

Local Government and Housing

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Introduction

This paper has been prepared under the Local Government Policy Partnership Program (LGPP), which is a joint program of the Department for International Development (UK) and the Local Government Initiative of the Open Society Institute (Budapest). The objective of this Cupertino is to produce comparative policy studies on selected local government issues.

Following countries were selected for the purpose of the *Local Government and Housing project*: Bulgaria, the Czech Republic, Estonia, Poland, Romania and Slovakia.

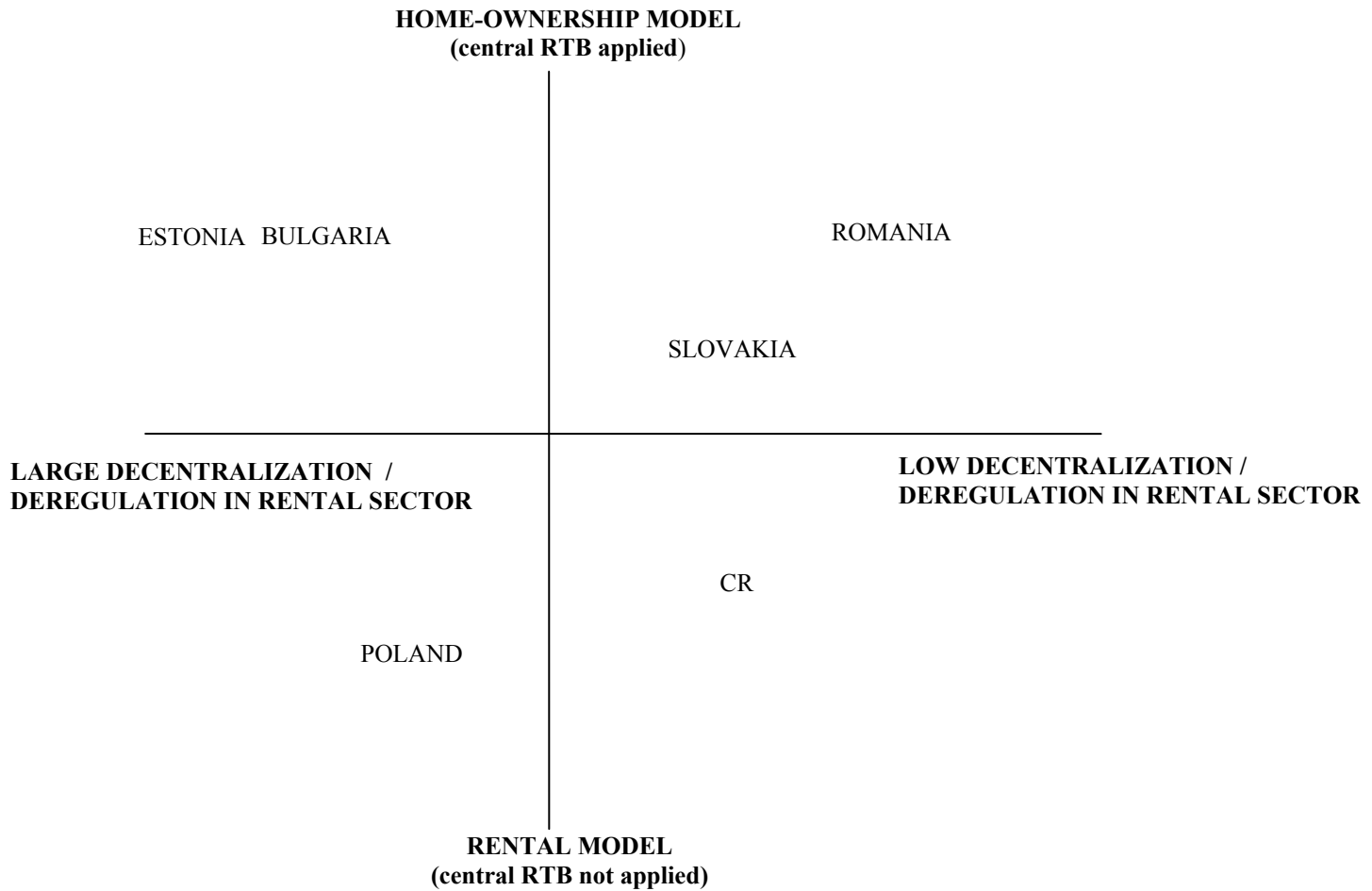
Some information in the paper will be based on results from questionnaire research *Local Government and Housing Survey* (LGHS) conducted in the selected CEE countries especially in connection with this project. All municipalities with population higher than 5,000 of inhabitants (in Poland on sample of 105 municipalities with population higher than 20,000 of inhabitants) in each country were asked to fill in a short questionnaire on municipal housing policy objectives and management of municipal housing. As almost in all countries the underrepresentation of small municipalities occurred the data were for the purpose of comparison weighted to assure the same representation of municipalities according to their size as it is in reality.

State housing policies

The general typology of all the selected CEE countries according to the applied state housing policy is very hardly possible as they are characterized by very particular approaches. Though there are some uniform features (sharp cut in state subsidies, sharp growth in construction and ownership housing prices, decentralization connected with housing stock transfer to the ownership of municipalities), the development of policies varied largely among those countries and lead to the creation of very diversified systems (similar situation can be seen in EU).

Selected countries were grouped into three types according to the housing privatization strategies: 1) Bulgaria; 2) fast privatizers (Romania, Estonia, and Slovakia); 3) slow privatizers (Czech Republic, Poland). Though there is a very slight correlation between level of country GDP and privatization approach, there are many exceptions from this rule (Slovakia, Estonia) that makes such hypothesis unlikely; rather geographical factor seems influencing, as **Central European countries privatized less of public housing than the Eastern and Southern European countries**. Together with differences in the scale of decentralization/deregulation in rental housing sector following Figure 1 can offer more comparative view.

Figure 1. Comparison of state housing policies



Though, with the exception of Romania, in all other countries former state housing was transferred into the ownership of municipalities, the decisive state influence on management of municipal rental housing remained in Slovakia, Romania and the Czech Republic (mainly through strong tenant protection, central housing allowance models and rent control/ceilings). Higher deregulation / decentralization in rental housing is assumed to be connected with higher freedom in rent setting for landlords (though rent ceilings are applied in Poland), lower tenant protection and larger competence of municipalities in shaping/paying of housing allowances.¹

There is one clear logic implication: **the policy orientated towards the home-ownership model combined with too low privatization prices (Estonia, Bulgaria, Romania) leads always to quick residualisation of municipal housing, concentration of problematic households in municipal housing stock, social segregation, rise in rent arrears (we will see in the next chapter), lower rental income (worst income-cost ratio), higher need for**

¹ However, allocation of municipal housing is regulated in Estonia and Bulgaria (in Estonia mostly due to the problem concerning tenants in restituted houses); it seems that abolishment of rental control is always compensated by more strict dwelling allocation rules to assure affordability of housing for low income groups of society.

supply side subsidies for remaining public housing and mainly to strengthening of tensions between tenants in public and private housing sectors. In all countries that belong to fast privatizers and applied very advantageous right to buy, the problem with tenants in restituted houses appeared; this is gradually solved by getting priority in municipal housing allocation in Romania and Bulgaria and „privatization voucher“ loans in Estonia. On the opposite, tenants in restituted houses in Poland and the Czech Republic did not obtain any preferential conditions on housing market.

We have already pointed out that „legislative“ deregulation does not have to be (and in practice is not) accompanied by real rent price deregulation. **In countries with a more modest scale and speed of privatization, municipal housing did not become residualised and the deregulation of rents went much quicker (even for municipal housing stock);** in these countries (Poland, Czech Republic) generally only part of the municipal housing stock is used as social housing (rent is „affordable“). However, in the Czech Republic this concerns only those municipal dwellings that are re-let because municipalities then have the right to use different strategies for establishing rental prices (for running rental contracts, regulated rents are applied without an evaluation of the social need of the household). In Poland, rent prices (for running rental contracts) are regulated by legislation but the set limits are however relatively high (three per cent of actual replacement value), allowing municipalities to raise rents substantially and to apply rent-pooling. However, this would be unpopular with the population and thus for political reasons Polish municipalities do not raise the rents to this limit.

The policy orientated towards the rental model, which is not accompanied by decentralization/deregulation process (Czech Republic), is logically connected with relatively passive municipal housing policy and establishment of black market with rent-regulated municipal dwellings. This practice is almost unknown in most of the countries, while it is very common in the Czech Republic. Black market has basically two forms there: illegal subletting of rent-regulated municipal apartments and illegal “sale” of rental contract on rent-regulated municipal apartment via fictitious dwelling exchange. Due to the continuous strong tenant protection (quasi-ownership character of rental housing) and slow performance of the Czech courts, landlords have often very little power to eliminate these practices.

No approach can be theoretically evaluated as purely bad from point of view economic efficiency: large-scale privatization is the most speedy way how to deal with the burden of non-targeted „socialistic“ housing heritage (tenant protection, rent regulation), substantially cut public subsidies and support the ownership housing market operation. Though it leads to tensions between different groups of society due to its very low social effectiveness, it is sometimes the best way how to start the future housing policy based on targeted housing allowances helping really those who need help. On the second side, policy orientated towards the rental model helps to maintain significant rental sector (allowing higher labor mobility in the future), prevent from social segregation and spatial residualisation and allows more substantial rent price deregulation. Though the social effectiveness is due to the strong tenant protection and non-targeted rent regulation on current rental contracts again very low, rental housing can be viewed as a better way how to inhabit socially needy households with lower income (and prevent thus not only from the degradation of ownership rights but also assure all those in need by affordable rental housing).

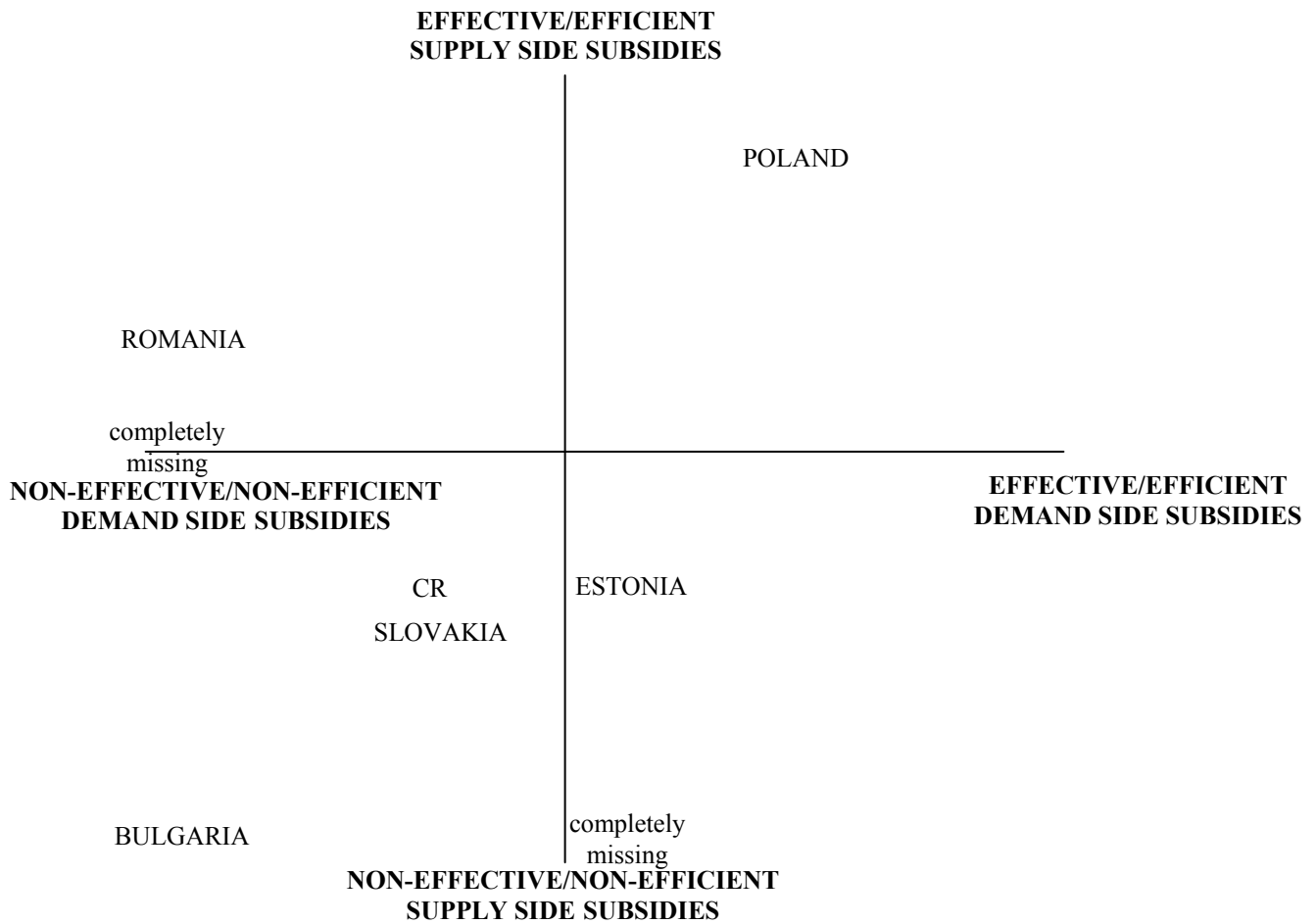
If we want to compare the countries/models according to the real and not only theoretical economic efficiency and social effectiveness of their supply and demand side state policies we would define:

- demand side subsidies as economically efficient and socially effective if the housing allowance model does not use explicit or implicit income ceiling (as there may be households with high housing expenditure burdens but middle or higher incomes), does not use housing expenditure normatives (from the same reason), apply normative rate of burden rising with the level of housing expenditures and level of income of applicant households (the „participation share“ of household on its housing expenditures rises with its income and housing costs reflecting the location and standard of housing), and apply „optimal“ normative rate of burden which do not lead to poverty trap (degression of the amount of allowance with the income growth is not as high as it would demotivate households to increase their own income);
- supply side subsidies as economically efficient and socially effective if there is a clear definition of social housing, and if particular subsidy programs (supporting both affordable rental and ownership housing construction/purchase) are clearly targeted to households in social need and are sustainable in long run (guaranteed sources, private capital participation)².

Following Figure 2 summarize the comparison of state housing policies in the selected CEE countries.

² Though some of the programmes (mostly subsidies for young people) are targeted to people in housing need they are often prepared in such way that does not allow their long run sustainability (limited sources, too much applicants, long waiting period). These not very conceptual programmes are rather expressions of political populism than effective/efficient housing policy instruments.

Figure 2: Comparison of state housing policies



Poland is the only country with relatively large efficiency/effectiveness of both demand and supply side subsidies (housing association legislation with very efficient state subsidy rules, applied definition of social housing, „optimal“ normative rate of burden increasing with income level - not leading to poverty trap as the Estonian model - and counting with real housing costs in the housing allowance model). The precisely defined mediating activity of the National Housing Agency in Romania is, by our opinion, the example of efficient and effective type of managing state supply side subsidies (eligible sources are however much lower than in more developed countries). Estonian housing allowance (subsistence benefit) model does not apply housing expenditure normatives and ceilings are set at a local level of administration; therefore it is more effective in helping those households with higher housing expenditure burden than the Czech or Slovakian models. Bulgaria is the only country where no decisive supply or demand side subsidies (with the exception of temporal energy allowance) are implemented.

From the above mentioned comparison another conclusion can be raised: **the most effective/efficient housing policy was implemented where policy orientated towards the rental model was combined with decentralization/deregulation in the rental sector of housing (Poland); the less effective/efficient one where policy orientated towards the rental model was combined with low level of decentralization/deregulation in the rental sector of housing (Czech Republic, partially Slovakia).**

From the comparison with housing conditions in particular countries we can raise empirical implication: **the relative housing sufficiency (Czech Republic, Slovakia, Estonia) leads to lower effectiveness/efficiency of housing policy while relative housing insufficiency (Romania, Poland) leads to the opposite (Bulgaria is a special case with no real state housing policy at all).**

Local government housing policies

The formal role of local government in the sphere of housing in the CEE countries does not differ much from those in the EU countries; however, the reality is far from general legislative provisions. Due to the financial restraints and lack of efficient state supply side subsidies (with the exception of Poland) local authorities have very limited space to increase financial affordability of housing by new social/affordable rental housing construction, though this is, with the exception of Estonia, perceived by majority of them as the most important local housing policy objective.

Another barrier to the effective development of local housing policies represents the central rent regulation applied in most of the countries (with the exception of Bulgaria and Estonia). Though the abolishment of central rent regulation is not generally connected with the growth in municipal rent prices, the central government rent regulation leads to the fact that municipal housing maintenance costs still exceed rental income (the deepest gap is apparent in Romania). However, the State does not provide any operational subsidies to local government budgets to cover the difference between income and costs.

The final important restriction that has far reaching consequences on efficiency and effectiveness of independent municipal housing policies is represented by the application of right to buy legislation in several countries (Romania, Bulgaria, Estonia, in a limited way also Slovakia) when right of municipalities to set privatization prices and to decide on the scale of housing privatization on their area is completely breaching by the State power. The large-scale public housing privatization lead to residualisation of municipal/public housing in Bulgaria, Romania, Estonia and partially also Slovakia; public housing started to be occupied by socially weak households and the possibility of future growth in rental prices is even lower than previously. The problem of poor home-owners appeared in many countries and, for example in Estonia, the mutual co-operation between municipality and homeowners associations on housing refurbishment process became important local housing policy activity.

On the second side local governments obtained relatively large power in the spheres of vacant/new public dwelling allocation (with the exception of Bulgaria, Romania and Estonia, where it is limited by the central law), definition of social housing (partially limited by central legislation in Romania, Poland and Estonia), rent setting in vacant/new public dwellings (application of different rent approaches) and sometimes even rent setting in all public dwellings including for current rental contracts (Bulgaria, Estonia).

Both absolute and relative decentralization occurred apparently in all the selected CEE countries. Due to the deregulation of state housing policy (cuts in state subsidies) and transfer of some allocation/rent setting competence to local government level (connecting with the transfer of former state housing to the ownership of municipalities) the State had substantially withdrawn from the responsibility for national housing policy and though the financial flow to

local government budgets is limited the significance of local housing policy relatively grew. In Poland, for example, municipalities are responsible also for fund raising designed for housing allowances paid to households living on their territory (though 50 % of total payment duty is subsidized by the State), while full responsibility for housing allowance sources is generally upon the State in developed EU countries. However, the approaches started to differ significantly among municipalities within one particular country and even within one region of a country.

This relatively quick decentralization process that has however not been accompanied by fiscal decentralization, includes both advantages and dangers. On the one side people will decide more directly about their own issues (strengthening of local democracy), on the second side even very significant differences among municipalities can occur that could endanger the flexibility of labor movement and the general economic growth of the country. The national programs of social housing construction opened for different judicial entities (municipalities, housing associations, housing co-operatives) should therefore explicitly define basic construction cost ceiling, allocation rules (including income ceiling), rent price ceiling, as this can bring the aspect of uniformity and stability to the very diversified world of municipal housing policies.

Municipalities did not elaborate very often own housing policy strategies in the CEE countries though the situation is far from uniform: according to the LGHS results, in the Czech Republic only one third of municipalities have housing policy strategy approved by the Council (another 9 % of municipalities have strategy but not yet approved by the Council) and in Slovakia less than 40 % of municipalities have approved strategy (another 20 % of municipalities have strategy but not yet approved); on the opposite, in Poland half of the municipalities have approved strategy (another 25 % have strategy not yet approved) and in Romania about 60 % of municipalities have a strategy approved by the Council (another more than 20 % of municipalities have a strategy not yet approved). In Slovakia and the Czech Republic there is the lowest share of municipalities with approved housing strategies while in Poland and Romania the opposite is the case. However, the term „housing strategy“ translated in different languages can obtain different meanings and relate to different strategic documents.

Much more important are the main municipal housing policy goals in those strategies (with no regard to the fact if they were approved or not by the Municipal Council) that were outlined by respondents themselves. The objectives were ranked according to their importance and the Table 1 shows the most frequent answers on the first three objectives.

Table 1: What are the main housing policy objectives of local government housing policies?

	First, the most important objective	Second objective	Third objective
<i>Bulgaria</i>	Housing construction for socially weak households/individuals	Better maintenance of municipal housing	Enabling ownership housing construction on land owned by municipality
<i>Czech Republic</i>	New housing construction	Increasing quality of municipal housing stock – maintenance and modernization	Increasing quality of municipal housing stock – maintenance and modernization
<i>Estonia</i> ¹⁾	Improvement of management of housing stock, privatization of municipal housing	Establishment and support for management of homeowners associations	Establishment and support for management of homeowners associations
<i>Poland</i>	Satisfaction of housing needs by intensification of housing construction in the form of TBS and social housing	Improvement of housing standards and to stop municipal housing stock degradation	Reconstruction, modernization, technical improvement of municipal housing stock
<i>Romania</i>	Support for new rental housing construction designed for low income households and other disadvantages groups of households	Support for rental housing construction designed for young people and specialists in partnership with the NHA through government housing program	Improvement of technical infrastructure quality of the existing social housing stock
<i>Slovakia</i>	Construction of rental housing	Provision of land and technical facilitation of housing construction	Construction of rental housing for socially unprivileged households, young families and temporary housing

Source: Local Government and Housing Survey; weighted sample

¹⁾ Due to the small number of municipalities in the sample and the large share of missing cases this information is reliable only partially.

It is surprising that the first, most important objective consists of housing construction almost in all the selected CEE countries (with the exception of Estonia) though the physical as well as financial conditions differ significantly among those countries. It is hard to imagine that in Romania, where no state supply side subsidies are provided to municipalities for the purpose of new social rental housing construction the first objective of municipal housing policies concerns this very expensive activity. Municipal housing strategies as well as objectives defined there are very probably in some of those countries rather desires than real housing policy goals that could be attained under current conditions. However, in Poland the stress is paid to new rental housing construction provided by housing associations (TBS) which really appeared very successfully in many regions of the country.

The second and the third objectives (ranked according to their importance), if not again social/affordable housing construction, concern mainly the issue of the improvement of a current housing stock; in Slovakia and Bulgaria the appropriate land policy aiming to enable private home-ownership construction is mentioned. Estonia has a little bit exceptional position as the second and the third most frequent goal (as well as the most frequent goal when counting it with no regard to ranking) is the establishment and support for management of homeowners associations (moreover, the first most frequent objective concerned municipal housing privatization). This is much more practical and realistic goal for a country with a residualised municipal housing, relative physical sufficiency of housing and high debt on housing maintenance inherited from a previous regime.

In the Local Government and Housing Survey we also asked representatives of municipalities to rank fixed list of nine housing policy objectives according to their importance with no regard if they are introduced in their own housing strategies/policies or not. Table 2 shows the results; the figures in brackets are the average ranking values counted as final school marks by a teacher.³ The objective with the lowest final average is considered the „first objective“, the objective with the highest final average is considered the „ninth objective“.

Table 2: Ranking of fixed housing policy objectives by local government representatives

	Bulgaria	CR ¹⁾	Estonia	Poland	Romania	Slovakia
Higher affordability of housing for middle and low income households	1. (1.8)	4. (1.46)	5. (3.9)	1. (2.6)	1. (2.4)	1. (1.4)
To meet shortage of housing for disabled, handicapped people	3. (3.4)	10. (2.29)	1. (3.0)	4. (4.7)	4. (4.6)	4. (5.1)
To meet shortage of housing for elderly people	5. (4.7)	9. (2.10)	4. (3.8)	5. (4.8)	6. (5.0)	5. (5.6)
To provide housing for homeless people	2. (3.1)	13. (2.70)	2. (3.5)	3. (4.5)	2. (3.5)	7. (6.3)
Improvement of housing conditions, higher quality of housing	4. (4.5)	5. – 6. ²⁾ (1.55) (1.80)	3. (3.6)	2. (3.7)	3. (4.1)	2. (4.2)
Support for home-ownership and private housing construction	7. (6.4)	3. (1.41)	6. (5.1)	7. (5.1)	8. (6.8)	3. (4.6)
Introduction and/or improvement of tenant participation on housing management	9. (7.2)	8. (2.10)	7. (5.8)	8. (5.6)	5. (4.9)	6. (6.2)
Higher labor mobility	8. (7.1)	12. (2.48)	8. (7.2)	6. (5.0)	7. (6.4)	8. (6.5)
Maintenance or creation of social mix preventing from social segregation	6. (6.3)	11. (2.32)	9. (7.3)	9. (6.3)	9. (7.4)	9. (6.7)
Availability and affordability of housing for young households	-	1. (1.21)	-	-	-	-
Increase in new housing construction	-	2. (1.35)	-	-	-	-
Better management of municipal housing fund	-	7. (1.88)	-	-	-	-

Source: Local Government and Housing Survey; weighted sample

¹⁾ Different method was used: each objective was evaluated by each municipality on a scale from “very important” (1) to “not important at all” (4). Moreover, three further categories were added to the list of objectives.

²⁾ The improvement of housing conditions was divided into improvement of quality of municipal housing fund and improvement of quality of residential environment.

With the exception of Estonia in all the selected CEE countries municipalities evaluate the higher affordability of housing for low and middle income household as the priority goal in existing or desirable municipal housing policy strategies (in the Czech Republic this is apparent in support for goals like „the increase in new housing construction“ and „availability and affordability of housing for young households“). Perception of municipal housing policy in Estonia is more orientated towards meeting special shortages (elderly, handicapped, homeless people) and support for refurbishment and regeneration of houses. The goal „improvement of housing conditions and higher quality of housing“ appeared most often on

³ For example, if one municipality classified „higher affordability of housing for middle and low income households“ by mark 1 and the second municipality by mark 2, then average mark for two municipalities in a country would be $1 + 2 / 2 = 1,5$.

the second/third place ranked according to the importance; however in none of analyzed countries it was evaluated as the most important one. The middle position in a scale of nine fixed objectives is occupied generally by goals concerning meeting special shortages.

At the end of the row there is the goal „higher labor/tenant mobility“ (concerning higher turnover in municipal rental housing, household mobility, filtration) and mainly the goal „maintenance or creation of social mix preventing from social segregation“. The last place of this particular housing policy objective following from the danger of spatial segregation shows how different housing policy perspectives are in the Eastern and Western part of Europe (with the exception of Bulgaria). Though real housing shortage is no longer problem in most developed EU countries, residualisation of social housing and spatial segregation (mainly in prefabricated housing estates) belong currently among main challenges for local governments in those countries.

The placing of the goal „to provide housing for homeless people“ on a scale according to its importance differs very significantly among analyzed countries: in some of them (Estonia, Poland, Romania, Bulgaria) this was ranked among the three most important goals while in others (Czech Republic, Poland) it was ranked among three less important goals. This reflects both the different number of homeless people and different perception of homelessness among the selected CEE countries. In the Czech Republic relatively great emphasis is paid to a support for home-ownership and private housing construction.

The following Table 3 lists some of the main activities of local government with respect to housing. Though legal competencies sometimes include other fields, some of the services are often not provided by local authorities due to the lack of adequate financial resources. Even those listed here are sometimes realized only on a limited scale.

Table 3: List of main activities of local government with respect to housing

<i>Activities in the sphere of housing</i>	<i>Bulgaria</i>	<i>CR</i>	<i>Estonia</i>	<i>Poland</i>	<i>Romania</i>	<i>Slovakia</i>
land policy	x	x	x	x	x	x
urban/territorial planning	x	x	x	x	x	x
building permissions, inspection, colaudation	x	x	x	x	x	x
Providing housing for special groups of persons/households (handicapped, elderly) and shelter housing	x	x	x	x	x	x
Maintenance/rehabilitation/regeneration of municipal housing	x	x	x	x	x	x
Providing waiting list of socially needy households	x	x	x	x	x	x
Setting rents for municipal housing						
- regulated by central legislation (ceilings)		x		x	x	x
- not regulated by central legislation	x		x			
Allocation of municipal housing among socially needy households						
- regulated by central criteria	x		x		x	
- not regulated by central criteria		x		x		x
Privatization of municipal housing						
- according to own decisions/conditions		x		x		
- largely regulated by central legislation and right to buy	x		x		x	x
new social/affordable housing construction						
- new municipal rental housing		x		x		x
- co-operation with independent social landlords in new social/affordable housing construction (providing land)				x		
Support for new private housing construction (infrastructure)	x	x	x	x	x	x
Support for condominiums (homeowners associations) in the sphere of rehabilitation of the housing stock		x	x	x		
Housing allowances financing				x		
Implementation of national housing programs (using subsidies for particular projects)	x	x		x	x	x

As the table shows, in addition to the general right to issue building permits, prepare/accept territorial/master/urban plans, prepare/implement land zoning/policy, and provide housing for

special groups of persons/households (handicapped, disabled, elderly), municipalities also have the right and responsibility to maintain/construct affordable/social housing for socially needy households. In Estonia, where social tensions erupted between people living in municipal housing (and profiting from following privatization) and those living in restituted private rental housing, municipalities (with the financial support of the state) were obliged to also secure housing for all tenants in restituted houses (in Bulgaria too, by law tenants in restituted houses were given priority during the allocation of vacant or new municipal rental dwellings). Though the duty to maintain and provide social housing for households in need is not always stated in the legislation of a particular country (at present it is explicit only in Poland, Romania, and Estonia), such a responsibility was the logical outcome of the realities that followed from the transfer of former state and/or state enterprise rental housing and land to the ownership of municipalities that occurred in all the selected CEE countries (with the exception of Romania) during the first years of transition.

The local government performance in public housing management (municipal housing) can be characterised as such: the tenant turnover is very low, the „objective“ pointing system for measuring of applicant social need is very often completely missing, the waiting time from application to allocation is relatively very long, the cost-to-income ratio is not satisfactory, rent loss through rent arrears is already high and growing in many countries. It is clear that the main factor influencing the variation in rent arrears is the character and size of municipal/public housing in a particular country: **relative rent losses through arrears are higher in those countries where municipal/public housing was residualised and started to be occupied mostly by lower income households.** The non-efficient management provided by municipalities can form another potential factor: **rent losses have the highest values mainly in those countries where management of public housing is provided mainly by municipalities themselves or budgetary companies owned by municipalities** (however, Slovakia is the exception). Municipalities very often also postpone the solution of the problem of arrears to the time when the debt of particular households is so high that cannot be covered by its own means. More flexible activity and co-operation with private sector is recommended to decrease the amount of arrears.

Table 4: Management of municipal housing in the selected CEE countries

	Bulgaria	CR	Estonia	Poland	Romania	Slovakia
municipal administration	X (69.8)	X (19.7)	-	X (2.5)	X (61.4)	X (13.5)
public/budgetary company owned by municipality	X (9.3)	X (27.1)	X (88.0 %)	X (30.9)	X (6.9)	X (29.5)
private company controlled by municipality	X (25.6)	X (20.3)	X (38.0 %)	X (55.1)	X (15.4)	X (28.7)
private companies with no capital participation of municipality	-	X (21.5)		X (11.5)	X (7.9)	X (28.3)
more types of management applied	-	X (11.4)	-	-	X (2.2)	-

Source: Local Government and Housing Survey; weighted sample

Note: The figure in the bracket shows the share of municipalities applying the particular type of housing management on total number of municipalities in the LGHS.

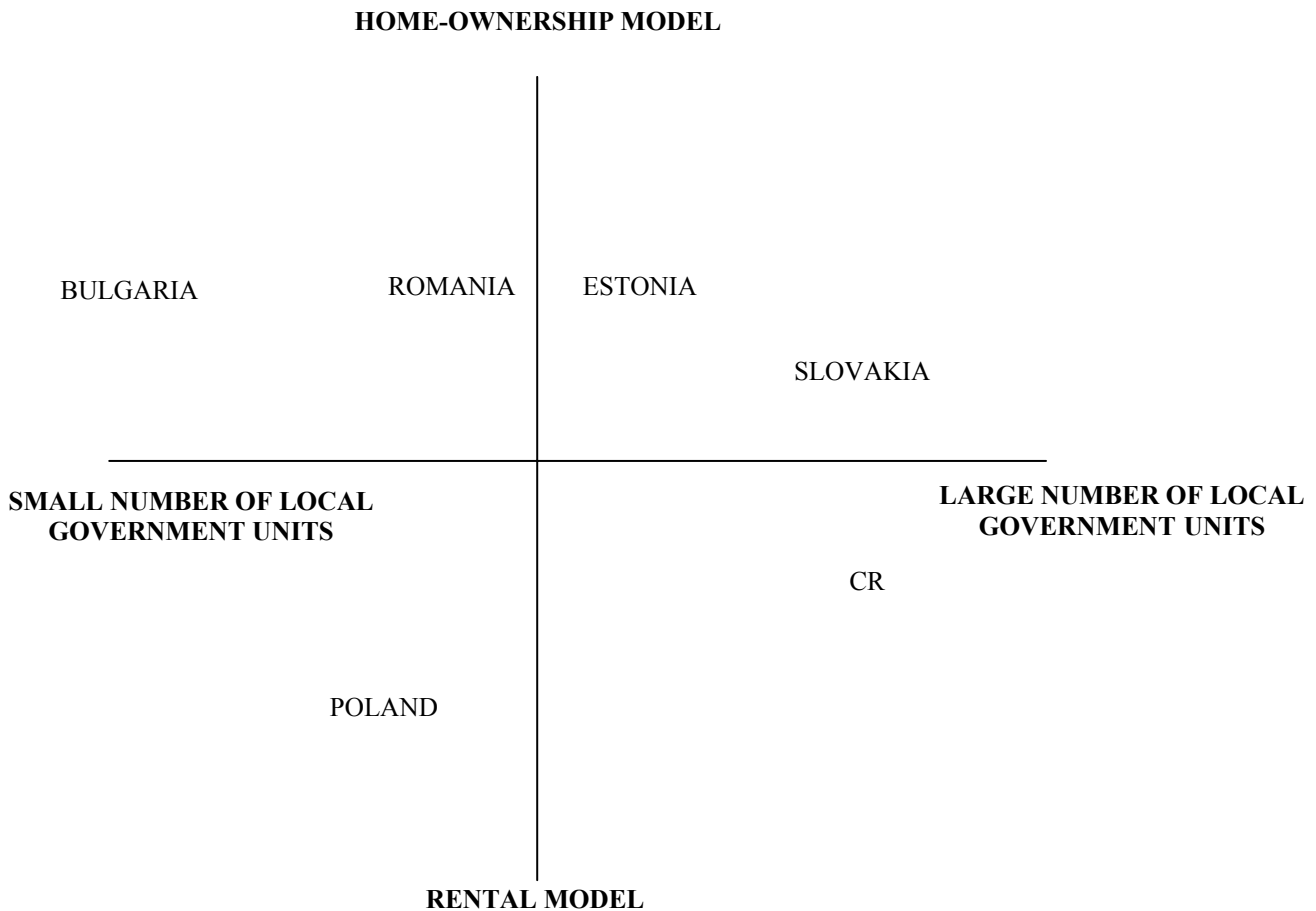
Another problem from the point of view of economic efficiency concerns the non-existence of separate housing accounts in municipal budgets; thus income from privatization or rents can be used for other purposes than improvement of housing conditions. This is also reason why the difference between maintenance/modernization costs and rental income cannot be often

counted in a reliable way. In Slovakia and the Czech Republic the problem of “black market” is very important issue; municipalities do not realize efficient control of housing stock utilization. This is partially caused by national legislation and slow process of “legislative housing deregulation” concerning tenant rights.

However, the problem of effective and efficient municipal housing policy should not be perceived just as the problem of inappropriate national legislation and lack of state budget subsidies. There is a large space for improvement of housing management (e.g. by co-operation with the EU social landlords or municipalities, or together with independent non-profit consulting organizations), tenant/social participation, creation of different models of private-public partnerships, better targeting in municipal/social housing allocation, introduction of diversified rent setting procedures and mainly of the control of housing stock utilization. The training of municipal housing specialists (again with co-operation with specialists abroad) seems to be a necessary condition of further positive development in this field.

As for the state housing policies, the comparison of local housing policies in those CEE countries is not simple issue. They are influenced by many factors: the character of state policy, economic wealth, political preferences, etc. Following Figure 3 shows the relation between orientation of the central housing policy (towards the rental or towards the home-ownership model) and number of decentralized local government units.

Figure 3: Comparison of local government housing policies



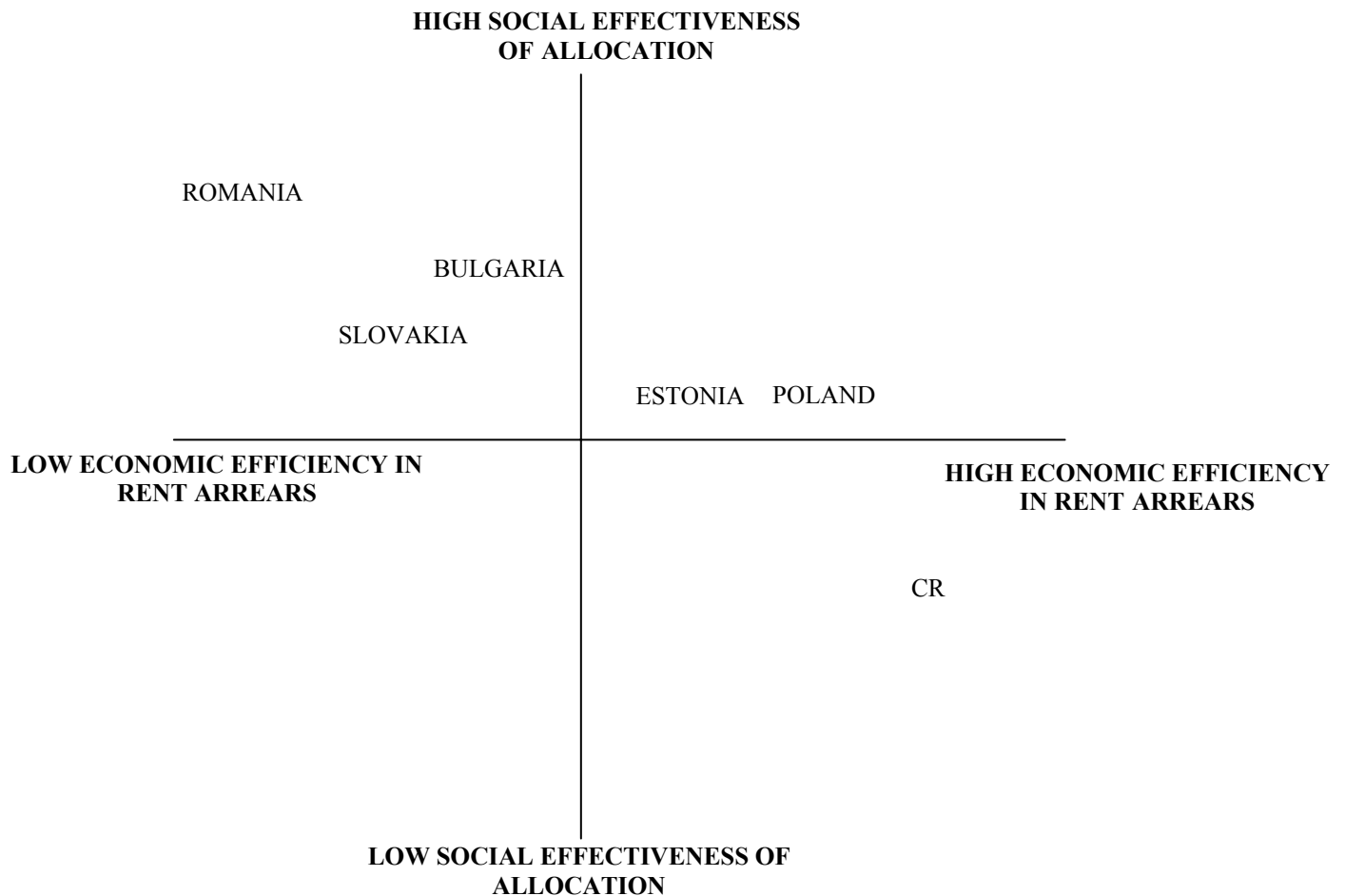
As can be seen, no relation (trend) is apparent from this comparison (higher “quantitative” decentralization is not connected with particular national housing policy approach). However, **there are some common features of local government housing policies in those countries where large number of local government units were created (Czech Republic, Slovakia): limit on local government borrowing, rent regulation applied on the central level, missing social housing definition, and much higher share of municipalities with no housing policy strategy.**

The economic conditions (general level of GDP) influences logically the scale and goals of local housing policies: in countries with lower level of GDP (Bulgaria, Romania) the local housing policy is relatively powerless with unrealistic goals of new rental/affordable housing construction, in countries with higher level of economic development the real (though limited) programs of new rental/affordable housing construction are already in operation and the attention is paid among objectives also on refurbishment/regeneration programs.

Though the introduction of private firms to municipal housing management seems to be not the only cure on rent arrears (case of Slovakia), **the lowest rent arrears are attained by local authorities in those countries where national policy orientated towards the rental model is combined with management of municipal housing by private or semi-private firms.**

The conclusive figure 4 shows very interesting relation between economic efficiency in management of municipal housing (level of rent arrears) and social effectiveness in allocation of municipal housing (application of waiting list and clearly defined pointing system of housing need).

Figure 4: Comparison of local government housing policies



There is a very clear „trade-off“ between economic efficiency of management and social effectiveness of allocation of municipal dwellings. Thus **lower level of rent arrears is closely connected with lower application of objective housing need measures (though hidden correlation done by economic conditions and type of central housing policy may influence the result)**. The precise allocation policy is mostly defined in countries with residualised municipal housing and central regulation of such policy (Romania, Bulgaria).

Policy recommendations

From the point of view of economic efficiency and social effectiveness following steps could be recommended:

Table 5: Efficiency and effectiveness of supply and demand side subsidies

Supply side subsidies	Demand side subsidies
<i>On the central level</i>	
<ul style="list-style-type: none"> - approval of definition of social/affordable housing and comprehensive legislative framework on its operation (income ceilings, target groups, conditions for allocation of public subsidies, rent setting in case of rental housing, etc.); - improvement of targeting of rent regulation on households in real social need; - improvement of targeting of all public subsidy programs to prevent from abuse (define targeted household groups, e.g., homeless, single parents, etc.). 	<ul style="list-style-type: none"> - introduction of such model of housing allowances that would not exclude any socially needy group of households: <ul style="list-style-type: none"> • using real housing costs for calculation of benefit combined with locally or regionally defined expenditure ceilings (no expenditure normatives), • not using the income ceilings, • using normative rate of burden rising with income and housing expenditures of applicant, • using „optimal“ rate of degression not leading to the poverty trap.
<ul style="list-style-type: none"> - paying higher attention for refurbishment/regeneration of housing stock and living environment (housing estates); - approval of legislative framework for non-profit housing associations (private firms with social goals); definition of main activities, duties, controlling mechanism, etc.; - abolishment of non-targeted inefficient rent regulation and transfer to the system of locally relevant rent or profit regulation combined with cost rent in social/affordable housing; - abolishment of strong tenant protection (quasi-ownership character of rental housing), „legislative deregulation“; - application of econometric modeling on measurement of consequences of different housing policy instrument before their introduction (estimation of crowding-out effect, inflation consequences, expenditure-to-cost indicators, effect in financial affordability of housing for targeted groups). 	<ul style="list-style-type: none"> - improvement of housing finance accessibility (mortgage loans) by interest subsidies on mortgages, building saving schemes, tax relief; - higher orientation towards indirect aid (transport and infrastructure development programs) that would encourage private housing construction.
<i>On the local level</i>	
<ul style="list-style-type: none"> - improvement of social/tenant participation on management of public housing, planning, and refurbishment process; - definition of the sector of social/affordable housing in such a way that would prevent from spatial segregation (careful urban planning, combination of „market“ and „social“ rental dwellings in one residential building, etc.); - introduction of a clear pointing system for the purpose of a more “objective” social/affordable housing allocation; - improvement of control of social/affordable housing utilization; - improvement of co-operation with condominiums on refurbishment process (however, based on combined financial participation). 	<ul style="list-style-type: none"> - improvement of co-operation with NGOs or special consulting organization on activities directed to help disadvantaged household groups (disabled, handicapped, homeless, pensioners); creation of permanent consulting aid centers helping older people to move to smaller dwelling and young households to find starting dwelling; - setting local income/expenditure ceilings for housing allowances and together with local rent policy targeting housing allowances on really needy households.

<ul style="list-style-type: none"> - training of professional staff; improvement of managing skills of management firms; - transfer of housing management to professional private firms and/or non-profit housing associations; - improvement of co-operation with NGOs, private investors in social/affordable housing construction, neighborhood environment regeneration, tenant participation; - setting the conditions for efficient co-operation between municipalities and non-profit housing associations in new social/affordable housing construction (providing land for free compensated by allocation competence); - establishment of separate municipal housing budgets. 	<ul style="list-style-type: none"> - higher orientation toward indirect aid (careful land policy and urban planning, development of infrastructure, co-operation with private investors).
<i>On both levels</i>	
<ul style="list-style-type: none"> - clear definition and improvement of long-term housing policy strategies including description of particular policy instruments (identification of possible obstacles); - clear definition of the target groups of housing policy activities; - professional measurement of housing need for different segments of society, locations; the introduction of short-term plans; - higher decentralization of public sources towards lower levels of administration and guarantee of the stable flow of local government income in future. 	<ul style="list-style-type: none"> - clear definition of the competence of both levels of administration in housing allowance system; co-financing should not lead to the blockage of local rent price strategy.

The supply and demand side subsidies should be introduced together as there is no convincing proof that the first or the latter should be preferred under all circumstances. Though demand side subsidies do not need as high public expenditures as supply side subsidies and are better targeted to those who really need the help, they can sometimes lead only to higher housing price inflation (and not improvement of affordability or qualitative housing standards), stigmatization, poverty trap and strengthening of social inequalities. The negative consequences of non-targeted and badly managed supply side subsidies are well known (social segregation, non-effective management, low tenant flexibility, abuse, black market, low qualitative standard of construction, bureaucracy, etc.). Moreover, in many CEE countries (Poland, Romania) physical lack of housing still exists and in all of them high debt on maintenance and modernization of housing stock appeared. This situation cannot be compared to those in the Netherlands or Sweden, where the quality and quantity conditions are completely different. Without supply side subsidies only few can be done in this field. The privatization of public housing (often done under preferential conditions to the hands of former „poor“ tenants) is hardly the general cure for all the pains that housing in this part of Europe suffers from. The „enlightened“ combination of both approaches accompanied by very careful analysis of all the consequences on both the economic efficiency (housing market functioning) and social effectiveness (possibilities of abuse) seems to be the only way how to improve the general housing conditions in the CEE countries.

Following appeared as a very important question now: should local governments play more active role not only in the field of supply side subsidies (enabling, co-operating and controlling of non-profit housing associations, approval of allocation and rent policies in social/affordable housing, providing infrastructure, establishing private-public partnerships in housing refurbishment and living environment regeneration, etc.), but also in the field of

demand side subsidies (local housing allowances programs without national legislative framework, co-financing of allowances payments, power to set expenditure or income ceilings used for benefit calculation, etc.)? There is no universal recommendation. However, from the point of view of public expenditure efficiency it seems that more active participation of municipalities on payments and shaping of allowances „brings more fruits“; better targeting of subsidies can also be attained when local conditions are taken into account (higher social effectiveness). This is conditioned by professional skills of local administrators. Preventing from the total differentiation, some basic central legislative framework is, however, needed; otherwise there would be large differences between housing policies even within one district. The effect of „local political populism“ cannot be also neglected (Polish example) and central criteria could help in this way.

There is the difference between local representative requirements (raised from LGHS) and policy recommendations made by authors of country reports very often. This „gap“ is however logic:

1. *Sometimes municipalities just want to have more financial sources with no matter how and for what purpose they should be allocated*; representatives of local governments often do not pay any attention to effectiveness and efficiency of public expenditures (example of the Program for support of rental housing construction in the Czech Republic that failed to meet even unclearly set social objectives);
2. *Sometimes municipalities just want to have more power and not to take responsibilities connected with this competence* (freedom in rent setting without duty to co-finance housing allowances);
3. *Sometimes municipality representatives prefer to make only short run policy strategies (one election period) and are not motivated in preparation of long-term sustainable housing policy strategies* accompanied by critical evaluation of potential instruments (restriction of policy to „populist“ privatization of public housing under preferential conditions can lead to the situation when new home-owners pay lower contributions for repair and modernization than original rent price was and quick dilapidation of blocks of flats is emerging).
4. *Sometimes municipalities prefer not having any housing policy objectives than to bind themselves for the future*; they often set their objectives in very unrealistic way dependent on central housing policy decisions (higher public housing construction in Bulgaria) or they set objectives that are no more actual (e.g., privatization was mentioned as the most important objective in Estonia, though it has already finished several years ago).
5. *Sometimes municipalities prefer to be conservative in their housing policy and are afraid of any co-operation with private capital (NGOs, non-profit sector)*. Though such co-operation may lead even to very substantial increase in efficiency and effectiveness, due to the large mistrust to private capital/firms apparent in all transitional countries local representatives are sometimes afraid of such activities.

The transfer of management of the social/affordable housing to non-profit independent housing associations, higher attention to refurbishment of housing and environment conditions, improvement of co-operation with the private sector, higher tenant/social participation and improvement of managerial/professional skills of local government representatives belong among main recommendations repeated almost in all country reports. Particular excellent practices (especially different public-private partnerships or particular successful local government programs) are provided directly in the text of country reports.

Appendix

Tenure structure and its change between 1991-2001 (% of total housing stock)

	Bulgaria		CR		Estonia		Poland		Romania		Slovakia	
	1992 1)	2000 1)	1991	2001 2)	1992 3)	2000 3)	1991 4)	2000 4)	1990 5)	1998 5)	1991	2001 6)
state rental housing	1.8	1.8	39.0	-	25.8	0.7			21.4	4.0		1.1
municipal rental housing	2.0	2.2	-	24.0	34.7	3.3	17.9 ⁷⁾	11.5 ⁷⁾	-	-	21.2 ⁷⁾	5.4
enterprise rental housing	2.9	3.2	-	-	-	-	13.7	4.6	-	-	6.5	-
co-operative housing	0.2	0.3	20.4	20.0	5.0	3.9	25.4	28.6	1.5	-	22.1	15.6
private rental housing	0.5	0.8	-	7.0	n.a.	n.a. ⁸⁾	n.a.	n.a.	1.0	3.0	-	4.1
rental stock of housing associations	-	-	-	-	-	-	-	0.01	-	-	-	-
home-ownership	91.0	92.5	40.5	49.0	34.5	85.9	43.0	55.3	76.1	93.0	50.2	73.8

¹⁾ Statistical Office of Bulgaria

²⁾ Housing Policy Strategy, Ministry for Regional Development of the Czech Republic

³⁾ Statistical Office of Estonia; in 2000: 1.1 % of housing stock is owned by other owners and the owner of 5.1 % is unknown

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⁵⁾ UN/ECE – CHF Practical Workshop on Housing Privatization, Krakow 1999.

⁶⁾ Preliminary results of census in 2001; Slovakian Statistical Office

⁷⁾ Including state rental housing

⁸⁾ The share is estimated at a level of 10 % of total housing stock

Other main housing condition indicators (1991 - 2001)

	Bulgaria ¹⁾		CR ²⁾		Estonia ³⁾		Poland ⁴⁾		Romania ⁵⁾		Slovakia ⁶⁾	
	1992	2000	1991	2001	1992	2001	1991	2000	1992	1999	1991	2001
number of dwellings per 1,000 of inhabitants	400	424	396	424	407	434	289	306	336	352	336	350
average floor area of dwelling (in m ²)	63.5	63.9	70.5	49.3 ⁷⁾	53.5	54.0	59.6	61.5	33.7 ⁷⁾	34.4 ⁷⁾	48.3 ⁷⁾	56.1 ⁷⁾
average floor area per person (in m ²)	25.4	27.1	25.4	18.6 ⁷⁾	21.8	23.4	17.5	19.2	11.3 ⁷⁾	12.1 ⁷⁾	14.6 ⁷⁾	17.5 ⁷⁾
average number of rooms per dwelling	2.92	2.89	2.66	2.71	2.9 ⁸⁾	2.6 ⁸⁾ (1999)	3.41	3.48	2.46	2.50	2.86	3.21
average number of rooms per person	0.86	0.82	n.a.	n.a.	1.2 ⁸⁾	1.1 ⁸⁾ (1999)	1.00	1.09	0.80	0.88	0.88	1.00

Note: Dwelling is defined as room or set of rooms and facilities, which serve or are assigned to permanent housing and create one structural/technical unit (in Bulgaria: has one or more exits to commonly accessible area; in Romania: with separate entrance from the staircase hall, yard or street which has been built, transformed or arranged with a view to be used, in principle, by a single household). The indicator is counted on total number of dwellings (including both inhabited and vacant dwellings) if it is not stated otherwise. Room means habitable room, which has possibility of daylighting, ventilation and heating, including kitchen, when it is only one-room flat, and with minimum area of 8 m² (in Bulgaria: minimum area of 7.5 m²; in Poland: minimum area of 4 m²; in Romania: minimum area of 4 m² with at least 2 m height on largest part of its surface, excluding kitchen; in Estonia: kitchen and other supplementary spaces are excluded). The floor area is defined as total floor area of the dwellings if it is not stated otherwise.

¹⁾ Statistical Office of Bulgaria

²⁾ Czech Statistical Office

³⁾ Statistical Office of Estonia

⁴⁾ Housing Economy in 2000, Central Statistical Office

⁵⁾ National Commission for Statistics (2001)

⁶⁾ With the exception of the first figure (number of dwellings per 1,000 inhabitants) all other figures concerns only inhabited housing stock; source: Slovakian Statistical Office.

⁷⁾ Average living floor area of dwelling (floor of habitable rooms and part of kitchen area, which stands over 12 m² for Czech Republic, Slovakia; floor of habitable rooms for Romania)

⁸⁾ The figures are counted only on inhabited housing stock

