and Explanations		
No.	Item description	
1	<b>I. Governance</b>	
2	A. Mission/Goal	
3	1. The cooperative has a clearly articulated mission.	<input checked="" type="checkbox"/> N
	<i>Verbally articulated by the President of the Management Board, the condo vision is to live in a renovated and well maintained real estate. The condo achieves this vision through revitalization of the building and adjacent land, and through effective internal management.</i>	
4	2. The cooperative has set business goals to benefit its members.	<input checked="" type="checkbox"/> N
	<i>Verbally articulated by the President of the Management Board to renovate the building in a cost-effective and quality-keeping way and to maintain the building well, based on quality and cost effective principles.</i>	
5	3. The cooperative's mission and operations are consistent with generally accepted international cooperative principles.	<input checked="" type="checkbox"/> N
6	4. The cooperative is properly registered and operates in accordance with local laws and regulations (that should provide an enabling environment).	<input checked="" type="checkbox"/> N
	<i>There is no formal registration process envisioned for condominiums under Polish Act on Housing Units Ownership (Act of June 24, 1994 – UWL). A condo starts to exist in the moment when the first unit (either residential or commercial) is sold by its 'previous' owner (be it local government, developer, or any other legal or physical person/entity). Each condominium has its own statistic number (REGON), a tax number (NIP) and a bank account.</i>	
7	5. Does the coop mission reflect the member's interests and needs? <i>Yes. The building is small: 9 privately owned units, all residential, total of 816.54 square meters of usable area.</i>	<input checked="" type="checkbox"/> N
8	B. Cooperative By-Laws	
	<i>There are no formal approved condo By-Laws, as Polish law does not require it. The general rules are contained in the UWL. CONSULTANT'S NOTE: a condo may establish internal By-Laws (so called Condominium Statute or Condominium Declaration) wherein to define the precise rules that are described in the UWL in a general manner. A Condo also may change these rules but the law demands the vote to be notarized by a Notary.</i>	
9	1. By-laws address fixed terms of office for officers.	<input checked="" type="checkbox"/> <input type="checkbox"/>
	<i>This condo elects its representative for 3 year terms (allowed by law). There are no formally approved by-laws (see above).</i>	
10	2. By-laws clearly define the duties of cooperative members, the Board and General Manager.	<input checked="" type="checkbox"/> N
	<i>Although there are no formal By-laws, it is quite obvious that members of the Condo Board know their responsibilities well. There are 3 members of the Board and they manage the property by themselves (i.e. without hired professional property manager).</i>	
11	3. By-laws set quorum requirements.	<input checked="" type="checkbox"/> N

	<i>There is no quorum requirement in condominium law in Poland. UWL defines two ways to vote: first, at the meetings, and second, through individual voting ("kwerenda") when the Management Board Member meets with owners individually, in their apartments, explains the idea involved, consequences of the decisions, and gets the owner's vote.</i>	
12	4. By-laws define extraordinary circumstances and procedures when cooperative members may petition for general meetings.  <i>This rule is described in UWL and there is no need to have it included in the By-Laws.</i>	<input checked="" type="checkbox"/> N
13	5. By-laws determine how officers are nominated and voting is conducted.  <i>There are 3 members of the Management Board who were elected for the first 3 year period. Then they were re-elected for the second period (since this is a small condominium, there are no other people willing to share their time). Voting procedure is described by the law and it is followed closely. In truth, nobody is really ready to manage the property (no knowledge, no experience) so when the current loan is paid-off, the Board plans to hire a professional property manager. This will happen only if they are able to cover the management fee with no increase of the monthly payment.</i>	<input checked="" type="checkbox"/> N
14	6. By-laws articulate the procedure and responsibilities of general meetings.  <i>This procedure is defined by the UWL.</i>	<input checked="" type="checkbox"/> N
15	7. By-laws define requirements for eligibility for members.  <b>CONSULTANT'S NOTE:</b> <i>A condominium association is not a legal entity under UWL. There is no room for eligibility requirement. In condos, it would be illegal although it still exists in cooperatives in Poland.</i>	Y <input checked="" type="checkbox"/>
16	<b>C. Membership Meetings/ Member Responsibilities</b>	
17	1. Meetings are open, broadly advertised and convened at least annually.  <i>Annual meetings are required by UWL. Condo owners used to meet every month or even more often during the process of implementation of investment project (i.e. renovations). Now there is no need for such meetings so they follow the schedule determined by UWL.</i>	<input checked="" type="checkbox"/> N
18	2. Annual meetings are attended by significant portion of membership.  <i>In a building this size, when an annual takes place in one of apartments, as a rule all owners participate. The reason is that all owners care, but the other reason is that no young people live in the building. Only the elderly who have spare time to get involved in condo activities.</i>	<input checked="" type="checkbox"/> N
19	3. General meeting holds democratic election of officers and opportunity is provided for multiple candidates for open positions.  <i>As stated by the President, Condo Management Board would be "more than happy" to have new candidates for voluntary work and involvement in condo activities. Unfortunately, there are no new candidates as only the elderly live there.</i>	<input checked="" type="checkbox"/> N
20	4. Members determine how:	
21	• Directors are elected or appointed, fixed terms of directors, quorums  <i>Easily. No problems with application of basic management rules defined in UWL.</i>	<input checked="" type="checkbox"/> N
22	• Cooperative by-laws are approved and amended  <i>On informal basis since this is a small condo; no written document existing or needed.</i>	Y <input checked="" type="checkbox"/>
23	• Significant liabilities or disposition of cooperative assets are undertaken and approved  <i>Condominium owns no assets. There is no need to. No business activities apart from property management are undertaken. If it was needed to acquire any assets, the condo would easily organize the needed procedure and approve it, if necessary.</i>	Y <input checked="" type="checkbox"/>
24	• Dissolution or merger of cooperative are handled  <i>No need for dissolution or merger.</i>	Y <input checked="" type="checkbox"/>
25	• Cooperative auditors are appointed  <i>The consultant noted that neither UWL, nor any other financial law in Poland, states the necessity of a financial audit. Condominiums in Poland are not considered suitable organizations for business undertakings (cooperatives or regular associations are much better suited). The law does not define any obligation to hire an accountant, to keep books or to audit them.</i>	Y <input checked="" type="checkbox"/>

26	5. Members understand basic business operations of a cooperative; can make distinction between coops and other business forms.	Y <input checked="" type="checkbox"/> <input type="checkbox"/>
	<i>Now members understand what a condo is but it took some time and a lot of training to absorb the changes in legal and organizational environment introduced in 1995.</i>	
27	D. Board of Directors	
28	1. Board decisions are consistent with generally accepted international cooperative principles.	<input checked="" type="checkbox"/> N
	<i>CONSULTANT'S NOTE: Board decisions are consistent with generally accepted Polish principles as expressed in WUL. We should not compare them to international rules as the condos internationally might have different organizational and legal status.</i>	
29	2. The Board limits itself to:	
	<i>CONSULTANT'S NOTE: the Management Board does perform important property management functions. The statement "Limits itself" is not the best one. "Limits itself" means that the board does nothing but this, which is not true. I am assuming that "Y" means that the board performs specified activity (more or less formally) and "N" means the board does not do it.</i>	
30	• Setting, reviewing and modifying organizational policies	<input checked="" type="checkbox"/> N
31	• Establishing strategic and financial planning objectives	<input checked="" type="checkbox"/> N
32	• Representing the interests of the cooperative to members, authorities and the general public	<input checked="" type="checkbox"/> N
33	• Reflecting the interests and concerns of members in the decision-making process	<input checked="" type="checkbox"/> N
34	• Hiring, monitoring and evaluating management in accordance with cooperative policies, plans and job descriptions	<input checked="" type="checkbox"/> N
35	• Oversee acquisition and preservation of cooperative assets	Y <input checked="" type="checkbox"/>
36	• Preserve the cooperative character of the organization	Y <input checked="" type="checkbox"/>
37	• Assess the cooperative's performance	<input checked="" type="checkbox"/> N
38	3. Board members serve in a voluntary and unpaid capacity. (However, they may be reimbursed for costs associated with Board service). <i>All serve on voluntary basis.</i>	<input checked="" type="checkbox"/> N
39	4. The Board ensures the timely publication of agendas, minutes, financial returns, audit reports and any other materials required by laws and/or by-laws to promote cooperative accountability and transparency.	<input checked="" type="checkbox"/> N
40	5. The Board is composed of elected members and/or limited numbers of non-elected or advisory members appointed under by-law guidelines. (Government officials do not serve on the board).	<input checked="" type="checkbox"/> N
41	6. Board meetings are announced well in advance, are conducted in accordance with cooperative by-laws and are open to members. <i>CONSULTANT'S NOTE: Every condo member is invited to participate in management board meetings. The Condo is even more open to participation of regular condo owners in daily decision making processes than required by UWL. For example, condominium as a whole approves the level of monthly payments that owners are obliged to pay to the condo (a condo fee). Decision which contractor to choose is recognized as the Management Board's decision, not the condo's (no need to vote in this case, following the UWL and the rules of the civil code).</i>	<input checked="" type="checkbox"/> N
42	7. Board members do not engage in business or activities placing them in direct competition with any business unit or service offered by the cooperative.	<input checked="" type="checkbox"/> N
43	E. Board Officers	
44	1. Chairman	
45	• Sets meeting agendas	<input checked="" type="checkbox"/> N
46	• Ensures information needed by the Board is available	<input checked="" type="checkbox"/> N
47	• Facilitates deliberations of the Board	<input checked="" type="checkbox"/> N
48	• Ensures that decisions are taken and recorded in meeting minutes	<input checked="" type="checkbox"/> N
49	2. Treasurer <i>One of the members of the management board, emeritus accountant, plays the formal role of the treasurer.</i>	

50	<ul style="list-style-type: none"> <li>Ensures that cooperative accountants keep accurate, up-to-date records of all financial activities and provides written financial reports each month to the Board and annually to cooperative members.</li> </ul>	<input type="checkbox"/> Y <input type="checkbox"/> N
51	<ul style="list-style-type: none"> <li>Oversees the compliance of financial records to audit procedures and guidelines.</li> </ul>	<input type="checkbox"/> Y <input type="checkbox"/> N
52	3. Secretary	
53	<ul style="list-style-type: none"> <li>Keeps thorough minutes of cooperative meetings (records of members present, date, place, who presided, conclusions, reports)</li> </ul>	<input type="checkbox"/> Y <input type="checkbox"/> N
	<i>There is no secretary in this condo (too small).</i>	
54	F. Management	
	<i>The role of the manager is played by members of the management board (the board of directors). No outside management firm is engaged to save on costs.</i>	
55	1. Manager formulates both short- and long-range operational plans in compliance with cooperative goals and objectives.	<input type="checkbox"/> Y <input type="checkbox"/> N
56	2. Manager facilitates and ensures that employees perform their functions as described in job descriptions.	<input type="checkbox"/> Y <input type="checkbox"/> N
57	3. Manager has drafted written policies and procedures for employee conduct and performance; policies and procedures are made readily available to coop members and staff.	<input type="checkbox"/> Y <input type="checkbox"/> N
	<i>No formal written procedures are developed. Condo operates on an informal basis, given its small size, and no outside management is involved. No employees.</i>	
58	4. Manager ensures that cooperative employees are adequately paid within cooperative guidelines.	<input type="checkbox"/> Y <input type="checkbox"/> N
	<i>The role of a manager is played by members of management board (the board of directors). No employees.</i>	
59	5. Manager establishes and communicates clear standards of performance and regularly evaluates employees according to these standards.	<input type="checkbox"/> Y <input type="checkbox"/> N
	<i>This is far too advanced, given the stage of development of Polish condominiums. What is more, there is no such practice even in the majority of professional property management companies active on the Polish market!</i>	
60	6. Manager is clearly accountable to the Board with respect to organizational policies, planning, etc. Manager attends Board meetings and presents detailed operational and financial reports.	<input type="checkbox"/> Y <input type="checkbox"/> NA
	NA	
61	7. Manager is entrepreneurial and provides leadership for group-based business activities.	<input type="checkbox"/> Y <input type="checkbox"/> N
62	8. Manager has procedures and processes for managing risk.	<input type="checkbox"/> Y <input type="checkbox"/> N
63	9. Manager is accessible to cooperative employees and ably addresses individual employment concerns (e.g., educational and career development, relations with other employees).	<input type="checkbox"/> Y <input type="checkbox"/> N
	<i>No employees.</i>	
64	10. Can the Manager get the Job Done?	<input type="checkbox"/> Y <input type="checkbox"/> N
65	II. Finance	
66	A. Planning	
67	1. Annual Budgeting	
68	<ul style="list-style-type: none"> <li>A regular budget process is developed and integrated into annual operating plans.</li> </ul>	<input type="checkbox"/> Y <input type="checkbox"/> N
	<i>This is too early a stage for condominium of this size to have a formal budgeting process. Based on costs from previous year(s) the Management Board estimates the level of owners' payments (assessments) to be used during the next year. Management Board tracks the liquidity on a regular basis and if there is a problem, assessments are increased. The building is a small one so there is little risk involved with this kind of simple and not formalized management.</i>	
69	2. Long-Term Financial Planning	
70	<ul style="list-style-type: none"> <li>The cooperative's long-term financial planning addresses sources and allocation of capital that is consistent with competitive strategy (i.e., planning favors increases in cooperative's net worth and the volume of cooperative business).</li> </ul>	<input type="checkbox"/> Y <input type="checkbox"/> N
	<i>Again, this is a small building, with the elderly living in it, so long term planning is not paid much attention</i>	

	<i>to. Should be more!</i>	
71	<ul style="list-style-type: none"> <li>A business plan whose sophistication is correlated with the significance of the investment of individual members has been prepared.</li> </ul>	Y <input type="checkbox"/> NA
72	<ul style="list-style-type: none"> <li>Non-member business is handled following guidelines determined by cooperative by-laws.</li> </ul>	Y <input type="checkbox"/> NA
73	<b>B. General Accounting</b>	
	1. The cooperative has a bank account in its own name.	<input type="checkbox"/> Y <input type="checkbox"/> N
74	<p><i>CONSULTANT'S NOTE: this condo was obliged to open bank account in BEG to service the repayment of improvement loan. UWL demands that a condo makes all of its financial transactions through a bank account, although it is not clear whether a condo has to have its own account, or whether it is allowed to use another party's account (e.g. that belonging to a third party management company).</i></p> <p><i>Usually, there are two bank accounts opened for a condo association. The first is used to gather regular payments by owners (monthly assessments) which are later used by the condo board to pay maintenance and utility expenses. This account is also used for renovation fund assessments. From that account a loan is being paid off. The second account is opened only for purposes of the loan. The bank transfers into that account the loan payments received following presentation of invoices by the contractor renovating the building, and approved by the City of Sopot and the condo manager. Also, the bank is authorized (as the only entity) to make transfers from that account to the contractor.</i></p>	
	2. A full financial audit of the cooperative is undertaken annually, under the supervision of qualified accountants appointed by the Board.	Y <input type="checkbox"/> NA
75	<p><i>CONSULTANT'S NOTE: There are examples of Polish condos that are performing this kind of financial audits on an informal basis, in order to check out the quality of financial services provided by the property manager or the management board. Usually, a third party accountant or the management company is hired to do the job.</i></p> <p><i>However, this does not apply to Sopot condominiums yet.</i></p>	
76	<b>C. Resource Mobilization and Management</b>	
77	<b>1. Member Equity</b>	
	<ul style="list-style-type: none"> <li>The cooperative has mechanisms in place to ensure that member equity is proportional to patronage.</li> </ul>	<input type="checkbox"/> Y <input type="checkbox"/> N
78	<p><i>According to the law (UWL) a condo member is responsible and required to participate in covering management, maintenance and renovation expenses in the amount conforming to the member's share in common property.</i></p> <p><i>There are procedures (managerial, financial) which fulfill this legal obligation.</i></p>	
	<ul style="list-style-type: none"> <li>Members continue to own the cooperative.</li> </ul>	Y <input type="checkbox"/> NA
79	<p><i>CONSULTANT'S NOTE: a condominium is not a legal entity. The law defines a condo as a group of physical or legal persons that own units in one larger real estate. A condo cannot be the owner of anything. If a condo buys anything, this is understood as co-ownership by all condo members, with co-ownership share proportional to the share in common property owned by each condo member.</i></p>	
	<ul style="list-style-type: none"> <li>The cooperative maintains its net worth-to-liability ratio at a level that is consistent with prudent industry norms.</li> </ul>	Y <input type="checkbox"/> NA
80	<p><i>Condo does not perform business activities apart from management of the building. It cannot be evaluated using business-related indexes or terms.</i></p>	
	<ul style="list-style-type: none"> <li>Equity ownership and voting control should only be held by the current membership of the cooperative, and should not reside with interests external to the cooperative.</li> </ul>	<input type="checkbox"/> Y <input type="checkbox"/> N
81	<p><i>CONSULTANT'S NOTE: Although it is possible (in theory) that a condo agrees to passing voting rights to a third party or entity (in another words, that an individual owner makes an external party the proxy of his/her interests), it is very rare in Polish condo industry.</i></p> <p><i>The case condo keeps voting control within the hands of its condo members.</i></p>	
82	<b>2. Equity Redemption</b>	
83	<ul style="list-style-type: none"> <li>The rate of stock dividends in the cooperative should not exceed the short-term savings rate of the country where the cooperative operates.</li> </ul>	Y <input type="checkbox"/> NA

84	• Allocated equity is distributed to members in proportion to member patronage.	Y <b>NA</b>
85	<b>D. Auditing</b>	
	1. Auditing ensures economically efficient use of cooperative funds.	Y <b>NA</b>
86	<i>CONSULTANT'S NOTE: As stated above, it is possible and sometimes happens in Poland that a condo hires a third party auditor to oversee current management of condo finances by the manager or the management board. It does not apply to Sopot yet.</i>	
87	2. Cooperative audits generate information relative to future decision-making.	Y <b>NA</b>
	<b>III. Business Activities</b>	
	<i>CONSULTANT'S NOTE: Condominiums in Poland do not execute business activities. Most of the following items are not applicable (NA).</i>	
88	<i>If there is a need for business activity other than management and maintenance of property, experts advise condo members to register formally as an association (which is a legal entity) or to choose some other legal form based on the civil code, which facilitates undertaking business activities.</i>	
	<i>On the other hand, home management and improvements may be considered a "business activity" so some of business-related issues might be considered, even if a condo is not a legal entity. This issue is being discussed by Polish condo industry.</i>	
89	<b>A. Cooperative start up or new business activities</b>	
90	Cooperative has:	
	1. Sound feasibility plan for its economic activities.	<input checked="" type="checkbox"/> N
91	<i>CONSULTANT'S NOTE: As mentioned before, condo's main activity is to maintain its property, including renovations (not economic activity). When a condo plans to proceed with some renovation regarding the common property, the first thing is to have a vote on condo resolution for improvement. Then to find a contractor (through a formal or informal bidding process) and have him prepare a detailed scope of work and cost calculation for the project.</i>	
	<i>Next step is to develop a financing plan. The condo has to guarantee payment of 10% of total renovation costs up front, get the municipality's approval for the improvement and its promise of interest repayment on the loan. Then get the bank's approval for co-financing the investment.</i>	
	<i>The case condo has gone through this process twice as 2 loans were taken: in 1997 and in 2000. The first loan taken at BBG came from so call Small Improvements Program, covering less extensive renovations (total of 61,075 PLN or \$16,072 at \$1=3.5 PLN exchange rate). The condo put up the down payment and repays the loan over 3 years period. The municipality is paying 100% interest during year 1, 90% during year 2 and 75% during year 3.</i>	
	<i>The second loan was taken from the so called Revitalization program, which allowed for larger investment projects. Total renovation costs equaled 109,000 PLN or \$28,684, with term of 5 years. The municipality pays 100% interest through 3 years and then 90% interest in year 4 and 80% of interest in year 5.</i>	
	2. Marketing/member recruitment plan for its business.	<input checked="" type="checkbox"/> N

	<p><i>In case-study condo, following thorough discussions owners did not approve special assessments to cover costs of the second, larger project, but took a loan covering 90% of improvement costs. This loan is currently being repaid with municipal contributions as described above.</i></p> <p><i>During discussions relating to the loans, the condo board also considered the possibility of renting around 60 square meters of space, separated in the basement of the building. This space is not a separate unit from legal standpoint but a part of common area. The Board considers leasing this space in order to draw additional proceeds. Alternatively, the Board considers making additional changes in order to adapt this space for residential use and selling it as part of condo property. So far, however, neither action has been decided upon (leasing commercial space is seen as relatively unsafe, given weaker local economy and difficulties with eviction of burdensome tenants and adaptation required additional costs that the owners are not ready to put up). All these actions reflect condo owners' efforts to search for creative ways of dealing with costs of maintenance. The Board is actively discussion options and seeking support of the remaining owners in order to formulate a plan for the future.</i></p>	
93	3. Comparative advantage over its competitors.	Y NA
	<i>Condo does not compete at the market. NA</i>	
94	4. Sufficient membership base to operate profitably.	Y N
	<i>This is a small condo (9 units, average owner's age: 50 years old, average of 3 residents per unit; residents represent a well educated group with higher education and relatively good incomes of est. 2,000-3,000 PLN per unit). Even so, there is sufficient membership base to operate but not too many people are willing to serve actively on the management board. Still, the three owners who are actively involved as members of the board do a good job for the building and for the condo.</i>	
95	5. Sufficient business transactions by potential members to operate profitably.	Y NA
96	6. Competitive location.	Y N
	<i>The street where case condo is located in Sopot is close to so called "Deptak" or "the Mall" famous all over Poland. The neighborhood is recognized as the most desirable to live. The street was given "priority" status in the city's renovation and revitalization programs. It has the highest level of rents for commercial space (retail, office etc.). The case condo has undoubtedly a very competitive location. Renovations very positively impact the value of units so that when condo owners decide to sell, they will surely benefit from increased prices.</i>	
97	7. Capacity to attract investments.	Y N
	<i>The neighborhood has a great potential to attract investments. This is downtown Sopot area considered a very competitive location. This is one of the reasons why the Board considers rental of commercial space in the basement. So far, final decision has not been made and/or tenant has not been found.</i>	
98	8. Successfully transitioned from voluntary to professional management.	Y N
	<i>The voluntaries managing this condo do not see themselves as professional property managers and they have no plans to establish themselves as such. All three Board members (owners) are elderly people that are aware of the fact that their abilities are limited and that someday they will have to share their responsibilities with a third party property management company. As they have told CHF's consultant, until current loan from BBG/Millennium is paid off, they will remain active in management positions in order to save on additional management costs.</i>	
99	B. Operating cooperative	
100	1. Rate of annual growth in cooperative members.	NA
101	2. Percentage of members doing business with the cooperative.	NA
102	3. Percentage of growth in:	
103	• Assets	NA
104	• Business volume	NA
105	C. The cooperative is significant to the economic sector in which it operates (e.g., 8-15% of turnover in the sector).	Y NA
106	D. The cooperative is improving the local community where it operates.	Y N

	<p><i>The condo definitely improves the surrounding and the community from architectural standpoint. If the building looks clean, well maintained, with nicely painted elevation, well maintained surrounding area and a new fence, the whole neighborhood looks better. Hopefully, these improvements will attract more tourists and more business for the city of Sopot.</i></p> <p><i>According to interviewed owners, on average, over the last 3 years period, unit purchase rates have grown up in Sopot by 13.30%. This means that the city's and condo owners efforts to renovate local housing stock are yielding results: potential investors are beginning to see Sopot as a good place to invest and when looking for apartments, seriously consider both the location, and the technical condition of the whole property (not the unit itself).</i></p>	
107	<p>E. The cooperative is increasing the economic welfare of its individual members (e.g. increased profit based on business volume).</p> <p><i>Yes. See above. This is true when an owner sells his/her unit following completion of improvements. It is obvious that condition of the whole property has an impact on value of individual units. Well planned, well organized and completed improvement projects increase economic welfare of individual members.</i></p>	<input type="checkbox"/> N
108	G. Cooperative gains solid financial record in a limited number of types of business activities prior to diversification	Y <input type="checkbox"/> NA
109	H. Primary cooperatives are linked through secondary or other structures to increase business volumes and efficiencies	Y <input type="checkbox"/> NA
110	<b>IV. General Measurements</b>	
111	<p>1. Are Members Satisfied?</p> <ul style="list-style-type: none"> <li>• Value of Cooperative</li> <li>• Willingness to Commit (patronage, equity, products, serve)</li> <li>• Leadership</li> <li>• Direction</li> </ul> <p><i>As described, all condo members are actively involved in the management process although this may be partly due to the small size of the building. All condo members know their leaders and maintain cordial daily relationship with them. There is no third party hired to maintain the property or to do house keeping jobs. All such jobs are performed by owners themselves in order to save on costs. There is a clear (although informal) division of responsibilities between owners. For example, one owner is responsible for sweeping the hall on the first floor whereas another one does the same job on the second floor; yet another owner takes care of the grass and green belt surrounding the building. This arrangement serves as example of the understanding reached by condo members who are willing to cooperate for the benefit of all.</i></p>	<input type="checkbox"/> N
112	<p>2. Trust</p> <ul style="list-style-type: none"> <li>• Between Board &amp; Management</li> <li>• Among Members</li> <li>• Between Members &amp; Management Team</li> </ul> <p><i>Interviewed President of the Management Board confirmed the existence of trust between condo members and the management board. Proof: well organized and implemented improvement projects requiring collaboration with the city, as well as with the bank. Going through planning, approval, and implementation processes often required that the management acts on behalf of all members. They could do it because other condo members trusted them to do it well.</i></p>	<input type="checkbox"/> N
113	<p>3. Transparency in Governance:</p> <ul style="list-style-type: none"> <li>• Decision Process and Rules are Clear</li> <li>• All Players Understand Process and Their Respective Roles</li> </ul> <p><i>Given that this condo is small (total of 9 unit), all management actions are transparent and easy to follow. Since the condo does not perform business activity other than management and maintenance, the most difficult area to deal with is organization and financing of improvement/capital renovation projects. Valuable assistance is offered in this area by City officers.</i></p> <p><i>Judging from the interview by CHF consultant, the management board of this Sopot condo understood their roles well, and no conflicts within the organization were noted (at least are present).</i></p>	<input type="checkbox"/> N

<p>114</p>	<p>4. Collaboration Across Cooperatives</p> <ul style="list-style-type: none"> <li>• Coop Associations</li> <li>• Ability to Learn from Each Other</li> </ul>	<p><input checked="" type="checkbox"/> N</p>
<p><i>Condos often learn from each other. In fact, the studied condo (...street #13) actually followed the good example of adjacent condo located at ..... Street #11, which went through renovations and completed its improvements earlier (both condo buildings can be easily seen on pictures). Given city's substantial involvement in renovation projects, there were several articles in local press with description of condo experiences and the way they dealt with their renovation projects. This was a good material for learning from the experience of others.</i></p> <p><i>However, there is no formal condo association in Sopot. Good advisory service is being offered by the City's Housing Department, which provides legal and organizational assistance to condo members who seek their advice.</i></p>		
<p>115</p>	<p>5. Organization "Culture" or Philosophy</p> <ul style="list-style-type: none"> <li>• Open</li> <li>• Supports Learning at All Levels</li> <li>• Need for Ongoing Education: Managers, Directors, Members, Staff</li> </ul>	<p><input checked="" type="checkbox"/> N</p>
<p><i>The CHF consultant was received in a very friendly manner and was graciously hosted by the president of the condo board. Other members the consultant spoke to were also deeply involved in the management of their organization and willing to talk about it.</i></p> <p><i>The Board members seemed willing to hear and learn about new techniques and modern management tools. The CHF consultant was asked many technical questions and was pleased to answer them. Members of the condo management board seem always willing to share their experiences with other condos, in Sopot and all over the country.</i></p>		
<p>116</p>	<p>6. Operates within best practices in its sector</p>	<p><input checked="" type="checkbox"/> N</p>
<p><i>Definitely. Even though the Board is composed entirely of volunteers who do not have professional background in property management, they are willing to educate themselves in order to do a good job. They started in 1995 with no experience whatsoever and since then, were able to adapt to organizational changes, were able to plan and implement renovation projects involving multiple partners, took loans and continue to repay them. They definitely benefited from training offered in late 1990's under USAID funding and continue to search for advice on technical issues. The greatest problem they see is that of new leaders who will have to take over once current (elderly) manager-owners step down.</i></p>		



# ATTACHMENT 4

## CDP-Poland Activities and Results

(By Project Objective, June 1998-November 1999)

### Objective 1: Facilitating Physical Improvements

No.	Pilot Project	Description of Activity	Results
1	<p><b>Gdynia:</b> Constructed in 1960, this building contained 21 units.</p> <p><b>Sopot:</b> Condos in buildings constructed in early 1900's</p>	<p>Though intensive training program and day to day advisory support, the CDP helped the owners to create a renovation plan based on results of an energy audit that have been completed for the building. The audit was sponsored by CDP. The scope of needed improvements included:</p> <ul style="list-style-type: none"> <li>• Connecting the building to the main high pressure heating pipe</li> <li>• Installation of a new boiler</li> <li>• Automatic adjustment of heating regulation system to weather conditions</li> <li>• Replacement of electrical wire on the stairways</li> <li>• Roof renovation (based on CDP's recommendation) to increase the thermo-insulation qualities of the building.</li> </ul> <p>Work was carried out in two stages.</p> <p>Stage 1 – total value of work amounted \$9,459; of that amount:</p> <ul style="list-style-type: none"> <li>• Gdynia-condo association took credit of 25,000 PLN at Gdynia Communal Bank (<i>Bank Komunalny</i>) and</li> <li>• Condo members directly contributed \$2,703.</li> </ul> <p>Stage 2 – total work value of \$6,250; of that amount:</p> <ul style="list-style-type: none"> <li>• Gdynia-condo association took credit of 25,000 PLN at Gdynia Communal Bank (<i>Bank Komunalny</i>) and</li> <li>• Condo members directly contributed \$3,571.</li> </ul> <p>Through CDP training and advisory support two Sopot condos were assisted in:</p> <ul style="list-style-type: none"> <li>• streamlining their internal systems</li> <li>• deciding on the type of management</li> <li>• prioritizing with regard to reconstruction projects, and</li> <li>• lending under the city's interest subsidy program in partnership with the Big Bank Gdansk (BBG).</li> </ul>	<p><b>21 improved units with total value of improvements: \$15,709.</b></p> <p><b>Financing from private sources: 100%.</b></p> <p><b>13 units improved; 9 units improved with combined value of improvements estimated at \$66,000.</b></p> <p><b>Financing from private sources and Big Bank Gdansk (BBG).</b></p> <p>(Note: Since loans were taken following conclusion of the CDP program, they are not included in the table of non-USAID capital accessed under the CDP program, below).</p>
2	<p><b>Kutno:</b> This 30-unit building was constructed in 1965. It was selected as a CDP pilot in collaboration with local Social Housing Association (or TBS), who was (at that time) the manager of the</p>	<p>The CDP-advisor recommended the ways in which the manager could improve quality of performance, and together with condo members, worked out a renovation plan which satisfied the needs as they themselves defined. The evaluation of technical condition of the building (sponsored by the CDP) was the starting point to create that renovation plan. Carried out improvements included:</p> <ul style="list-style-type: none"> <li>• Connection of the building with the City central heating system,</li> <li>• Installation of a high performance boiler, with heating regulation system automatically adjusting to weather conditions.</li> </ul> <p>In addition, interior hallways and stairways were re-painted</p>	<p><b>30 units improved with total value of improvements: \$12,500.</b></p> <p><b>Financing from public sources: 80%, from private sources: 20%</b></p>

	condominium.	(completed in November 1999).	
3	<b>Warsaw – Boremlowska:</b> 27-unit building was constructed in 1956. It was selected as one of four pilots because of the existing (in-place) internal organizational structure.	<p>The scope of renovation carried out was much more limited than it could have been. It included replacement of a horizontal part within water installation.</p> <p>Difficulties developed, however, when a relatively inexperienced young private property manager who managed the association (at the time) opposed preparation of an annual renovation plan following CDP's advice.</p>	<p><i>27 units improved with total value of improvements: \$2,250.</i></p> <p><i>Financing from private sources: 100%</i></p>
4	<b>Warsaw – Zakrzewska:</b> This was a 50-unit condominium constructed in 1954.	<p>The association asked for CDP's support in the difficult process of assuming management responsibilities. The majority of owners were not satisfied with the quality of performance of municipal condo manager. CDP advisors walked the condominium owners through the process of taking over management responsibilities, the selection of private property manager, and creation of condo renovation plan based on the most urgent needs of the building. Training for condo owners was conducted and different ways of taking over management from the municipality were presented. condominium Management was elected from among the most active condo owners and later, the Board selected GESTOR company as property administrator. In May 1999 the condominium decided to deal with the most immediate safety concerns which related to gas installation system for the whole building. The horizontal gas pipe was replaced in order to prevent possible explosion and thus secure the safety from explosion danger. Improvement included:</p> <ul style="list-style-type: none"> <li>• Horizontal gas pipe was replaced.</li> </ul> <p>For the Zakrzewska street condo association, the CDP sponsored carrying out of an energy audit with audit results serving as a basis for preparation of a renovation plan. The plan outlined further work leading to the increase in thermo-isolation qualities of the building. The CDP advisor also assisted the Board in searching for ways to finance this project, taking advantage of thermal-modernization loan program sponsored by the Polish government, and proceeds from the sale of adaptable attic space. Financing from private sources (up to 80% through credit and remaining portion from proceeds of attic space sale) was expected by the end of 1999.</p>	<p><b>50 units improved with total value of improvements: \$2,000.</b></p> <p><b>Financing from private sources: 100%</b></p>

## Objective 2: Training

The CDP-Poland developed an original one-day intensive training program to facilitate implementation of pilot projects. The primary objective of the training was to increase general awareness of condominium owners of organizational, managerial, and financial issues of condominium associations. Particular attention was paid to ways to facilitate improvement of management methods and to the establishment of renovation plans.

Activity Description	Results
<p>The training course included presentation of the following issues:</p> <ul style="list-style-type: none"> <li>• Basic condominium terminology</li> <li>• Owners' rights and responsibilities</li> </ul>	<p><b>By November 1999, over 100 people took part in four training sessions. Participants included condominium owners, renters,</b></p>

<ul style="list-style-type: none"> <li>• Structure of the condominium's authorities</li> <li>• Organization and conducting owners' meeting and voting the resolutions</li> <li>• Development and usage the management plans (operational, capital, and cash flow budget)</li> <li>• Basic concepts of condo accounting</li> </ul>	<p>members of condominium Boards, and staff of property management firms.</p> <p>The feedback received from training participants, and results of activities undertaken by condominium associations following participation in training, prove the value of such sessions as an effective tool to increase condominium efficiency.</p>
---	--

### Objective 3: Manual

The CDP-Poland developed one of the first such manuals in Poland – *Manual for Condominium Owners*.

Activity Description	Results
The Manual for Condominium Owners served as support material for CDP Training sessions. The manual addressed basic condominium sector needs and provided information explained in plain language. Chapters of the manual are similar to the topics outlined above in the the section on Training.	By November 1999, over 100 copies of the manual had been distributed among Pilot condo members, local government officials and property managers.

### Objective 4: Non-USAID Capital Accessed

The following tables reflect (I) amounts already accessed and/or expended through CDP Pilot Projects for renovation works (capital and/or loans) and (II) estimated value of person-months of employment and equivalent dollar value of local gross income generated through home improvement projects.<sup>1</sup>

I. Amounts Accessed/Expended		
Pilot Project	Amount (zloty)	Amount USD (\$1=4 zl or 3.7 zl)
Gdynia	70,000.00	18,209.00
Kutno	50,000.00	12,500.00
Warsaw – Boremlowska	9,000.00	2,250.00
Warsaw – Zakrzewska	Accessed 8,000.00	2,000.00
	Expected 200,000.00	50,000.00
<b>TOTAL</b>	<b>337,000.00</b>	<b>84,959.00</b>

II. Estimated Value				
	Person-Months generated	Value of local gross income generated	Person-Months generated	Value of local gross income generated
Estimated Person-Months of Employment generated through pilot projects (128 improved units)	4.36 per unit	\$481/mo	(128*4.36) = 558	558*481=\$268,398

<sup>1</sup> Based on CHF's estimates, with \$481/mo used as dollar equivalent of a gross monthly salary in construction sector. See B. Czachorska-Jones, *Assessing Economic...*, p. 10.

## Objective 5: Dissemination of Knowledge and Experience

### 5b. Dissemination of knowledge and experience of U.S. experts

No	VIP	Assignment	Additional Results
1	<b>Catherine Rosenbery</b> , member of CAI, September 1998	Made presentation to representatives of Polish Urban and City Development Office, housing organizations and condominium population representatives. The focus of the presentation was modification of legal structure for the Polish condominium associations and presenting recommendations based on US experience for the Polish Act of Ownership modifications.	<ul style="list-style-type: none"> <li>• CAI made a donation of books to Warsaw-based CIM</li> </ul>
2	<b>Maria Rupp</b> , property manager November 1998	Worked for 3 weeks worked in Kutno to improve communication and relationship between property manager TBS Kutno and Kutno's condominiums. She also advised for Local Government Authorities in neighborhood City of Żychlin.	<ul style="list-style-type: none"> <li>• Workshops conducted;</li> <li>• VIP reported presented;</li> </ul>
3	<b>James Glantz</b> , Vice President of National Cooperative Bank (NCB), Washington, DC, February 1999	Worked with the BIG Bank Gdański (BBG) and the City of Sopot to review the loan condominium loan subsidy program and portfolio of current loans. The objective of this assignment was to recommend the ways to replicate similar program throughout Polish Cities and increase availability of funds based on public-private partnership. The CDP Volunteer also advised to the Polish Banking sector how to modify loan products for the condominium in order to define best loan collateral system.	<ul style="list-style-type: none"> <li>• Analysis of BBG condo loan portfolio conducted and presented to Bank representatives</li> <li>• Workshop conducted presenting challenges faced by US-based condominiums and cooperatives</li> </ul>
4	<b>John Conlon</b> , November 1999. President of Diamond Realty Management firm, in Latham, NY, which specializes in community association management for condominiums and homeowners associations in Northeastern New York State. DRM has a portfolio of 25 plus community associations ranging in size from 10 to 500 units with a total combined value of over \$350.0 million.	Advised CIM on housing project management systems and marketing of its services; conducted training.	<p>Areas covered by the consultancy to CIM included how to:</p> <ul style="list-style-type: none"> <li>• Broker loans to condominiums and cooperatives from financial institutions,</li> <li>• Market the professional services of local Agencies to Support Housing Initiatives (AWIMs)</li> <li>• Assess opportunities for property management in market environment</li> <li>• Prepare a checklist to evaluate property management performance</li> <li>• Prepare a case study utilizing U.S. examples, Conduct a conference to present property management experience and similarities between Polish and U.S. condominium markets</li> </ul>

### 5a. Dissemination of knowledge and experience of CDP Pilots

	Activity Description	Results
<b>Condominium Database</b>	As of 1999 the records contained 1,500 condominium files. The Database has already become an effective tool for mass mailing and information campaign. In August 1999, CDP's first database-based information campaign was conducted and information about available thermal-modernization loans set to 1,100 condominiums associations throughout Poland. This was the first activity of this type in the country.	In addition to direct information dissemination, a number of publications about program achievements in Polish newspapers have been published.
<b>condominium Consultation Point in Gdynia</b>	Together with Association of condominium Associations (SWM) the CDP-Poland has created a Consultation Point in Gdynia. Consultants were trained to advise condominiums free of charge, and each attending participant had a chance to learn about lessons learned during Pilot Project implementation.	Several AWIM directors took part.



## ATTACHMENT 5

### Big Bank Gdanski /Bank Millennium Condo Loan Portfolio Analysis

(Based on Information Received by a Consultant to CHF International in May 2003)

#### Part I: Background and Major General Findings

##### Background

In the Gdynia/Sopot area, three banks are currently providing financial services to condo associations: Bank Millennium (Big Bank Gdanski or BBG), Bank Komunalny (primarily serving the Gdynia area), and Bank Pocztowy. Bank Millennium enjoys by far the largest share of the local financial services market, certainly with regard to services for condos associations. Based on available information, 80% of 672 registered Sopot condo associations are serviced by Millennium. This bank is also serving the city of Sopot. Operations of Bank Pocztowy are still very limited, but the city has been recently promoting this bank as another potential partner in condo lending. So far, one condo loan was issued by Bank Komunalny in 2003, with the city of Sopot participating through an interest subsidy in a manner similar to a lending program with Millennium.

Getting a loan under the lending program requires close collaboration of the condo association with the bank and the city of Sopot. For the program to be successful, each partner has to know and understand its role. Condo associations are increasingly developing their skills in condo management, even though they are still struggling to be recognized as attractive prospective clients and a market opportunity – by banks, municipal authorities, and local property managers.

To facilitate development of condos, in 1999, CHF International placed a volunteer under the CDP-Poland program. Mr. James Glantz, then Vice President of National Cooperative Bank, Washington DC, worked with the CDP-Poland team, with local AWIM, the city of Sopot and the Bank (then BBG) to conduct an assessment of the condo lending program and advise the bank and municipal authorities as to its further development. This very successful assignment resulted in a detailed loan portfolio analysis and formulation of a series of recommendations directed at the bank, at municipal authorities, and local condo organizations and assisting NGOs.<sup>1</sup> Several workshops were held where Mr. Glantz presented the situation of U.S. condo associations, advised Polish condo associations, and discussed and popularized the features of the BBG-city of Sopot condo lending program.

In the course of this case study, CHF International decided to conduct a second analysis to include information for years 2000-2003 to evaluate progress and assess the lending model's importance and potential.

---

<sup>1</sup> James E. Glantz, Condominium Development Project Volunteer Assignment 2: Assessment of Condo Loan Program, February 14-28, 1999, Big Bank Gdanski, S.A., City of Sopot, Poland. Volunteer Assignment Report. Internal CHF materials, May 1999.

### **Macroeconomic Environment and BBG Restructuring**

As further background information we would like to provide brief context of conditions making an impact on lending: mainly the local environment and issues specific to BBG. Between the year 1996 and 1999, BBG went through a process of mergers and acquisitions which coincided with rapid macroeconomic growth fueling the demand for credit services. However, by early 2001, the GDP growth had been reduced to 1.1% annually. At the same time, BBG had a significant Portuguese investment, and between 2001 and 2002 it underwent a process of restructuring of all of its operations. (It is currently operating under a new name, Bank Millennium.) Some of the changes impacting lending were:

- Reorganization of the branch network and implementation of a new market segmentation scheme,
- Centralization of credit decision making within a single center and the development of centralized credit scoring and credit rating approaches,
- Reduction in bank staff in order to improve efficiency.

Unfortunately, during the last two years, slower economic growth combined with significant changes within the Bank's lending and operational processes have had a negative effect on the bank's retail lending in general, and its condo association lending in particular.

Within the above context, CHF's study comparing the BBG/Millennium data and lending portfolio between 1999 and 2003 reflect significant progress and a positive tendency. For purposes of this study, the data is aggregated on an annual basis and as a result, the data sets for years 1999 and 2003 are incomplete and cannot be used to compare to other years. However, the data for year 2003 provide indications of the current state of Millennium's lending to condo associations.

### **Indicators Used**

The following indicators were selected to assess the importance of condo lending to the banking sector:

- Total number of loans
- Total and average renovation costs,
- Total and average loan size,
- Average repayment term,
- Repeat borrowing by condo associations' members.

Detailed discussion is provided in Part II, below.

### **Major Findings of the Condo Portfolio Analysis**

The analysis of the bank portfolio between 1996 and 2003 revealed three important positive trends:

- In 2003, the bank has refocused its lending toward the Revitalization Program loans, which are larger and have a longer term than the Small Improvement Program loans that characterized the portfolio until 2002. This shows that the bank is willing and able to take on more credit risk, having established that the condo loan program is profitable.

- Many condo associations have become repeat borrowers. They have either taken a second loan under the Small Improvement Program, or have utilized the larger Revitalization Program loans to make more significant improvements.
- Despite the economic difficulties and the significant internal restructuring in 2001 and 2002, BBG has continued its partnership with Gmina and the condo associations by providing loans to condo members.

Today, as a result of the lending program, the Sopot condominiums are:

- More often considering taking out renovation loans to augment available resources; out of a total number of 672 Sopot-based condos, 164 (or 24.4%) took one loan and 15 took two loans. The number of borrowers is steadily growing.
- More inclined to lend again: 15 condos have taken a second loan after paying off the first one.
- More likely to share their positive experience in lending and the necessary know-how with other neighborhood condominiums. From the bank's perspective, making loans to condos turned out to be a good and safe business decision. As a result, the bank also gained confidence and developed a positive approach focused on serving bigger condos, which need more significant financing for their renovation projects.

### **Experience with Replication of the Condo Lending Project**

Considering the number of positive findings, the question remains why the lending program has not been replicated beyond the city of Sopot. Apparently, at different points in time, bank officers expressed interest in replicating this program across the country. This interest was confirmed to a CHF International consultant who met with bank management in May 2003. However, replication has not materialized. Bank officers explained that internal reorganization between 2000 and 2002 was a major hindrance. There was no focused effort on the part of bank to assess conditions for expansion. There was not enough staff to provide the necessary background research and study. Another explanation raised by bank representatives relates to the level of support received from local municipal authorities. Given that the program involves three partners, the condo associations, the bank, and the municipality. The lack of interest is significantly weakening the chances of successful replication. In its preliminary assessment, the bank found that local authorities in other Polish cities are not as inclined as Sopot city authorities to engage in similar lending partnerships, even though this trend may be slowly changing (as evidenced by recent publicly available information about creative revitalization programs enjoying support and participation of municipal authorities across the country.)<sup>2</sup>

### **Part II: BBG/Millennium Bank Condo Portfolio Analysis (1996 – 2003)**

Since its inception in 1996, the BBG (now Millennium Bank) condo lending program has been relatively successful from the point of view of the bank. The lending to condo

<sup>2</sup> A series of articles published in Polish periodical "Miasto," February 2003, presents new initiatives undertaken in the city of Poznan, Lublin, Szczecin, and Sopot.

associations grew rapidly in the late 1990s as a result of both deliberate bank policy and rapid macroeconomic growth. However, in 2001 and 2002, the loan program experienced a temporary decrease as a result of a macroeconomic slowdown and large-scale internal restructuring of the Bank's credit operations. The first several months of 2003 show Millennium's increased willingness to provide credit services to condo associations.

The biggest obstacle that the condo loan program faces is that condo associations are not recognized as legal entities and thus lending is secured by the assets of individual home owners. This makes the program fairly risky from the point of view of the bank. A big part of the bank's decision to continue with the condo lending program is the good relationship with Sopot Gmina which the bank has built over the years. From a credit standpoint, the relative security of all condo loans is due to the municipality's participation in the program. In addition, Millennium (and BBG's) experience with disbursing and managing loans to condo owners is also important. After 6 years of continuous lending, the bank is better able to judge the risk level relating to loans. Overall, the fact that condo lending did not discontinue even during the difficult years of 2001 and 2002 suggests that Millennium considers condo loans to be a safe and profitable investment under this program.

To illustrate our conclusions, we have attached several charts at the end of this report.

#### **Total Renovation Cost, Total Loan Amount and Total Number of Loans**

Resulting from the real growth of the Polish economy and per capita personal income in the late 1990s, the supply of condo loans increased significantly with total renovation cost financed (see chart 1) and condo loans disbursed (see chart 3) peaking in 2000 at 2.5 million PNL and 43 loans per year respectively. In 2001 and 2002, the economic slowdown along with the internal restructuring of the bank's credit operations led to bank credit tightening and a decrease in demand for condo loans.

<b>Year</b>	<b>2/1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>5/2003</b>	<b>Combined</b>
Small Improvements Program Loans	1	39	18	27	43	28	23	5	184
Revitalization Program Loans	0	0	1	0	3	1	1	4	10
<b>Total</b>	<b>1</b>	<b>39</b>	<b>19</b>	<b>27</b>	<b>46</b>	<b>29</b>	<b>24</b>	<b>9</b>	<b>194</b>

Consequently, in 2001 and 2002, the number of loans disbursed and total amount loans disbursed to condo associations for both years decreased significantly: 28 and 23 (see chart 2), and 1.4 million PNL and 0.9 million PNL (see chart 4). However, the first five months of 2003 show a positive trend in all indicators and the year is on track to exceeding the total amount lent to condo associations for both of the previous years.

The reason behind the healthy trend in 2003 is the number of larger, longer-term revitalization loans that the Bank disbursed in early 2003. By May 2003, the bank has disbursed 12,176,850 PNL.<sup>3</sup>

### Average Renovation Costs

The average renovation cost followed the pattern discussed in the previous sections: the renovation cost grew in the late 1990s and then dropped during the economic slowdown and BBG restructuring in 2001 and 2002 (Chart 2). Due to the large amount of revitalization loans, the average has increased by 140% in the first months of 2003.

Year	2/1996	1997	1998	1999	2000	2001	2002	5/2003	Combined
Small Improvements Program Loans	27,242	41,472	59,655	84,114	59,084	63,209	54,084	36,501	58,296
Revitalization Program Loans	0	0	210,209	0	107,306	160,802	151,800	151,423	145,042
Total	27,242	41,472	67,579	84,114	62,229	66,575	58,155	87,577	62,767

### Average Loan Size and Average Repayment Term

The average loan size grew considerably in the late 1990s and peaked at 64,901 PNL in 1999. Between 2000 and 2002, the average loan size was markedly lower due to macroeconomic and bank-specific factors. The variations in the average loan size were mainly due to the fact that revitalization program loans were between 150 and 300% of the average small improvement program loans. By early 2003, the large number of large revitalization loans had move the total average of the condo lending program to 62,745 PNL compared to 52,704 and 42,905 PNL in the course of previous 2 years. The maximum and minimum loan size amounts followed the same trends as the averages (More detailed information is available in CHF International's source materials).

Year	2/1996	1997	1998	1999	2000	2001	2002	5/2003	Combined
Small Improvements Program Loans	24,435	33,681	41,622	64,901	46,382	50,141	39,187	29,597	45,039
Revitalization Program Loans			189,644		95,610	124,462	128,423	104,181	114,608
Total Average	24,435	33,681	49,413	64,901	49,593	52,704	42,905	62,745	48,625

<sup>3</sup> All PNL amounts are in real 2003 PNL i.e. are adjusted for inflation.

The above data shows an interesting trend for the BBG condo portfolio. Throughout the period between 1996 and 2002, the large majority of the loans were made under the Small Improvement Program. However, by May 2003, the Revitalization Program had become the dominant program within the BBG condo lending program (see chart 4). Some of the key characteristics of the revitalization loans are its high average loan amounts (see table 3) and longer loan repayment periods (see table 4, chart 5) compared to the SIP program. The increasing share of revitalization loans shows that BBG is more comfortable in disbursing larger loans to condo associations. In effect, the bank takes on more condo-owner credit risk. The profitability of the revitalization loans is presumably also higher, although the bank did not release information to show this conclusively.

Year	2/1996	1997	1998	1999	2000	2001	2002	5/2003	Combined
Small Improvements Program Loans			71		64	60	60	66	65
Revitalization Program Loans	24	31	35	33	31	27	29	25	31
Total Average	24	31	37	33	33	28	31	43	32

From the condo association point of view, the revitalization loans, although larger, are more convenient because they are longer term, and monthly payments are lower. It is important to note that the revitalization loans also use a more favorable interest rate subsidy which is an incentive to the owners to perform large condo repairs. The above tendency also shows that condo associations try to pay off their loans as soon as possible to reap the benefit of the loan subsidy guaranteed by the city of Sopot. (Under the partnership program, interest is fully subsidized during the first year of loan and then decreases).

The data above confirms the tendency of increasing cost of investment projects undertaken by the condos. Condo owners feel more comfortable when financing the investment with a bank loan. On its part, the bank is also more likely to give a bigger loan, based on the track record developed and the good experience gained in dealing with condos.

#### **Repeat Borrowing by Condo Owners**

By May 2003, 164 condo associations (or 24.4%) of the 672 condo associations in Sopot had taken out a loan with Millenium. In addition, 15 condo associations were able to repay their initial loans and become repeat borrowers to continue the improvement of their housing. This process also allows the bank to build its experience with lending to condo owners, although the loans are still collateralized by the individual condo owners rather than the condominium association as a separate entity.

### Condo Association Size

The number of housing units affected by renovation lending stands at 1,487. The majority (80%) of Sopot condominiums consist of no more than 7 units per building. For this reason they can be categorized as "small" and an average number of units that take a loan, per condo, equals 7.7. The numbers show a slowly increasing tendency, which corresponds to the practice of serving slightly bigger condos which successfully participated in the lending program co-sponsored by partner bank and the city of Sopot.

### Condo Ownership

On average, the condo association had 30% municipality ownership and 70% condo member ownership. Interviews with bank officials revealed that BBG considers a high percentage of municipal ownership to be a better credit risk than a loan to condo associations without any municipal ownership. This fact is a consequence of the lack of legal recognition of a condo association as a separate business entity and the resulting individual lending approach that the bank takes towards condo association loans. Due to lack of adequate data, the analysis failed to reveal a connection between higher municipal ownership and larger bank credit.

### ATTACHMENT: CHARTS

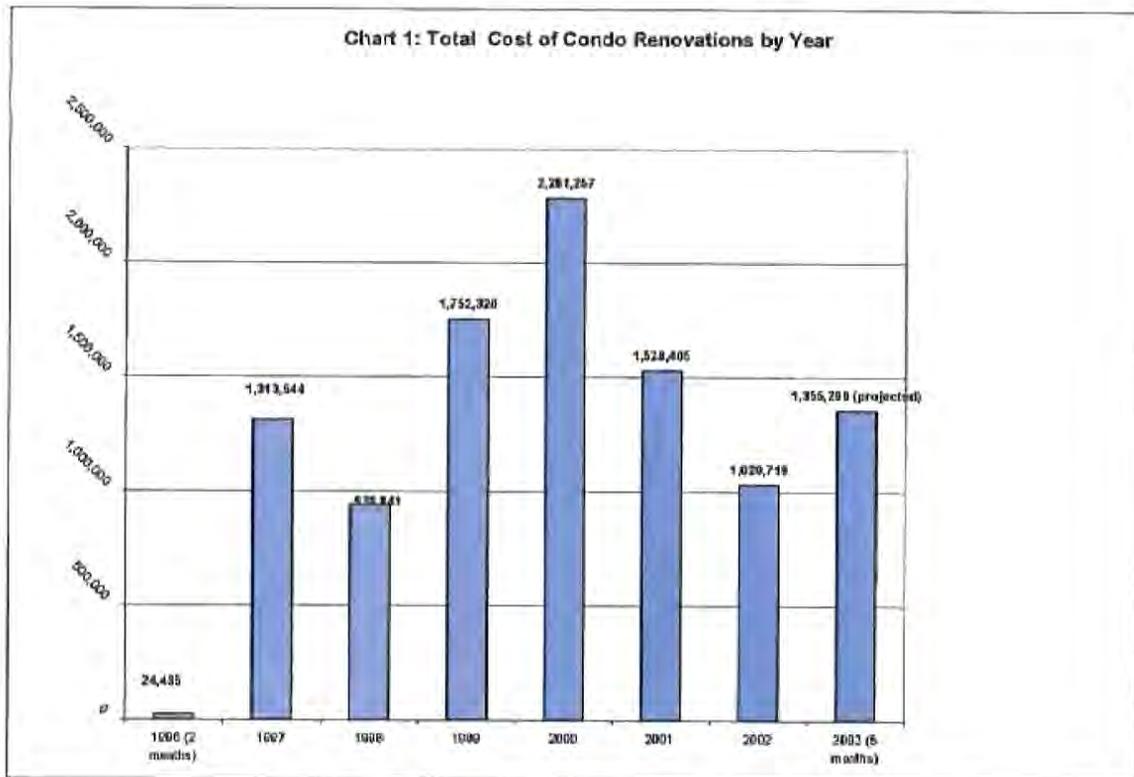


Chart 2: Total Number of Condo Loans by Year

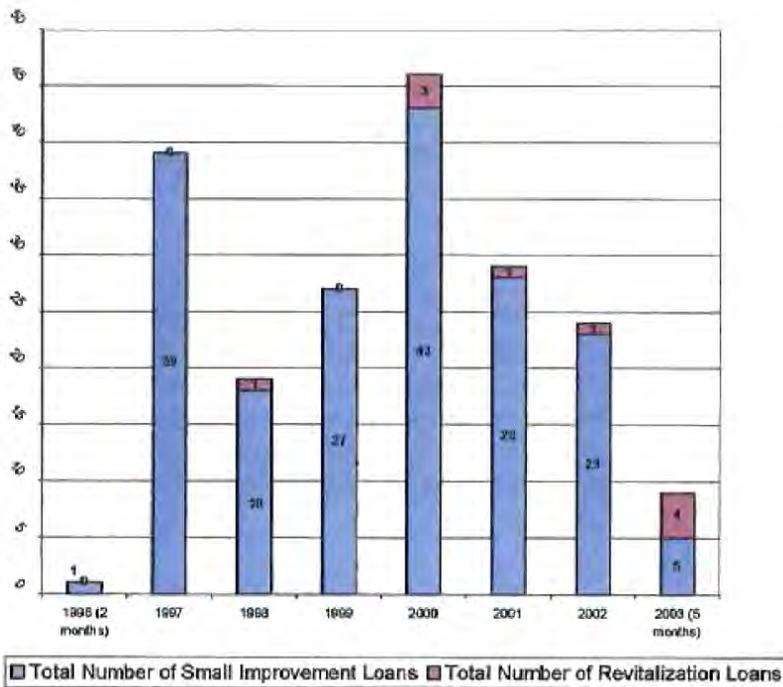


Chart 3: Individual Condo Renovation Costs

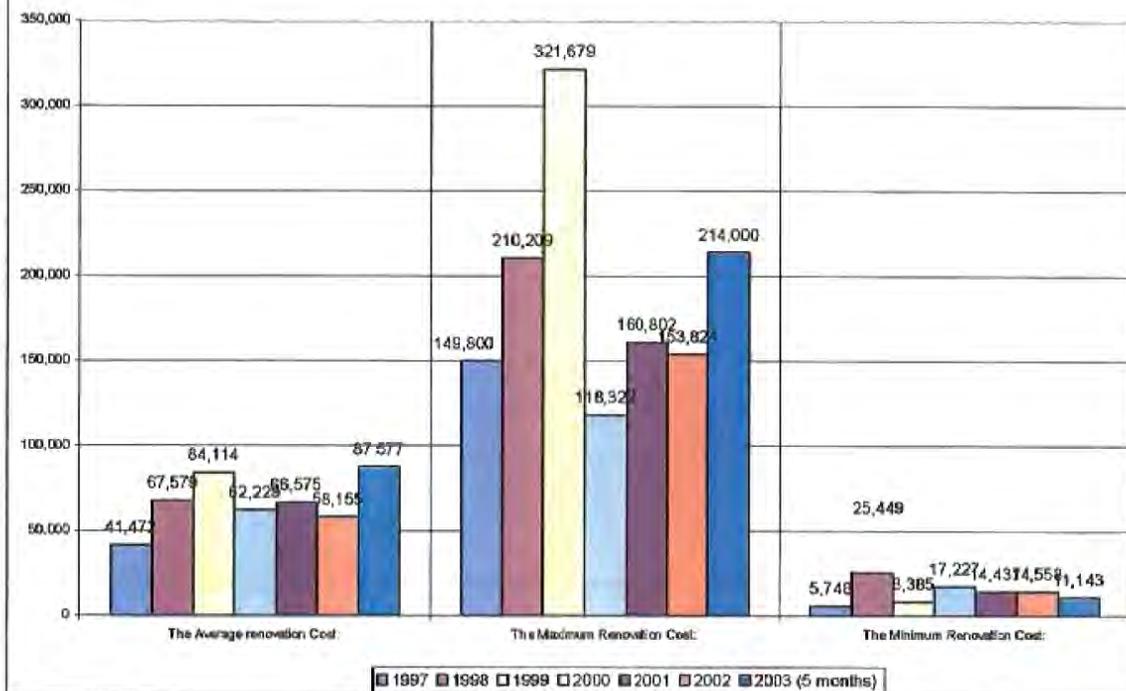


Chart 4: Loan Amounts Disbursed

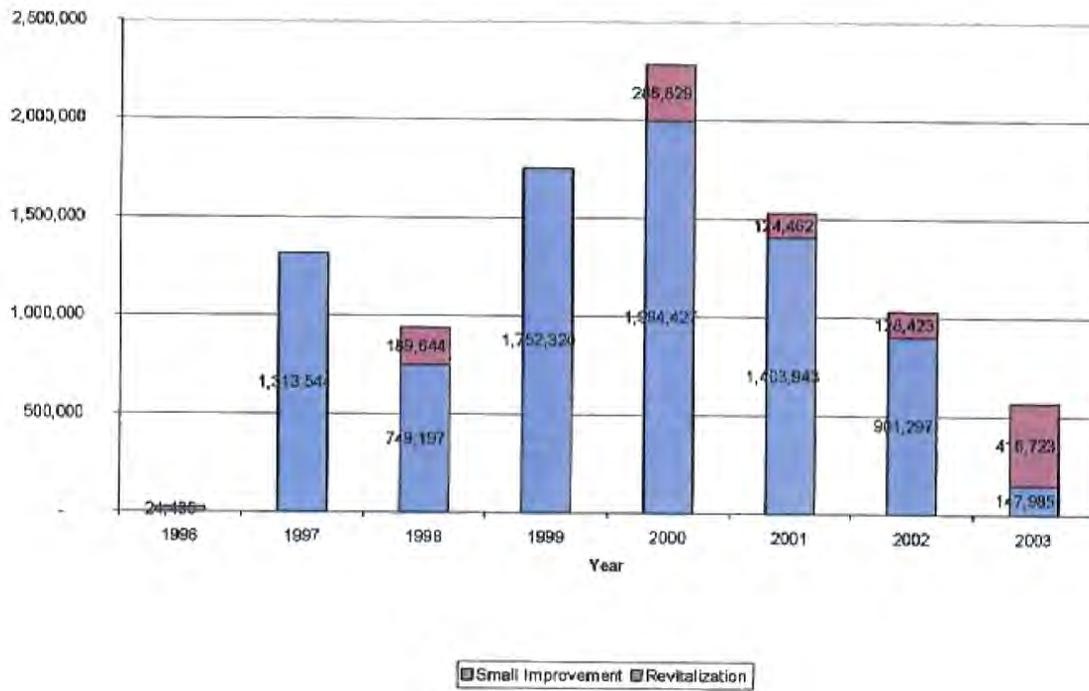
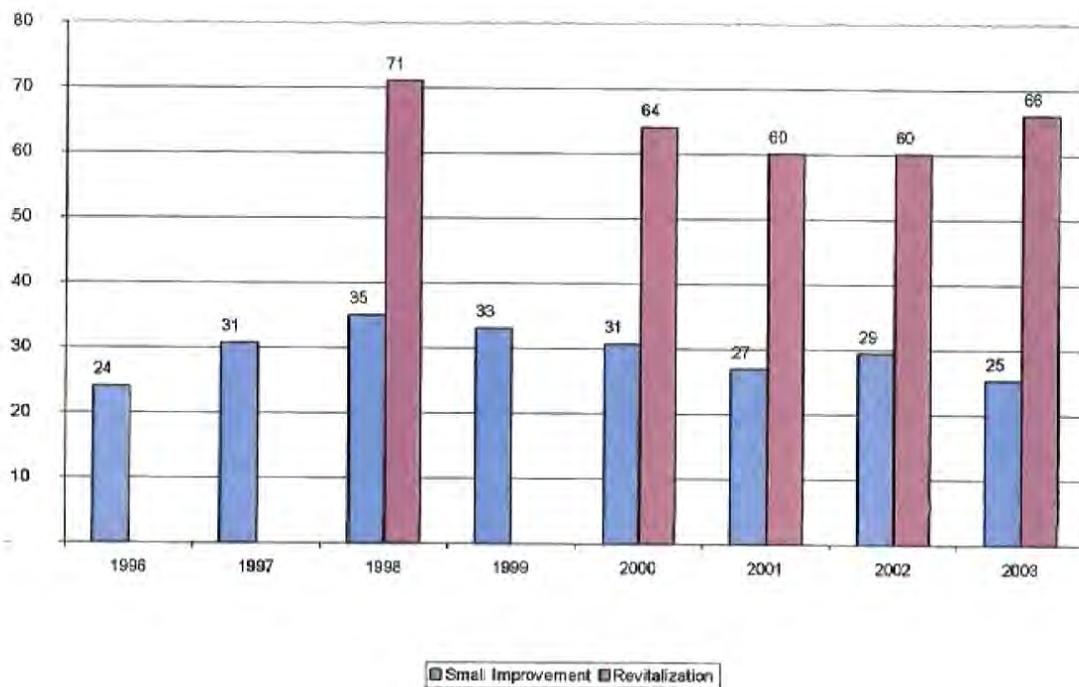


Chart 5: Average Loan Term





**ATTACHMENT 6.1: CHF International-Adjusted NCB Ratios as applied to CDP Evaluation  
Condo 1 Located in Sopot, Poland for 2002**

No	Ratio name and description	Target	Condo 1	Is the requirement met?	Comments
<b>Balance Sheet Analysis</b>					
			<b>Values and Calculations</b>	<b>Is the requirement met?</b>	<b>Comments</b>
1.	Cash/liquidity :				
1.1	(Cash + Reserves) / Annual Gross Income (should be > 5%)	> 5%	$= (1,980.77 + 22,995.36) / (18,318.77 + 41,214.28) = 24,976.13 / 59,533.05 = 41.95\%$	Yes	The ratio is high as condo collects funds for the future capital improvements.
2.	Delinquency				
2.1	Delinquent Amount Per Year / Annual Gross Income (should be < 5%)	< 5%	$= (143.39 + 771.04) / 31,365.32 = 2.92\%$	Yes	
2.2	Number of Delinquent Unit Owners / Total Number of Unit Owners (should be < 10%)	< 10%	$= 1/8 = 12.50\%$	No	One owner was delinquent as of the end of the year. However, the risk is low because other tenants help with the payment whenever one of them has difficulties.
<b>Income Statement Analysis</b>					
3.	Debt				
3.1	Debt Service Coverage Ratio = (Net Operating Income + Capital Contribution) / Debt Service (should be 1:1)	1:1	N.A.	Yes	Because the loan is given to condo owners rather than the condo association as a whole, the ratio cannot be calculated. However, the condo owners have not been late in repaying their individual portions, while continuing to pay their condo assessments.
4.	Capital (Replacement) Reserve		N.A.	No	Capital reserve fund is not based on an engineering survey of the property because of high cost of such survey.
5.	Assessment after Debt Payments				
5.1	Increase of assessments over the life of the loan < 45-50% (typically 20-40%)	< 40 - 50%	The operational assessment fee equaled 18,318.77 PLN in 2002, renovation fund assessment (not related to loan repayment) = 14,505.97 PLN, so the total ownership assessment without loan repayment equaled in 2002 32,824.74 PLN. Loan repayment equaled 26,640 PLN. The sum equals 59,464.74 PLN which gives 25,35% increase.	Yes	
<b>Other ratios</b>					
6.	Life of the loan (max. Of 15 years)	< 15 years	2.5 year	Yes	
7.	Owner Occupancy Requirement (>50% of building to promote ownership responsibility in building maintenance)	> 50%	425.10 m <sup>2</sup> of usable space is occupied by owners (total usable space of a building equals 863.62 m <sup>2</sup> ) that gives 49.22%.	No	This criterion is applied only in cases where the unit is rented by individual owner. In the case of Sopot, the municipality is the majority owner. Historically, the municipality has proven to be a good tenant and generally is considered to be less risky because of its financial resources compared to individual tenants.
8.	Loan to value				
8.1	Loan / Accessed Value of Condominium Units (<15%, NCB average is 5-7%)		Loan value = 54,500 PLN. Average market price of 1 m <sup>2</sup> of usable space equaled in 2001 (when the loan was made) 2,500 PLN. The value of the property equaled so 2,159,050 PLN.	Yes	

**ATTACHMENT 6.1: CHF International-Adjusted NCB Ratios as applied to CDP Evaluation  
Condo 2 Located in Sopot, Poland for 2002**

No	Ratio name and description	Target	Condo 2	Is the requirement met?	Comments
<b>Balance Sheet Analysis</b>					
<b>1. Cash/liquidity :</b>					
1.1	(Cash + Reserves) / Annual Gross Income (should be > 5%)	> 5%	0%	No	It is impossible to calculate this ratio as the condo assessment is built to cover the management costs only. No cash is available to use by condo at the end of a year. Also condo is not building improvement reserves till the current loan is being repaid.
<b>2. Delinquency</b>					
2.1	Delinquent Amount Per Year / Annual Gross Income (should be < 5%)	< 5%	0%	Yes	
2.2	Number of Delinquent Unit Owners / Total Number of Unit Owners (should be <10%)	< 10%	0%	Yes	
<b>Income Statement Analysis</b>					
<b>3. Debt</b>					
3.1	Debt Service Coverage Ratio = (Net Operating Income + Capital Contribution) / Debt Service (should be 1:1)	1:1	N.A.	Yes	Because the loan is given to condo owners rather than the condo association as a whole, the ratio cannot be calculated. However, the condo owners have not been late in repaying their individual portions, while continuing to pay their condo assessments.
4.	Capital (Replacement) Reserve		N.A.	No	Capital reserve fund is not based on an engineering survey of the property because of the high cost of such survey.
<b>5. Assessment after Debt Payments</b>					
5.1	Increase of assessments over the life of the loan <45-50% (typically 20-40%)	< 40 - 50%	The operational assessment fee equaled 13,350 PLN in 2002. Loan repayment equaled 20,576.81 PLN. The sum equals 33,926.81 PLN which gives roughly 155% increase.	No	Although formally not met, the increase in assessments has been factored in when the bank has made the loan and the condo association members have been deemed to be a good credit risk. In addition, this is the second loan of the condo and the owners have experience in budgeting and managing their cash flows.
<b>Other ratios</b>					
5.	Life of the loan (max. Of 15 years)	< 15 years		Yes	
7.	Owner Occupancy Requirement (>50% of building to promote ownership responsibility in building maintenance)	> 50%	100%	Yes	
<b>8. Loan to value</b>					
8.1	Loan / Accessed Value of Condominium Units (<15%, NCB average is 5-7%)		Loan value = 100,000 PLN. Average market price of 1 m <sup>2</sup> of usable space equaled in 2001 (when the loan was made) 3,200 PLN. The value of the property equaled so 2,612,928 PLN. LTV = 3.83%.	Yes	

## ATTACHMENT 6.2

## Comparison of Condo Operational Budgets for 2002 (Condo 1 and Condo 2)

Condo 1 usable space (m <sup>2</sup> ):	863.62
Condo 2 usable space (m <sup>2</sup> ):	816.64

No	Item	Condo #1 (annually)	Condo #1 (annual cost per 1 sqm)	Condo #2 (annually)	Condo #2 (annual cost per 1 sqm)	Condo #1/Condo #2 (unit costs)
<b>A. OPERATIONAL BUDGET</b>						
1.	<b>Condo Inflows, incl.:</b>	<b>18,318.77 zł</b>	<b>21.21 zł</b>	<b>13,350.00 zł</b>	<b>16.35 zł</b>	<b>29.7%</b>
1.1	Assessment fees, incl.:	10,709.08 zł	12.40 zł	4,450.00 zł	5.45 zł	127.5%
1.2	Utilities, incl.:	7,609.21 zł	8.81 zł	8,900.00 zł	10.90 zł	-19.2%
1.2.1	Water and Sewage	6,583.21 zł	7.62 zł	8,000.00 zł	9.80 zł	-22.2%
1.2.2	Garbage	1,026.00 zł	1.19 zł	900.00 zł	1.10 zł	7.8%
1.2.3	Central heating and hot water	0.00 zł	0.00 zł	0.00 zł	0.00 zł	0.0%
1.3	Other inflows	0.48 zł	0.00 zł	0.00 zł	0.00 zł	-
2.	<b>Common property management costs incl.:</b>	<b>10,858.03 zł</b>	<b>12.57 zł</b>	<b>4,450.00 zł</b>	<b>5.45 zł</b>	<b>130.7%</b>
2.1	Management fee	4,767.24 zł	5.52 zł	0.00 zł	0.00 zł	-
2.2	Electricity in common property	210.08 zł	0.24 zł	200.00 zł	0.24 zł	-0.7%
2.3	Chimney maintenance	155.15 zł	0.18 zł	150.00 zł	0.18 zł	-2.2%
2.4	Renovation and maintenance	2,003.10 zł	2.32 zł	0.00 zł	0.00 zł	-
2.5	Technical surveys of the building	1,578.33 zł	1.83 zł	0.00 zł	0.00 zł	-
2.6	Cleaning (interior - halls and staircases)	558.17 zł	0.65 zł	0.00 zł	0.00 zł	-
2.7	Garbage (big size)	94.16 zł	0.11 zł	0.00 zł	0.00 zł	-
2.8	Property Insurance	888.00 zł	0.80 zł	500.00 zł	0.61 zł	30.1%
2.9	Bank services	659.16 zł	0.76 zł	600.00 zł	0.73 zł	3.9%
2.10	Other costs	47.00 zł	0.05 zł	0.00 zł	0.00 zł	-
2.11	Technical assistance (urgent)	97.64 zł	0.11 zł	0.00 zł	0.00 zł	-
2.12	Adjacent ground maintenance	0.00 zł	0.00 zł	3,000.00 zł	3.67 zł	-
3.	<b>Costs related to the units, incl.:</b>	<b>7,402.80 zł</b>	<b>8.57 zł</b>	<b>8,900.00 zł</b>	<b>10.90 zł</b>	<b>-21.4%</b>
3.1	Cold water and Sewage	6,376.68 zł	7.38 zł	8,000.00 zł	9.80 zł	-24.6%
3.2	Garbage (bins)	1,026.12 zł	1.19 zł	900.00 zł	1.10 zł	7.8%
4.	<b>Difference between inflows and outflows (1-2-3)</b>	<b>57.94 zł</b>	<b>0.07 zł</b>	<b>0.00 zł</b>	<b>0.00 zł</b>	<b>-</b>
5.	<b>Accounts receivable and obligations</b>					
5.1	Receivables, incl.:	143.39 zł	0.17 zł	0.00 zł	0.00 zł	-
5.1.1	Owners's obligations	143.39 zł	0.17 zł	0.00 zł	0.00 zł	-
5.1.2	Other	0.00 zł	0.00 zł	0.00 zł	0.00 zł	-
5.2	Obligations, incl.:	1,688.25 zł	1.95 zł	0.00 zł	0.00 zł	-
5.2.1	Owners's overpayment	154.04 zł	0.18 zł	0.00 zł	0.00 zł	-
5.2.2	Other	1,534.22 zł	1.78 zł	0.00 zł	0.00 zł	-
6.	<b>Cashflow Budget (operations)</b>					
6.1	Opening Balance (Jan. 1, 2002)	1,141.50 zł	1.32 zł	0.00 zł	0.00 zł	-
6.2	2002 Inflows	19,271.74 zł	22.32 zł	13,350.00 zł	16.35 zł	36.5%
6.3	Civil inflows in 2002	0.48 zł	0.00 zł	0.00 zł	0.00 zł	-
6.4	Costs not covered till Dec. 31, 2001	1,715.49 zł	1.99 zł	0.00 zł	0.00 zł	-
6.5	2002 Outflows	16,737.45 zł	19.39 zł	13,350.00 zł	16.35 zł	18.5%
6.6	Closing Balance (Dec. 31, 2002)	1,960.77 zł	2.27 zł	0.00 zł	0.00 zł	-
<b>B. CAPITAL BUDGET</b>						
1.	<b>Inflows, incl.:</b>	<b>13,046.65 zł</b>	<b>15.11 zł</b>	<b>20,576.81 zł</b>	<b>25.20 zł</b>	<b>-40.1%</b>
1.1	Renovation assessments	12,978.24 zł	15.03 zł	20,576.81 zł	25.20 zł	-40.4%
1.2	Other inflows	68.31 zł	0.08 zł	0.00 zł	0.00 zł	-
2.	<b>Outflows</b>	<b>384.93 zł</b>	<b>0.45 zł</b>	<b>20,576.81 zł</b>	<b>25.20 zł</b>	<b>-98.2%</b>
3.	<b>Balance (1-2)</b>	<b>12,661.62 zł</b>	<b>14.66 zł</b>	<b>0.00 zł</b>	<b>0.00 zł</b>	<b>-</b>
3.1	Increasing next year inflows	12,661.62 zł	14.66 zł	0.00 zł	0.00 zł	-
3.2	Decreasing next year inflows	0.00 zł	0.00 zł	0.00 zł	0.00 zł	-
4.	<b>Accounts receivable and obligations</b>					
4.1	Receivables, incl.:	771.04 zł	0.89 zł	0.00 zł	0.00 zł	-
4.1.1	Owners's obligations	771.04 zł	0.89 zł	0.00 zł	0.00 zł	-
4.1.2	Other	0.00 zł	0.00 zł	0.00 zł	0.00 zł	-
4.2	Obligations, incl.:	1.07 zł	0.00 zł	0.00 zł	0.00 zł	-
4.2.1	Owners's overpayment	1.07 zł	0.00 zł	0.00 zł	0.00 zł	-
4.2.2	Other	0.00 zł	0.00 zł	0.00 zł	0.00 zł	-
5.	<b>Cashflow Budget (capital)</b>					
5.1	Opening Balance (Jan. 1, 2002)	8,806.01 zł	10.20 zł	0.00 zł	0.00 zł	-
5.2	2002 Inflows	14,505.97 zł	16.80 zł	20,576.81 zł	25.20 zł	-33.3%
5.3	Civil inflows in 2002	68.31 zł	0.08 zł	0.00 zł	0.00 zł	-
5.4	Costs not covered till Dec. 31, 2001	0.00 zł	0.00 zł	0.00 zł	0.00 zł	-
5.5	2002 Outflows	384.93 zł	0.45 zł	20,576.81 zł	25.20 zł	-98.2%
5.6	Closing Balance (Dec. 31, 2002)	22,995.36 zł	26.63 zł	0.00 zł	0.00 zł	-