



Council of Europe
Development Bank

The World Bank



Housing in South Eastern Europe solving a puzzle of challenges





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Sector note

following up the
Ministerial Housing Conference for South Eastern Europe
(Paris, 23-24 April 2003)

within the framework of the
Stability Pact for South Eastern Europe

The findings, interpretations, and conclusions expressed here are those of the authors and do not necessarily reflect those of the organs of the Council of Europe Development Bank, and the World Bank who cannot guarantee the accuracy of the data included in the report.

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The report is printed in this form to communicate the result of an analytical work with the objective of generating further discussions of the issue.

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FOREWORD

Housing is a basic necessity everywhere in the world and a key element of every economy. Housing facilitates access to employment, education, health services, a right to vote and many other basic social and civil rights. Not only can it help ensure quality of life for the individual but it can also sustain a viable economy for the state.

Housing is a very special commodity, one that is often misunderstood or underestimated in its inter-relationships with other economic and social factors. Although housing is inherently a private commodity, it has a strong social component, because housing provides safe shelter for all. Throughout the world governments seek to assure that those who cannot afford to pay market prices for housing nevertheless receive shelter. But, a house is more than just a home. It is also a store of wealth and a source of income.

The housing sector in South-eastern Europe has attracted increasing attention from national policy makers and international agencies. Now that the immediate reconstruction needs of the Region have been largely met and the economies have returned to positive growth, a more coherent approach to housing reform is needed to sustain what has been achieved following the aftermath of conflict, and to build a safer future and stronger market economies.

Throughout the Region reforms in the housing sector are gathering momentum: cadastres are being established, property rights are being strengthened and enforcement is being enhanced, national housing strategies are being designed, and financial institutions have been set up and are increasingly interested to add mortgage loans to their portfolios. The reform pattern across the Region, however, remains uneven and the reform dynamics need to be further encouraged.

In consultation with the Stability Pact for South-eastern Europe, our respective institutions organized a high-level ministerial conference on housing (Paris, 23-24 April 2003). The main purpose of the Paris conference was to provide a platform for discussing and learning from experiences with the aim of better appreciating the main building blocks of national housing policies that would enable countries to improve the housing conditions of their populations. Discussions were focused on how to make housing reforms successful and what actions governments could consider in pursuing new strategies and implementation mechanisms.

One overriding concern is the re-integration of returning refugees. The Conference was a starting point for assessing to what extent housing reform for all would also benefit displaced people in need of a new home.

We would like to extend our most sincere gratitude to all housing and finance ministers from the Region for their active role during the conference and to the Swiss Development Co-operation for its invaluable financial support.

We offer our support in helping address the housing challenges in the Region. This *Sector Note* is the first follow up to the Paris conference, and draws on the expert contributions to the conference. It has been prepared to maintain the sector dialogue and to further contemplate on the main conference discussions.

Raphaël Alomar
Governor of
The Council of Europe Development Bank



Shigeo Katsu
Vice-President Europe and Central Asia
World Bank



ACKNOWLEDGEMENTS

This sector note is the first follow up to the Ministerial Housing Conference for South Eastern Europe, which took place in Paris on 23-24 April 2003 within the framework of the Stability Pact. The Report was prepared by respective teams from the Council of Europe Development Bank and the World Bank, in charge of the design and organization of the Conference, and in consultation with the countries from South Eastern Europe.

The report concentrates on the issues discussed at the Ministerial Conference. It focuses on the sector priorities identified by the Ministers and other conference participants. However, it does not address all housing related issues in a holistic way and should not be seen as a blueprint for housing reforms in the region.

This report was prepared, written and edited by the respective teams in charge of preparing the Ministerial Conference: i) from the Council of Europe Development Bank (CEB): Dimo Iliev (Economist), Michèle Meunier (Director of Department research and analysis), and Rainer Steckhan (Director General, Loans); ii) from the World Bank: Alexander Rowland, Robert Buckley (Lead Housing Economist) and Margret Thalwitz (Special Representative for South Eastern Europe). Jozsef Hegedüs and Nóra Teller (Metropolitan Research Institute, Budapest), Iskra Dandolovala (Bulgarian Academy of sciences), Emiel Wegelin (Urb-Act, Rotterdam), Judith Hardt and Cristina Costa (European Mortgage Federation) have authored respectively chapters III, IV, V and VI. Special thanks are also due to the Council of Europe. Dimo Iliev and Catherine Carraz have overseen the report's lay out and overall preparation. The kindness of the Swiss Development co-operation in supporting the report's publication is duly appreciated. Julian French has provided valuable linguistic support in editing this report.

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WHY A HIGH LEVEL HOUSING CONFERENCE FOR SOUTH EASTERN EUROPE ?

Housing is a matter of major concern for every individual. Poor housing conditions constrain access to safe drinking water, electricity and gas and bear the risks of major health hazards. Thus, housing influences a person's moral and psychological well-being and helps to protect the right to privacy. Housing is a decisive factor in social cohesion and in exercising citizenship rights as an address is a condition for access to social services, employment assistance, a passport, etc. Recently, the EU Charter of Fundamental Rights¹ referred to housing in the following terms: "In order to combat social exclusion and poverty, the Union recognises and respects the right to social and housing assistance".

For the beneficiary countries of the Stability Pact for South Eastern Europe, improvements in living conditions are a crucial element for strengthening democracy, building a stronger civil society, and for supporting the ongoing reform process. In recognition of the sector's importance, the Chairman's conclusions of the Working Table I meeting in Istanbul in June 2002 called upon the Council of Europe Development Bank (CEB) and the World Bank (WB) to sponsor a housing conference. This call was endorsed in the conclusions of the Working Table II meeting in Sofia later that month. The two institutions subsequently organized a high-level ministerial housing conference in Paris on 23-24 April 2003 in consultation with the Stability Pact. This sector note brings together the analytical output of the conference and is a direct follow up to the conference's conclusions.

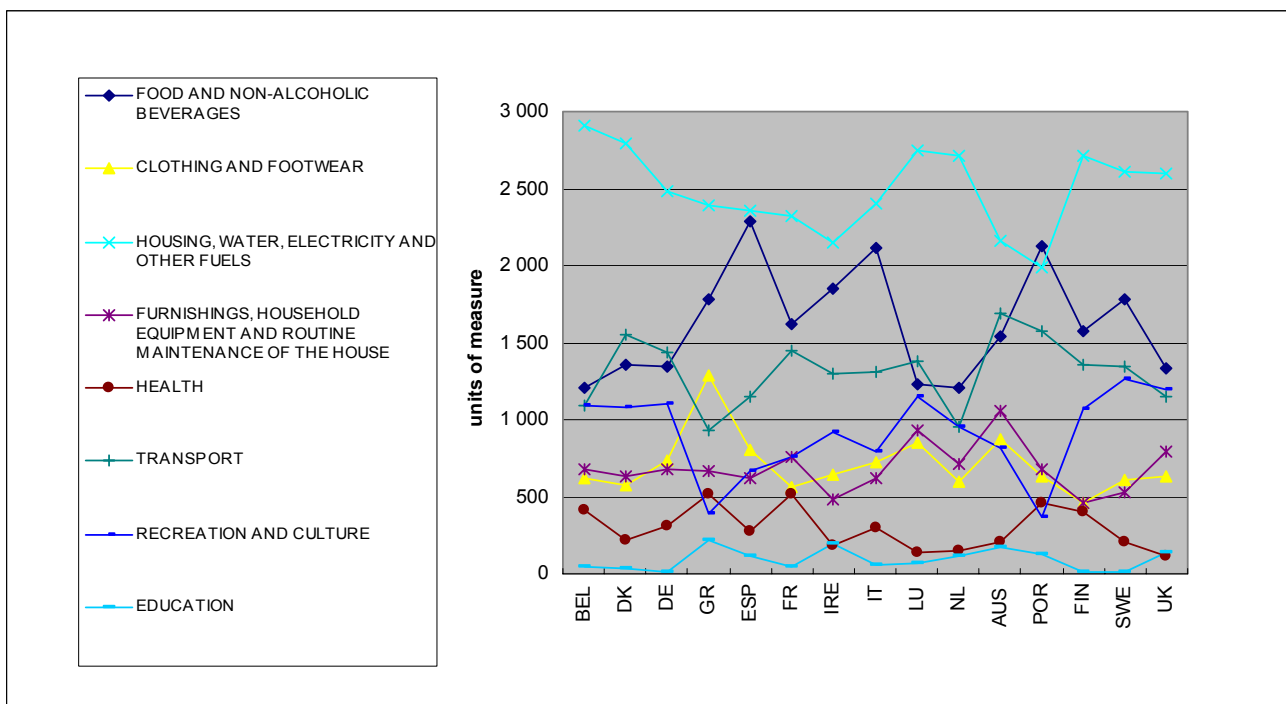
Until very recently, housing policy in South Eastern Europe was predominantly concerned with the reconstruction of properties damaged during conflict, and with the privatization of the publicly owned stock. By now, most of the damaged or lost properties have been rebuilt and it would seem timely to pursue the next critical stages of a post-privatization housing policy agenda. Important concerns would be:

- To develop the legal and regulatory conditions to enable new private homeowners – those who benefited from privatization – to maintain and use this asset efficiently. Resolving outstanding property rights and creating modern legal cadastres and property registration systems would be high on the list of priorities in countries where those systems are still lacking, out of date or incomplete
- To encourage the formation of private housing associations to improve property management and maintenance
- To pave the way for an emerging housing finance market as part of continuous banking and capital market reforms and the introduction of long term savings instruments.
- To monitor developments in the housing sector as an indicator of change in overall economic activity. New starts in housing constructions often give early signals of economic turnarounds; tracing prices of properties sold provide important information for urban planning and social change within cities.

¹ The Charter of Fundamental Rights was solemnly promulgated at the Nice Summit in December 2000.

These steps should help to generate a more vibrant housing market through the selling and buying of a larger volume of dwellings. It should gradually lead to a much needed private rental market into which those segments of the population that either cannot afford or do not want to own real property could tap. Moreover, better analysis of changes in the sector is an important factor in successfully re-integrating returning refugees and in coping with rural-urban migration which is substantial in some of the countries in the Region.

Housing of course is an expensive good to own and consume. According to EUROSTAT data published in *Household Panel Data 1994*, housing was the second largest expense for households in southern Europe and the main expense for those in northern Europe. This has changed and housing expenditures including the consumption of amenities now account for the lion's share of household expenditures throughout much of the Region. Rents or other maintenance payments have been rising and even more so has the cost of electricity, gas and water.



It is not uncommon today to find that households may pay up to 50 percent of income on such expenditures, a share that makes access to housing prohibitive for many. Subsidies to those who would otherwise be excluded are a necessary part of the housing reform process.

The Housing Conference was a first major attempt to address these policy issues systematically with all countries of the South Eastern Europe participating at the level of both the Finance Ministry and the Ministry responsible for the sector. The main objective of the conference was to give impetus to sector reforms across the Region in a coherent way opening up policy debate and exchanges on challenges and experiences.

This conference was the culmination of several initiatives that contributed to raising awareness among national policy makers and the international community of the specific sector challenges. The following section provides some information about the various contributions of other international events that prepared the ground for the high level housing conference.

Council of Europe network on housing. An integral part of the Council of Europe's "South East Europe Strategic Review" on social cohesion, the South Eastern Europe "Housing Network" was established in 2000 in order to identify priority areas and formulate relevant policy proposals in the housing sector. The Housing Network is composed of national housing experts from specialised ministries and national research centres from the region. Participation in the Council of Europe's South Eastern Europe Housing Network is seen as conducive to the development of a comprehensive picture of the housing problems in the region, to the design of appropriate future policy actions, and to the creation of positive regional dynamics among the region's countries. The network successfully prepared and examined two major reports on the housing situation in South Eastern Europe.

UN- Economic Commission for Europe. The ECE has an outstanding record of experience in the field of housing. Its sector activities are being carried out through the intergovernmental Committee on human settlements. The ECE prepares the so-called "Country housing profile" which addresses the main aspects of housing at country level. The Profile enables governments to identify sector challenges and prepare adequate policy responses. Several countries from the region have prepared their housing profiles in co-operation with ECE. These are: Albania (2002), Bulgaria (1998), and Romania.

USAID Housing finance conference for transition economies. The development of secondary mortgage markets in South Eastern Europe was at the heart of an ambitious conference organized by the USAID in co-operation with the Urban Institute (Washington) and the Institute of Market Economics (Sofia). This conference brought together leading experts and examined the progress made by countries in the region in developing mortgage markets and the barriers that still exist in this area.

International workshop on housing policy and finance, UNMIK Kosovo- Provisional institutions of self-government. The Ministry of environment and spatial planning of Kosovo and the UNMIK organized a workshop on housing policy in Pristina on 10-12 March 2003. The workshop focused on strategies in housing policy and finance suitable for countries in the region. It provided a very useful input for the Ministerial housing conference. Some of the initiatives elaborated during this workshop were integrated into the conclusions of the high-level conference.

Council of Europe Development Bank. Over the last years, the Council of Europe Development Bank (CEB) has become increasingly involved in South Eastern Europe, including within the framework of the Stability Pact for South Eastern Europe. Today, the region is characterized by a relatively large population (58.2 million), substantial economic potential, significant reform progress (including the privatization of housing stock) and is well on its way to becoming a market-based democracy. However, it is a region still striving to reconstruct itself in the aftermath of civil war, while at the same time having to integrate more than one million refugees and displaced persons. Countries of the region also have to battle impoverishment, improve a deteriorated housing stock and give vulnerable groups access to housing. Housing is a key factor for the stabilizing of population movements and is a starting point for labour activities.

Currently, the CEB supports some 36 projects in the region at a total amount of € 585 million. Furthermore, to strengthen the social impact of its operations, the Bank has donated € 5.7 million in humanitarian aid (including € 300 000 for projects in Kosovo). It has also allocated a total of € 22 million through its Selective Trust Account in the form of interest rate subsidies. Using its extensive experience in the financing of the social housing sector throughout, the Bank is supporting housing projects in the region for an amount of €211 million, including projects aimed at the provision of housing facilities for refugees.

The World Bank has followed closely changes in housing policy in transition economies since 1990. It has carried out substantial analytical work on socialist housing policies² and the sequencing of reforms to accelerate changes in the sector. The Bank has financed projects in Poland, Russia, Albania and Latvia and is currently considering future loans. The Bank has worked closely with researchers and policy analysts across Central and Eastern Europe as well as Russia on all relevant aspects of housing policy reform and participated actively in a number of conferences on the topic. In the context of South Eastern Europe the Paris Conference was a start to initiate and encourage debate on a sector that has much to offer for economic development and social cohesion. Follow up work will be important and the regional framework has served the discussion well. As offered in Paris, a second event may take place in Croatia in 2004 at the invitation of the Croatian Government.

² Major sector reports were prepared throughout the 1990s on Poland, Hungary, Russia, Slovenia, Latvia, and loans made for housing in Poland, Albania, Russia, and Latvia

A VARIETY OF ISSUES AT STAKE: THE STOCK, ITS MANAGEMENT, AND ITS SOCIAL AND ECONOMIC FUNCTIONS

The High Level Housing Conference was a welcome opportunity for the countries to discuss a wide range of issues. This chapter outlines the main challenges identified at the conference. It is an introduction to the thoughtful analysis of issues which was carried out by a team of experts and which is reflected in the subsequent chapters. The conference debate focused on the following main thematic challenges:

The housing stock, its features and management. Following the rapid privatization of the housing stock, the major challenge that emerged for the sector policy makers is: how to manage and maintain the housing stock in countries with restricted fiscal capabilities and low income owners. This concern is first addressed in this chapter from a holistic point of view. Jozsef Hegedüs provides an in-depth analysis of this issue in chapter 3.

Social and refugees related housing. The potential for social housing as an instrument to achieve the goals of both economic and social policies is an important issue in a region suffering from restricted labour mobility, significant poverty and vulnerability, and the continued presence of refugees. In addition, some countries in South Eastern Europe have experienced armed conflicts and civil strife. As a result, some 1.2 million of refugees still require a solution to their housing needs. These arguments are briefly introduced in part 2.2 of the current chapter. Iskra Dandolova and Emiel Wegelin return to these important region-specific issues in chapter 4, devoted to social housing, and in chapter 5 on housing related to refugees.

The development of housing finance markets in South Eastern Europe is an issue of twofold importance. First, the smooth functioning of sound housing finance mechanisms is required for any housing policy in a market-based democracy, allowing Governments to streamline their support for well-defined target groups within the population. These mechanisms are used by people for the construction and acquisition of a given dwelling. Second, the housing finance market is an important segment of the financial sector of any country and contributes to its economic growth. Lending for housing constitutes the biggest portfolio of consumer credit. These and other relevant arguments are presented by Judith Hardt and Cristina Costa in chapter 6.

2.1 Regional Features of the Housing Stock

South Eastern Europe is home to 58.2 million people living on a total surface area of 647.3 thousand km². In terms of comparison, the total population of the region is 15.6% of that of the European Union. Table 1 shows the total population and current housing stock per country. Romania is by far the biggest country with 22.4 million people, followed by Serbia and Montenegro with 10.6 million, and Bulgaria with 8.1 million people.

The total dwelling stock in the region can be estimated as being 18 million dwellings, according to data collected from national statistic institutes by the Council of Europe Development Bank.

Table 1: South Eastern European countries: population and total housing stock

Country	Population in millions (January 2002)	Housing stock (last available year)
Albania	3.5	0.78 (2001)
Bulgaria	7.8	3.7 (2001)
Bosnia and Herzegovina	4	0.95 (2000)
Croatia	4.3	1.64 (2000)
'Former Yugoslav Republic of Macedonia'	2	0.6 (1994)
Moldova	3.6	
Romania	22.3	8.1 (2002)
Serbia and Montenegro	10.7	3.1 (1999)
Total	58.2	18.8

These figures need to be analysed with some reservation. Forthcoming census results from "the former Yugoslav Republic of Macedonia" and Albania should provide more updated information. Romania appears to be the country with the largest housing stock in South Eastern Europe which matches its population size, while "the former Yugoslav Republic of Macedonia" is the country with the smallest population and housing stock.

Figure 1: Dwellings per 1000 inhabitants

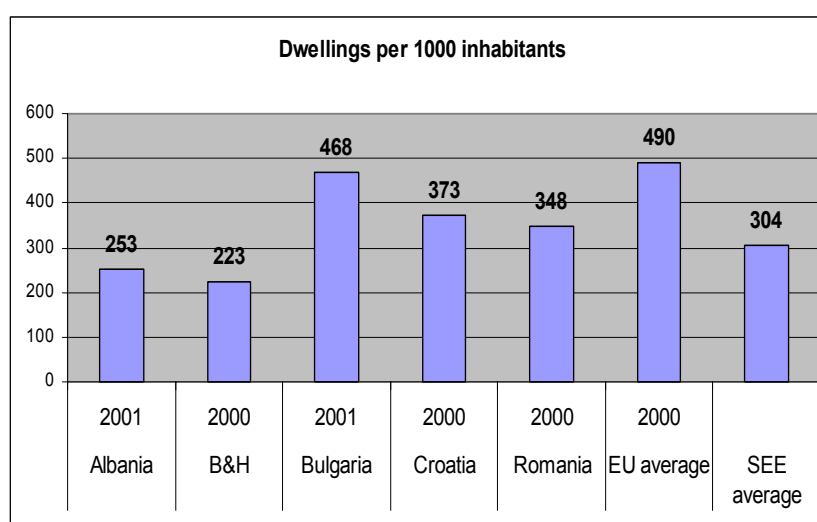


Figure 1 illustrates the problems of adequacy of housing stock in selected countries in South Eastern Europe. The number of dwellings per 1000 people varies from 223/1000 in Bosnia and Herzegovina to 468/1000 in Bulgaria. Housing provision in Albania and in Bosnia and Herzegovina is lower than in all other countries. However, in the case of Albania, this situation has improved compared with that observed at the end of the communist era when the ratio of dwellings/1000 stood at 219/1000 (Hegedüs and al 1996). Overall, housing adequacy in South Eastern Europe is lower than the average observed for other EU countries.

The distribution of the housing stock by tenure category is characterised by a reduced share of public housing stock and a predominance of private housing (Fig. 2). Privatisation of public housing assets in

South Eastern Europe occurred over a short period of time and radically transformed the ownership pattern in these countries. This unprecedented transfer of wealth from public to private ownership could be regarded as one of the most successful examples of privatisation in the transition economy. It is not surprising that the privatisation of housing has been very popular among the people and enabled households to acquire a stake in the market economy. As pointed out by Tsenkova (Tsenkova, 2000), the privatisation of housing assets in South Eastern Europe affected 31% of the stock within 4 years. The leading Western European example of housing privatisation is the UK, which saw 30% of its public housing privatised within 15 years.

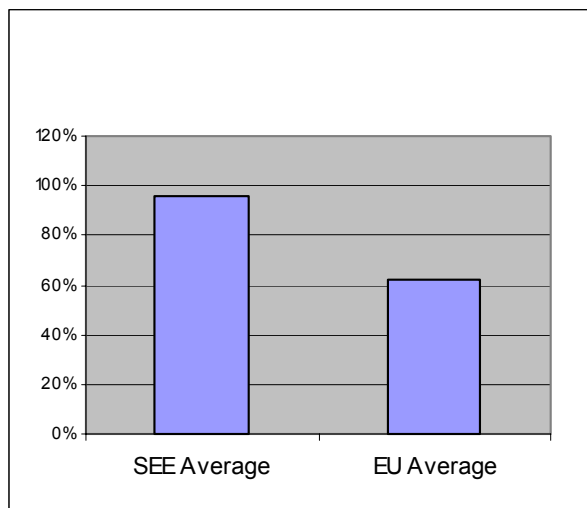
Hegedüs and Teller estimate that 2.8 million dwellings out of 3.5 million public housing units have been privatised since 1990 (see Chapter 3). In Albania, 98% of public housing was transferred to sitting tenants within one year by virtue of the law (UNECE, 2003). In Serbia, the privatisation of the so-called “socially owned stock” occurred at 10% below market prices (UN-Habitat, 2002). In Moldova, dwellings were privatised while the buildings remain under public ownership. However, after 1997 the buildings became owned by the homeowners associations.

The restitution of property rights to former owners has amplified the impact of privatisation on the current tenure distribution. Since a limited number of housing units have become subject to restitution claims in the region, this process had created an uncertainty over the enforcement of property rights.

Another regional housing feature is the large existence of so-called multi-family panel apartment blocks, along with the premature ageing of the housing stock in the region. While there is a lack of data for all of the countries, some censuses carried out recently reveal that approximately half of the available housing stock of these countries is made up of multi-family panel apartment blocks. This building technique, also known as high residential building, was the privileged construction concept which allowed for the rapid expansion of urban areas during the communist era. Entire city districts across the region consist of these multi-family apartment blocks.

According to some estimates based on aggregated data from 2000, the share of dwellings located in multi-family housing blocks makes up 30% of all dwellings in the region (5-6 million dwellings, Hegedüs and Teller, 2003). Up to 90% of multi-apartment blocks were built after the 1960s out of prefabricated components. The UN-Economic Commission for Europe estimates that 30% of the current Albanian housing stock, and more than half of the urban housing stock in this country, is made up of panel blocks. In Bulgaria, there are some 11,128 panel apartment blocks containing 787,096 dwellings- 21.2% of current Bulgarian housing stock- inhabited by more than 2 million people (MRDPW, 2003). In Romania, 72% of urban housing stock consists of dwellings in multi apartment blocks. The Romanian authorities have estimated that more than 800,000 dwellings (9.8% of current Romanian stock) located in panel blocks are in need of repairs.

Figure 2: Private housing stock in % of total in the EU and South Eastern Europe



The implications of the predominance of multi-family blocks are multidimensional:

- From a social policy point of view, urban areas with a high concentration of blocks are increasingly seen as being stigmatic of poverty and social exclusion. The market value of this type of real estate will decline as the removal of former architectural construction norms allow for an enlarged choice of building design (see section 2.2).
- The life expectancy of multi-family blocks is approximately 30 years and a significant portion of this type of stock no longer complies with relevant technical standards. As the region is exposed to earthquake risk, the physical condition of this part of the stock raises concerns over its capacity to withstand natural disasters. It is, however, encouraging that the authorities in some countries are aware of this situation: the Romanian Government and local authorities have launched a special program to reinforce the structure of the most badly-affected buildings in Bucharest.
- The preliminary estimate for the investment needs for rehabilitation and restoration purposes point to figures which will have long term financial implications for the countries. In Bulgaria, it has been estimated that 10% of panel dwellings are in need of urgent repairs and that the average cost of restoring a panel dwelling is EUR 1917: the overall cost of restoring this part of the stock is estimated at EUR 151 million. In Romania, some EUR 940 million is needed for thermal rehabilitation of around 800,000 dwellings according to the government programme for 2002-2007.

2.2 Managing the housing stock: a particular challenge

Managing the housing stock is among the main challenges for the policy makers in South Eastern Europe. Assuring that a stock of millions of dwellings meets the requirements for the continuous provision of shelter is a serious responsibility for any government in office.

Two particular features underline the relevance of the housing management issue in South Eastern Europe in comparison with the magnitude of the same problem elsewhere in Central Europe.

Deferred maintenance. As it was pointed out in the previous section, around 10% of the Romanian housing stock needs immediate action to ensure that it will be able to provide reliable shelter in 2020. In Bulgaria, some 180 000 dwellings are physically obsolete. Householders who became owners during the privatisation of the housing stock have adjusted their consumption of housing maintenance services to compensate for the increase in utility prices (water, sewage, rubbish collection, district heating, energy).

In all countries, privatisation has shifted the burden of looking after operational and maintenance investments from the State to the new owners, who find themselves unable to keep up with the expense and unable to use effectively these newly acquired assets. This, coupled with low personal income and the break up of municipal maintenance companies, has led to a reduction in investment required to pay for the maintenance of housing stock.

Some 300 000 households in Bulgaria have decided to turn off their central heating according to estimates of the service providers (Council of Europe, 2002). In the capital Sofia, some 207 000 households have given up their central heating utility (partially or entirely): this represents 58% of all dwellings equipped with central heating in Sofia.

Reported by Hegedüs

The collective form of ownership in the multi-apartment blocks and prevailing collective measurement of consumption of commodities does not allow for households to adjust their consumption of electricity, water or other collectively used utilities (i.e. central heating). In order to offset increased utilities prices, tenants living in multi-family housing blocks have reduced their consumption or withdrawn completely from cost-sharing expenses for repairs and maintenance of the commonly owned parts of the building.

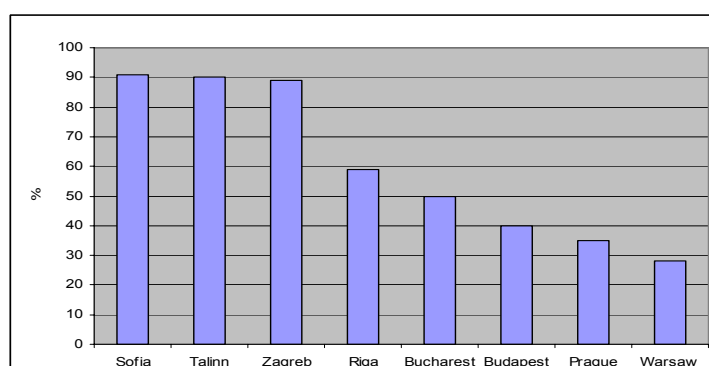
The privatisation of the public housing stock preceded the design and implementation of a regulatory framework which laid down the obligations of owners with regard to commonly owned property. As a result, the current legal arrangements for ownership of common housing assets do not provide incentives for households to invest in the assets they own. In the case of multi-apartment buildings, there is a need for legal arrangements which set out the responsibilities of owners, and in particular in relation to collectively owned property, as has been done in other countries in transition (Latvia and Lithuania).

Urban development gaps. In the region, 55% of housing units are located in urban areas. The main concern of any urban policy is the quality of life within human settlements. In EU countries, urban development is an issue for local government and citizen’s participation. In South Eastern European countries during the communist era urban development remained a duty of the state. The move towards decentralisation has placed local authorities in charge of urban renewal and the delivery of urban services. Apart from having responsibilities for the general housing situation, for the adjustment of housing deficiencies in terms of supply and for spatial organisation, local authorities in the region are also obliged to assure that an adequate infrastructure is in place e.g. water and sewage networks, nurseries, schools, recreation areas, etc.

However, two major constraints prevent local authorities from being real urban policy maker:

- The devolution of responsibilities from central government to local authority has not been backed by a proportional decentralisation of resources, thus leaving local authorities with “unfunded mandates” (Tsenkova, 2000);
- The privatisation of housing and the lack of a strong legal framework for housing maintenance has left city authorities with reduced assets and reduced possibilities for the elimination of sub-standard housing stock and the restoration of buildings.

Figure 3: Poverty risk in capital cities, 2000³



However, cities in the region remain the main contributor to economic growth at national level. At the same time, poverty levels in the countries remain high in urban areas. According to data from the World Bank (Fig. 3), the poverty risk in three South Eastern European capitals (Sofia, Zagreb, Bucharest)

³ Source: World Bank, 2000; UNCHS 2000 quoted by Tsenkova

exceeds or stands at 50%. This indicator measures the percentage of households whose expenditure is below half of median household expenditure in the country.

Increasing poverty in urban areas may lead to a spatial separation of social groups based on economic criteria and the quality of settlements including their location. This would have serious implications for urban cohesion. The continuing deterioration of multi-apartments buildings has led to market depreciation in their value. As high income households have moved away so multi-apartment blocks are increasingly seen as places of worsening social cohesion and poverty in certain urban areas.

Overcoming the management challenge requires rapid action for the establishment of a robust legal framework which provides for the establishment of condominiums and/or housing co-operatives and which specifies the management responsibilities and financial obligations of common assets. The issue of housing stock management is extremely important for access to housing: the provision of decent and affordable housing is essentially a question of adapting and distributing current stock.

2.3 Main policy issues in social housing

The term “social housing” is widely used in housing policy literature. However, this concept often lacks clear definition. At European level, Article 31 of the revised European social charter remains the European standard which legally recognizes housing. The provisions of the Charter reflect the commitments of countries to adhere to standards set by themselves within an international treaty. The intergovernmental work within the Council of Europe’s activities on *Access to social rights* and the relevant recommendations of the Committee of Ministers are valuable benchmarks to be used by countries in developing social housing policy.

The penetration of this concept in the region is still insufficient. This is largely due to two factors: i) the prevailing socialist type of social policy which dates to before the start of democratic transition and ii) the restricted capacity of the current public housing stock to respond to social needs. In EU countries, social housing covers both public and limited-profit rental housing. Below is the definition on social housing generally used by the Council of Europe Development Bank.

Box 1: *Social housing* is taken to refer to housing provided to persons facing difficulties in obtaining a residential dwelling (as a tenant or owner) on the property market, due to lack of resources as assessed against a set of pre-established criteria. The areas of actions specific to social housing are:

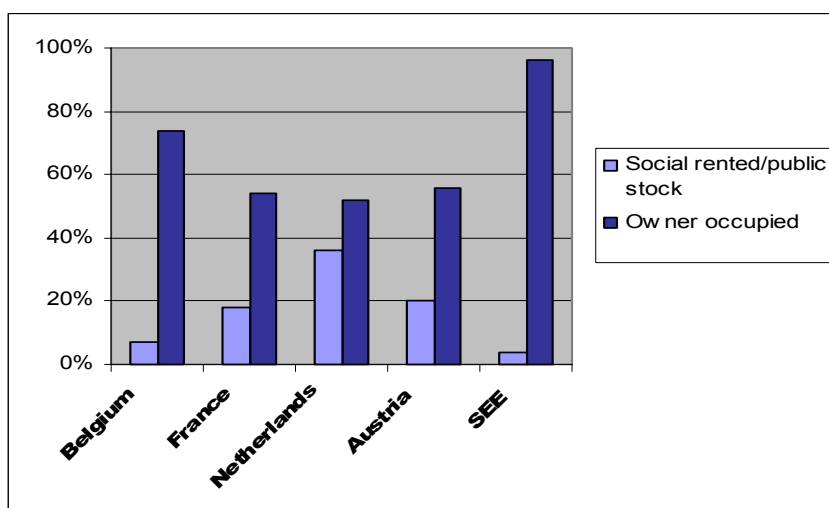
- Accessibility for the greatest number of people;
- Security of tenancy;
- Supply of housing units to low-income groups;
- Assistance to homeless persons and other vulnerable groups (minorities, Roma/gypsies, single women, single-parent families, etc.)

Source: Housing in the transition countries: the CEB’s role, Administrative Council Paper, 2001

During the communist regime, the term *social housing* was incompatible with communist ideology as it was associated with homelessness and poverty. The notion of ‘social housing’ has only emerged with the reform process.

In the previous sub-section we have already discussed the issue of reduced public housing stock across the region. Figure 4 highlights the gap between the capacity for social housing provision in the region against that in some other EU countries.

Figure 4: Social rented/public v/s owner occupied housing in selected countries



The availability of a reasonable level of housing stock capable of responding to the needs of the social housing policy could successfully accompany the transition towards market economy and sustain economic growth, by mitigating the social tensions arising from limited public resources.

Social housing stock could supply shelters for poor and homeless people; meet the demand from low-income groups for rented accommodation; offer stability to young people within countries and stimulate human capital development.

In addition, as a housing policy instrument, social housing is commonly used because of the spill-over effect it has on other policies and within other sectors. A sound social housing policy goes hand-in-hand with employment policies especially in regions of sustained economic growth: rental housing deficits restrict the mobility of job seekers, who are unable to settle in areas of labour demand because of the lack of affordable housing.

The low level of availability and current provision of social housing in SEE may lead to supply shortages which will affect property prices. Other European countries, namely the UK, are currently faced with a similar situation resulting from lasting underinvestment in social housing (Walker, 2003). There is the danger of the emergence of “a housing underclass” of people who in other circumstances would have been able to purchase their own dwelling. With little financial means, young people cannot hold out much hope of obtaining housing at current market prices in SEE (South East Europe). At the same time, their participation in the labour market, especially in areas of intense economic activity (the cities), depends largely on their ability to settle.

Some countries from the region (Croatia, Romania) have elaborated social housing policies and introduced new legal, institutional and financial instruments to ease access to affordable housing. Their experience may constitute a good example for the elaboration of social housing policies across the region. However, not all of the countries yet have legal provisions in their legislations for access to social housing.

In 2001, the government of Romania launched an ambitious four-year programme aimed at increasing the supply of rental housing for young people, with some 40,000 units. If achieved, the target of 40,000 dwellings would represent 18% of total public housing stock, which in 2002 contained 220,856 units⁴. This program stems from the concern over the rental housing shortage especially for young low income couples in Romania. According to the program, 800 construction sites have been identified with a total area of 632.3 ha.

Specific social housing issues

In the region, the social housing agenda has been additionally burdened by the necessity to develop policy responses to the housing needs of refugees and other vulnerable groups including Roma in a context of social policies under strong fiscal constraints.

According to the latest data, there are 1.2 million refugees seeking durable settlement solutions. The three countries most concerned with this challenge are: Bosnia and Herzegovina, Croatia, and the Union of Serbia Montenegro. Refugee related housing issues are multidimensional. The military turmoil of the past has caused significant damage to housing and the civil infrastructure. This is a challenge which stretches across the issues of refugee return, the repossession of previously owned assets, the rebuilding of housing facilities and the local integration of persons willing to settle outside their home country.

Poor housing conditions and urban segregation figure among the most striking material expressions of poverty hitting the Roma community in South Eastern Europe⁵. As it has been pointed out by the recent World Bank study on Roma (World Bank, 2003), under the communist regimes Roma used to live in well-defined inner city areas called *mahala*. The course of transition has deepened the gap between the Roma (*mahala*) settlements and the rest of the urban population.

Roma neighbourhoods have been and remain overcrowded and impoverished. They lack water, gas, electricity and other utilities. Only 9% of Roma houses in Bulgaria and 10% in Romania had hot water (World Bank, 2003). Over half of Roma households in Bulgaria reported wet walls and leaky roofs (idem). Privatisation and the transfer of property rights have created problems with the legal status of housing assets occupied by Roma and led to illegal occupation. Despite the complexity of housing for Roma, national and local authorities in some countries have designed projects to respond to some of the housing problems facing Roma. In Bulgaria, the city authorities of Sofia and Plovdiv (the two biggest cities in the country) have launched projects aimed at improving the housing condition of the Roma populations.

These interesting experiences indicate that the commitment of local authorities and the involvement of civil society and the Roma themselves are crucial factors for the success of such endeavours.

⁴ Ministry of public works, transport and housing of Romania

⁵ According to the World Bank, the share of Roma is between 6-9% of total population in Bulgaria, FYR Macedonia, and Romania

2.4 The development of housing finance markets

Macro-economic instability, the lack of maturity of the banking sector and the reform of legislation governing financing activity at the onset of the transition process, combined with the problems of inflation and insecure property rights, have slowed down funding of the housing sector at national level.

As far as financial aspects are concerned, the countries' own experiences in introducing instruments for long-term financing of the housing sector vary. New long-term financing instruments have, however, been developed. Housing funds have been set up, under various formulae, in a number of countries (Croatia, Bulgaria and Romania). These improvements facilitate greater complementarity between national measures and actions taken by other finance providers, such as IFIs. The development of new long-term financing instruments, the development of the property market and the introduction of instruments such as mortgage loans, are positive policy actions.

Several factors explain the lack of maturity of the housing markets in the region. During the previous centrally planned economies, state-owned savings banks were the main providers of funds to households, offering very long maturities irrespective of the household's risk profile. As in other transition economies, the Governments in South Eastern Europe, withdrew from housing provision at a time when the private sector was not mature enough to respond to the new emerging housing demand.

Currently, various funding options are being used in the region:

- Savings banks continue to offer housing loans but they no longer enjoy a monopoly market position. In practically all countries of the region, commercial banks have entered into the business of housing finance, using retail deposits as primary financial resources. Contract savings schemes (*Bausparkassen*) have been set up in Bosnia and Herzegovina and in Croatia. Under this arrangement, people can open up a savings account whereby the maximum amount of savings is fixed under a set schedule and the State provides a premium at a given fiscal cost.
- Capital market funding options are being increasingly used to fund housing loans. In the countries of the region, the preferred option is the use of mortgage bonds. Several countries in the region have designed adequate mortgage bond legislation (Bulgaria, Romania, and Croatia). Among the investors, local pension funds appear to be very active.

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THE SOCIAL AND ECONOMIC SIGNIFICANCE OF HOUSING MANAGEMENT ?

The housing management issue in South Eastern Europe is a large-scale problem, which is primarily relevant to the multi-family urban housing stock, regardless of whether it is publicly or privately owned. In the region, out of **18 million housing units** (2000), 55% (more than 9 million) are found in urban areas, and 30% in multi-family housing. The most critical element of housing wealth from the point of view of housing management are the **5-6 million urban multi-family housing units**.

Box 2: Main characteristics of the housing stock in the region

In **Moldova**, 37% of the housing stock (regarding its floor space) is rural, and 49% of urban apartments are in blocks of 9 stories or more. 84% of the buildings were constructed after 1960, which means much of it is relatively recent, 50% of it being only 20 years old. A peculiar detail regarding the country's stock is that in urban areas 12% of the buildings serve as so-called hostels: living places for workers.

In **Romania**, 40% of urban housing is prefabricated, and 71.7% of urban stock consists of apartment buildings, which translates as 2.9 million units amongst 76,000 buildings. State construction used reduced space standards, thus, poor construction and long deferred maintenance requires immediate repair of 35% of the stock, and 50% of rural housing requires investment.

In **Albania**, half of the stock was built during the communist era, and the other half is made up of private construction (mainly in rural areas). 30% of the stock, and 50% of the urban stock is in blocks (high residential buildings). In 1990, in urban areas the average floor space per flat was 30 sqm, which has resulted in serious overcrowding until now. There are many uncompleted units, whereas 75,000 units were completed through voluntary work. 70% of the urban stock is public rental. According to a census, 1/5 of the stock has leaking roofs or walls.

In "**The former Yugoslav Republic of Macedonia**", there is a surplus in units compared to the number of households; however, substandard units represent 12% of the stock.

In **Croatia**, 95% of all buildings have more than 3 units. The stock is relatively young: 70% of it was built after 1960. 36.2% of the units have central heating. Before 1991 only tenants with tenant's rights were involved in the system of mandatory maintenance. The extent of degradation is not known.

In **Serbia**, the average flat size is 2 rooms, which causes overcrowding. Despite the high standard of regulated construction, due to illegal construction, today the quality of the stock has fallen.

In **Bosnia and Herzegovina**, until 1995, 63% of housing units sustained at least some damage, and 18 percent of units were destroyed during the war. Many buildings have been constructed illegally, e.g. in Sarajevo app. 20,000 buildings.

Privatisation and restitution were important factors influencing the problems of housing asset management. Out of 3.5 million public housing units, 2.8 million were privatised to sitting tenants. This represents 15% of the total stock, 30-40 % of the urban housing and **40-50 % of multi-family houses**.

Box 3: Housing privatisation process in the region

In **Moldova**, the Law on Privatisation was passed in 1993. As a result, today 225 thousand out of 263 thousand units have been privatised. Today, 94% of the stock is private. Most of the units were privatised in exchange for patrimonial bonds or free of charge. There are 38,000 apartments under public ownership. Since 1996, the plot and the buildings have been transferred to Public Homeowner Associations; thus, inhabitants have the right to control the management of the buildings and the flats. The revenues from privatisation are transferred to the municipalities.

In **Romania**, before the Law on Privatisation was passed in 1990, two thirds of the stock had been in private ownership. After mass privatisation in 1990-1993, 90% of the stock had become private. The restitution started in 1995.

In **Albania**, the Law on Privatisation was passed in 1993 (despite the fact that prior to this some units had already been privatised). 99% of the public stock (app. 35%) was privatised, hitting a peak in 1994, but without any maintenance rules. Today, all public housing is state owned (1%), and approximately 2,000 units are subject to restitution claims.

In **“The former Yugoslav Republic of Macedonia”**, the privatisation of units was regulated under the Law on Sale of the Socially Owned Housing, passed in 1990. As a result, the units were sold off at very low prices.

In **Croatia**, the Law on Sale of Apartments regulates both the privatisation process and the situation of those tenants who were unable to buy the flats they occupied. They became “protected owners”, meaning that in these units the owner cannot exercise his ownership rights. For a duration of five years 90% of the revenues from privatisation can be used for the improvement of housing (e.g. on units for protected tenants). Approximately 80% of the apartments sold were in blocks.

In **Serbia**, it is the Housing Relations Law, passed in 1990, which stipulates that state owned units can be purchased. Due to the high interest of buyers, the law was modified with the 1992 Residence Law: those who satisfy certain criteria (occupation-time of the unit etc.) can purchase the flats. Privatisation mostly concerned urban stock, and property owners manage the revenues. Today, over 90% of the housing stock is privatised.

In **Bulgaria**, all sitting tenants were allowed to buy their flats. However, between 1994 and 1996 a slowdown was noted due to a selling moratorium, after which a high rise in purchases took place again. Revenues from privatisation have gone to the local housing fund.

In **Bosnia and Herzegovina**, privatisation has already started, but without regulation of the management of the stock. Privatisation agencies (each entity has its own) oversee the process; people who are sitting tenants for more than two years are eligible to buy the units with vouchers, or they can obtain them for certain entitlements.

South Eastern Europe is far from being homogenous in terms of housing. It comprises different versions of the socialist housing model: on the one hand, the Albanian and Moldavian (Soviet) model, and on the other the Yugoslav model (“self management”). Between these two extremes lie the so-called “traditional” countries, like Bulgaria and Romania.

The main factors causing housing management problems in the region can be summarized as follows:

1. The housing stock, even at the beginning of the transition, had **deteriorated**, partly because of low quality construction and maintenance technology, and partly because of under-investment in the stock before transition. The housing estates in the region were of very different technical levels of construction. Their deterioration accelerated following transition, as the state moved out of the housing sector. In addition to the problem of deterioration, other elements played an important role, including the very low economic efficiency of the stock caused by inefficient land use in urban development; huge energy problems related to the low level of technology in construction; and low cost efficiency in organizing housing related services (water, sewage, transportation etc.). The deterioration of the stock

has accelerated in the last ten years because of the missing institutional, legal and economic conditions, which the study will discuss.

2. The poor performance of housing management of multi-apartment buildings is related partly to the lack of household incentives, and partly to an inefficient use of housing wealth. The underdeveloped housing market along with a mistrust of institutions and the uncertain legal framework compound to make it difficult to realize the economic and financial importance of housing wealth. But even in the cases where households do have the incentives to reap the benefits of the housing assets they own, the **absence of efficient intermediaries** (condominiums, cooperatives, associations etc.) render this impossible.

3. The third factor explaining the tensions in housing management is the **affordability problem**. To move from a socialist planned economy to a market economy makes the introduction of cost recovery in the housing economy inevitable. Because of the transitional recession, household incomes did not keep pace with the cost of living, forcing households to make major adjustments to their consumption. This is the reason why demand for housing declined after the transition even in countries like Poland, where the quantity need for housing is large. The lowest income groups have accumulated arrears or neglected housing expenditures caused by their inability to adjust. But in the area of multi-apartment buildings such behaviour has caused a great deal of conflict and problems, including the total neglect of the maintenance of communal areas.

4. The fourth factor is the **institutional environment of housing services**. The restructuring of the economy (privatisation and decentralization) has changed the institutional and legal environment of the housing economy. Local governments, public works, and management companies have had to adjust to the new situation, and this adjustment process has taken a considerably long time.

3.1 Areas of the reforms

Housing sector reform in the region should place more emphasis on improving the management of the stock. To achieve a result, several changes are needed in the regulatory, institutional and financial environment of the housing sector. The strategy of the restructuring process should cover the following issues:

3.1.1 Transparent and efficient housing market

A transparent and efficient housing market will be a key factor in changing the attitude of households towards their property. A typical problem in the countries of the region is slow administration and unreliable record-keeping, despite the fact that each country has recently adopted laws and made great efforts to modernise the system, including introducing I.T. The privatisation of 2.8 million units has placed a substantial burden on land registration in the region. A better house price information system and a well-operated support environment (affordable and reliable real estate agents) are needed to decrease transaction costs. One of the constraints of the development of the housing finance system is the uncertainty of property registration.

In most countries, land registries are regarded as reliable repositories of records on ownership rights and interests in real property. During the socialist period, land registration was a neglected area, even in countries that in the pre-Second World War period had introduced a reasonably good land registration system. Efforts are now underway to amend the law controlling this and to introduce registration clerks.

In Serbia and Montenegro and Albania the share of illegal construction causes a lot of problems when trying to achieve an acceptable quality level of land registration.

Box 4: Registration in Bosnia and Herzegovina

Registration in **Bosnia and Herzegovina** is regulated under the 1984 Law on the Land Survey and Cadastre, “which requires the establishment of a unified property record and cadastral system”. In fact, the law has been implemented only in but a few places, elsewhere the property books and cadastre remain separate. Property records are frequently out of date, incomplete or incorrect, and often the property books and the cadastre conflict over ownership and other interests in the property. Many registries were destroyed or displaced during the conflict or during World War II. Estimates are that up to 25% of the property books of the country may be missing.” (Rabenhorst 2000) Another reason for avoiding registration is the high property transfer tax. According to estimates, in Sarajevo, only 18% of sales or other transfers are now registered. (ebda.)

Courts or Land Offices should be able to administer registration, with filings handled by judges or administrative personnel. Ownership is not transferred until registration is complete, which may take several months. A good titling system would seem important in order to enforce the payment for the service fees. Banks making loans for purchase of property encounter risks during the period when the borrowers do not have defined property titles.

The building law has an important effect on housing management. Every observer in the region concludes that the deterioration process of the multi-family housing stock has reached a critical stage, when even the life-hazard issue can be raised in respect to the condition of this stock. In principle, the building law should prescribe the basic standards for housing structures. In the case of the houses that do not meet requirements, a fine needs to be imposed, or a compulsory reconstruction process should be initiated.

There is a need for an independent inspection unit for the maintenance service provided to private homeowners. Legal regulation on accounting and taxation of the maintenance companies could have a very important effect.

An efficient housing market would increase housing investments and would help the development of the housing finance system. Moreover, unclear property titles in the condominiums and the mismanaged housing sector could increase the risks involved in the transaction, and have a negative effect on the housing market. Following privatisation, the new owners did not adopt an owner attitude, nor did they realise the consequences and obligations of housing ownership.

3.1.2 Organizational and legal environment of multi-unit buildings

Multi-unit buildings in the region were typically managed by state-owned management companies. They operated in an uncertain legal environment. For example, the individual units were not registered in the Land Registration; representation of individual owners in management companies was not legally defined; if the owners' associations existed, they had no real control of the operation. The management companies collected the user charges from the owners/tenants. They also had contractual relations to the public service companies and were highly subsidized by the state.

After the political changes of the 1990s, these relations changed. The privatisation to sitting tenants preceded the Law on Condominium, so new owners now had the responsibility of providing the maintenance and upkeep of the building but without the proper laws needed to define the legal relations

between each other. The municipal management companies also found themselves to be in trouble. The increase in user charges (water rates, district heating, etc.) and the decrease in subsidies were financially stringent. This problem was exacerbated by the fact that the privatised buildings became detached from the “service area” of the management company. The typical reaction of the companies was to decrease the level of service, which in turn speeded up the deterioration process. In some countries they were municipalized (transferred to the municipalities), divided into smaller units, privatised, or restructured in other ways. The restructuring process of management has been much slower than in the ownership structure because this includes changes to a variety of sectors of the economy including those pertaining to company law, the construction industry, etc.

In the middle of the 90s, new laws were introduced regulating the operation of homeowners’ associations. These new laws provided the legal framework for the organization of owners, the decision-making mechanisms, as well as the enforcement of rules and the obligations of owners. In certain countries the new associations could act as a legal entity, in other cases, the new organization did not enjoy these advantages. The new laws differed very much as to how specific they were. The crucial question is in how much detail the association agreement defines the decision-making rules, the rules about the rights and responsibilities of ownership, and the procedures of sharing common costs. There were several barriers to the implementation of the laws in the countries of the region. First of all, individual owners in some cases were not interested in setting up new organizations as they were expected to pay much more for the higher level of services - but with no guarantee. Secondly, the administrative procedure was quite complicated, especially with regard to the uncertain Land Registration system. Thirdly, the laws typically provided largely inadequate guidelines regarding voting procedures, cost-sharing mechanisms and enforcement possibilities.

Box 5: Homeowners associations in the region

In **Moldova**, the Condominium Law regulates the operation of “private homeowners’ associations”. Today, their role is limited to the facilitation of contractual relations between owners and utility service companies. The associations may sue non-payers in the respective buildings, but necessary evictions cannot be undertaken, thus, the enforcement of rules is very limited.

In **Romania**, the Housing Act regulates the homeowners’ associations. There were also such associations before the transition, but today there is a serious need to change the attitude of owners. Before the transition, the associations contracted municipal maintenance companies. The recent regulation has defined a legal obligation to set up condominiums as legal persons, and the management companies have to be appointed by the co-owners. By 2001, 8,000 condominiums had been established.

In **Albania** no single homeowners’ association has been established as yet. There are only informal associations, where each co-owner has to pay maintenance costs according to the ownership rate. The fees are decided upon in the assembly. Practically, this system does not work since there are no tools to force the inhabitants of a building to contribute to the emerging expenses.

In “**the former Yugoslav Republic of Macedonia**”, homeowners’ associations are established in all buildings with two or more apartments. The associations are responsible for the management of the building. However, they have no legal tools for sanctions against non-payers, thus, many people do not pay their fees. According to the regulations, in case there is a tenant in the house, he has to contribute to the costs as well. The assembly of the associations determines the fees.

In **Serbia**, tenants’ assemblies are legal persons and may contract any enterprise for management. If they appoint nobody, the municipality appoints its own company and charges the fees and penalties for the house. There are no legal sanctions available against non-payers.

In **Bulgaria**, the homeowners’ associations are not legal entities. Their assembly decides upon the common fees. Non-payers may be forced to pay by legal procedures, but this never happens. Since 2002 those inhabitants in arrears have also been allowed to “pay” through voluntary work.

In the case of multi-unit buildings there is a need for a legal form defining the relation of individual owners to and among each other. There are two basic legal types of multi-unit building: condominiums and co-operatives. In some countries (Albania, Moldova) there was a legal gap following privatisation, because there were no laws governing relations among different owners within the same building.

In the case of condominiums the absolute ownership of a unit is based on a legal description of airspace the unit actually occupies, plus an undivided interest in the ownership of the common elements, which are jointly-owned with the other condominium unit owners. The owner is entitled to a single unit, as well as a share in the common elements, such as lifts or surrounding land. A condominium is a form of homeownership which combines the individual ownership of one's unit with the shared ownership of common facilities. Each owner may have a separate mortgage for his or her individual unit, and is individually responsible for making the payments and real estate taxes upon it.

A housing co-operative means joint corporate ownership of a housing development made by those who reside on the premises. It could be any type of organization that is owned and controlled by its member-users for a common purpose; this follows the co-operative principles. A co-operative operates for the benefit of its members on a not-for-profit basis in order to provide the goods and services members need at the lowest practical cost. Members/shareholders own the co-operative and participate equally in the governance of the co-operative.

There are different types of co-operatives depending on specific regulations with respect to the owners' rights and responsibilities. In a tenant housing co-operative, there are two owners: the co-operative corporation and the corporation's owners, who are typically known as tenant-stockholders. The co-operative corporation owns or leases the housing project, including all land, dwelling units and common areas. Its tenant-stockholders, who by virtue of their stock ownership, are entitled to occupy a specific dwelling unit, in turn, jointly own the co-operative corporation. Tenant-stockholders purchase stock — sometimes called shares or membership certificates — in the co-operative corporation. Upon purchasing stock in the co-operative, the tenant-stockholder signs a perpetual lease, called a proprietary lease or occupancy agreement which gives the tenant-stockholder a legal and exclusive right to occupy a dwelling unit on condition that all obligations to the co-operative are met. Tenant housing co-operatives were rare in the region, but building co-operatives were relatively common, and they were set up just for the construction period.

Both condominiums and housing co-operatives have to create an organisational framework to manage their responsibilities, to meet financial obligations, to initiate contracts, to manage maintenance and renewal, etc. The organisation passes on the related costs to the individual owners, who pay a single monthly fee or charge to the organisation. One of the questions is the legal status of the organization. The condominiums are typically not legal persons, thus, behind every contract there are individual owners. Typically, the law defines the “home owner association” as a decision-making body with public meetings and voting procedures, with a common budget and business plans.

Box 6: Legal regulation of Condominiums in some countries in the region

In **Moldova**, the Law on Condominiums (passed in 2000) defines the obligatory set up of homeowners' associations for each apartment block. The municipality has to join the association in case of mixed ownership. The association has to take over the debts of the owners.

In **Romania**, the Housing Act of 1996 stipulates that the owners are responsible for management.

In **Albania**, already in 1993 the Law on Condominiums was drafted, but it did not come into force. Respective regulations are now included in the Civil Law and specify that each co-owner must pay maintenance costs according to the ownership rate. Maintenance fees are decided upon in the assembly, but in practise this does not work.

In "**the former Yugoslav Republic of Macedonia**" the Housing Law of 1998 regulates ownership relations and describes that public housing is managed by the "Public company for Management of Residential and Commercial Real Property", funded by state subsidies and sale of property, etc. Maintenance of residential buildings is the owners' sole responsibility. The Law on Property and other Landholder Rights points out that some designated parts of a building may be owned by different (or a group of) people ("sectional ownership"), and the owners of these parts manage the building, or these parts together, according to an agreement signed by all the co-owners.

In **Croatia**, the Law regarding the sale of apartments ordains that owners must manage their house. The Law on Property and other Material Rights and Ordinance on Building Maintenance prescribes all regulations with regard to common parts and the financing of maintenance from common contributions.

In **Serbia**, the Apartment Building Maintenance Law (passed in 1995) requires the establishment of a tenants' assembly and the contracting of maintenance firms for management.

The Homeowners' Associations (HOA) or the Housing Council's own internal decision-making structure is set out in the relevant Condominium Law. This law regularly differentiates between decisions which have low cost consequences and decisions on higher investments, such as renovation or those requiring a further or higher contribution from the associated owners. The first normally requires a simple majority of votes, the latter a higher share according to the owners' ownership rate (e.g. 67% in Romania). In the case where HOA's have the right to sue the associated owners for non-payments, they possess a tool to enforce decisions. In cases when they do not, there is no actual possibility of controlling the implementation of common decisions.

3.1.3 Managing the affordability problem

The transition and the war in the Balkans led to an impoverishment of the population. The decrease in GDP and real income was accompanied by increasing income inequalities. One of the reasons for the poor maintenance of multi-apartment buildings lies in the difficult financial situation that tenants and owners find themselves in. Housing policy following privatisation was faced with a huge affordability problem. In most cases, the cost of housing related services increased in real terms, but quite unevenly : energy costs and building materials increased the most, whilst other mostly domestically produced services followed the trend shortly afterwards. The prices of housing related services increased at a period of economic decline, which resulted in accumulated arrears. The crucial problem was that the housing structure (multi-unit buildings and no metering for public services) made it impossible for an individual household to adjust its consumption in line with those of the changed economic conditions.

Box 7: Social circumstances of the population in some countries of the region

In **Moldova**, 75% of the urban population spends 1/3 of its income on housing. As a strategy, 19% of the people who belong to the lowest quintile rent out parts of their apartment. Many run into debt.

In **Romania**, 71% of the population find it difficult to meet basic needs.

In **Albania**, 29.6% of the population is considered to be poor, 1/3 of the people are inadequately housed. Nearly 90% of the poor live in rural areas. The latter is connected to the fact that before 1990 only 1/3 of the population was urban as a result of controlled urbanization. Nowadays, 54% of the population is urban.

In **Bulgaria**, many people are in arrears. Most of them have difficulties in paying the district-heating bills, thus 589,000 households are in debt to the district-heating providers. In 58% of all units with district heating the heating is turned off.

In **Bosnia and Herzegovina**, there are stable living costs, but low employment and low wages are a concern for the population.

A new phenomenon is increased segregation of poor people on housing estates. The price of dwellings in housing blocks has decreased more than compared with the price of detached houses, and as a consequence better off householders have left these housing estates. In the future, this problem is likely to become more serious. The governments need to develop a policy which can manage the affordability issue for lower-income groups. The ways in which governments have chosen to address this issue can be divided into four strategies:

1. Supply-side subsidies that would decrease the price of services or investment;
2. Modification of the tariff structure for public services in order to help special types of consumers;
3. The targeting of subsidies to needy households;
4. Increasing end-use efficiency, which has a long-term social impact, by reducing the cost of public services.

To solve the affordability problem an efficient **housing allowance** system must be introduced in parallel with an individual metering and enforcement system.

3.1.4 Professional management companies

The restructuring process of management companies has been very different in the region. The old state-owned management companies have been altered. Their financial base collapsed because they were unable to collect fees from owners. Moreover, their subsidies were cut. Their practice of cross-subsidization between payers and non-payers, and among the different buildings, gave rise to a reluctance to pay. The amount of collected fees combined with the companies' inefficiency inevitably led to a situation where only emergency repairs were carried out.

Clearly housing maintenance is significantly under-funded in the region; in some countries the tariffs cover only 20-40 % of the costs required for proper maintenance.

Most of the countries in the region started from a system where municipal (state owned) maintenance companies were established to undertake maintenance and servicing of the municipal (publicly owned) dwelling stock. These state companies were responsible for the management of the privately owned blocks as well. In Croatia, before the transition, 70% of the whole housing stock was maintained by publicly owned companies (Milosevic 2003, Croatia Case Study). These companies represented the backwardness of these typical socialist enterprises. There was no competition between different municipal maintenance companies, prices were set by central (or local) government below economic cost, companies worked under budget constraints, typically at a lower level than what proper maintenance would have required.

Following transition and privatisation, the maintenance companies had to be reformed as well. This process varied greatly among the different countries. One of the general experiences in the transition countries is that institutions (companies, local governments etc.) restructure their activities only if forced to do so.

Box 8: Management of the housing stock in the region

In **Moldova**, municipal management companies have not yet been privatised. These companies do not let owners switch to private companies. There are no separate accounts kept for houses, thus cross-subsidizing emerges. Experts have observed a lack of competition and inspection.

In **Romania**, before transition municipally-owned companies managed state-owned housing, and, on a contractual basis, private houses.

In **Albania**, because of the low purchasing power of the population, the stock continues to deteriorate. Although it is the responsibility of the National Housing Association to establish condominiums and thus set up the necessary organizational structure for the management of the buildings, it does not work effectively. Therefore, there are no tools for controlling management.

In **“the former Yugoslav Republic of Macedonia”**, before the transition, the local branch offices of “common interest housing communities” managed housing. Now, according to the Law on Management of Residential and Commercial Real Property, only public dwellings are maintained by the Public Enterprise, the successor to the above.

In **Croatia**, public enterprises have been transformed into private ones (90% of the companies are former privatised ones) but still the municipality is the main owner. Before the transition, these companies decided upon the need of maintenance. According to current regulations, management can be carried out by registered (private) firms, and it is mandatory to organize management in buildings of more than 3 units. These managing firms keep separate accounts for each building, but there is no possibility of controlling their performance.

In **Serbia**, the biggest problem concerning housing management is law violation, which occurs on both sides of the parties concerned: the supervisory organ does not appoint the managing company, nor does the tenants’ assembly. Most of the former public companies still exist; private ones are only sporadic (e.g. elevator repair). Those houses that do appoint managing companies normally choose municipal companies, which cannot be abolished in case of insolvency.

In **Bulgaria**, deferred maintenance is reported especially on prefabricated buildings. However, no subsidies are available for renovations. Maintenance is done mostly by public companies (94% of all management companies are public) as was in pre-transition times.

In **Bosnia and Herzegovina**, there is a preliminary set up of management: e.g. in Tuzla, the new owners pay the former owner for 3 years to execute the management and maintenance work.

The basic question is: what set of rights do the homeowner associations (HOA) have to improve the efficiency of maintenance?

In certain countries, the HOAs have the right to contract any company or private person to carry out the necessary maintenance. In these cases competition has started, which has had a positive effect on the performance of the maintenance companies in terms of price and quality. This process, of course, has been burdened with conflicts. Several factors have influenced this process. First of all, even with proper legal conditions the lack of professionals among management can be the cause of a lot of the problems. The newly-elected, but inexperienced “representatives” of the HOA can also make mistakes. In other cases, technical and engineering documentation (e.g. the log book in Romania) of the buildings may be incomplete, which makes management highly inefficient.

Even if the HOA has the right to choose among the maintenance companies, the price issue proves to be critical. A consequence of the low maintenance fee before the transition was the low level of maintenance. At that level the private sector cannot step in, as they have to ask the market price for their services, which is considerably higher than the present depressed service fee. The result is that the HOA has to apply for the services of existing municipal maintenance companies. These maintenance companies can also be subsidized through the local municipal budget, which again contributes to a crowding out of the private sector.

A common experience is that the position of private maintenance companies is not only weakened by the municipally owned ones, but also through the appearance of “swindler” businesses, who are able to act because of the lack of legal regulations concerning the terms of property management activity and accountability. These companies can offer their services to low-budget condominiums at unrealistically low prices, and then in some cases bill the condominiums for renovation works that have never been done. The condominiums have no means to make redress because of the legal gap in consumer protection.

In countries where the market was liberalised amateur businesses and a self-management-style have appeared on the market, giving rise to a great many problems. Housing management reform is needed where professional management service companies have replaced former state-owned companies and the self-management solution. Housing management, which ensures that property has long-term financial, institutional and technical stability, is a complex task. Revenues and expenditures need to be balanced long term; decision-making processes must not be blocked by misunderstandings; and required repairs and maintenance must be done on time.

The housing program, which targets the improvement of housing management services, has several interrelated elements. Legally it can be required to employ only professional, registered companies. Furthermore, higher-level technical requirements can be prescribed for building regulations.

These steps can lead to a price increase, which the majority of owners find difficult to meet, so the conditions governing competition as well as a proper housing allowance system should be introduced. Homeowner associations must develop a capability to control and oversee professional management companies and oblige them to provide proper accounting and technical information on buildings.

3.1.5 Restructuring the public service sector

Countries of the region inherited a very inefficient public service sector. Organizationally, they operated either as municipal departments, or as public enterprises under state or municipal ownership, with no freedom to set prices and minimal degrees of managerial independence as far as service policies and operational matters are concerned. Organisations tended to be top-heavy, and operational management procedures were bureaucratic; staffing was excessive, following the erstwhile full-employment approach.

Box 9: Problems of the public service sector in selected countries of the region

In **Moldova**, until the beginning of privatisation, public services were available virtually for free. Nowadays, there is a great disparity between urban and rural areas in terms of supply. From 1995, the regulations have prescribed individual metering.

In **Romania**, the rural infrastructure is poor, and also this country faces service level disparities. In urban areas, 71.9% of the units are supplied with district heating.

In **Albania**, the units have a poor infrastructure: 1/2 of the dwellings have an indoor toilet, and only 2/3 of them have access to running water. Inhabitants have to live with regular cuts in services in urban areas. Central heating is available in 12% of the stock. Since 2001, municipalities in joint-stock companies have managed water and sewage supply but customers have difficulties in covering the costs of these services. Only 0.07% of private consumers have meters installed.

In **“the former Yugoslav Republic of Macedonia”**, the municipalities own the public service companies. They have to deal with high losses due to the improper state of the networks. More than 10% of the beneficiaries of services are in debt.

In **Bulgaria**, the provision of services is satisfactory, except for district heating, where most people are in debt (e.g. in 58% of all units with district heating have their heating turned off).

Prices charged for services were low relative to the cost of supply, and sometimes zero, reflecting policies pre-dating transition. Prices were not structured correctly in the sense that they did not relate to the economic and even accounting costs of provision to different customers, or to the amount of use. Cross subsidies between clients categories were common. Legal provisions to adjust prices in line with inflation did not exist. Historically, price adjustments had been made rarely and on an ad hoc basis.

The consumer prices of public services were heavily subsidized before transition. Social policy considerations determined the price levels and preferences. During the transformation of the public utility sector, each country had to go through a similar process, only the speed of changes was different. The basic factor behind these changes was the cut in state and other government subsidies to public utility services. In some countries, this was accompanied with the decentralization of price setting competencies, parallel to the devolution of service ownership and management functions. Government subsidies and various forms of bailing out still exist. All these factors have had an unfavourable impact on those local utility services that are dependent on or part of the energy sector.

As a result, user charges may be defined as official prices, calculated at different levels of government. District heating is the subject of subsidies in, for example, Romania, where the national reference price is set for the consumers. This is driven by the costs of the large national energy companies and it is

accompanied with a subsidy to local governments, where the local price is above the national reference price.

The funding gap gradually added up to poor corporate financial health, especially with respect to a lack of working and investment capital. Different methods were used in response. Depending on the magnitude of the financial problems, the array of adaptive actions included reducing/eliminating expansion investments, postponing replacement, deferring maintenance, reducing services, not making contributions to social funds, not paying bills owed to their own suppliers, and eventually not paying salaries.

The demand for consumer protection was raised immediately after transition. The democratic changes made clear the need for consumer protection in the area of monopoly services, regardless of whether the public or the private sector provides the services. In the area of public utility services and contracts, there is a need for more active forms of consumer protection. For example, free access to information is a critical condition for protecting consumer rights, when the municipality contracts out local public services. Also customers should be involved in the regulatory process, when service standards, conditions and prices are determined. Another question is what means are available for consumer protection agencies to enforce their clients' interest. Generally, legal procedures, in some cases penalties and fines, are the only available measures.

As a result of decentralization, municipal governments were given the control and ownership of public service companies. The experience proved that strengthening municipal governance and the management of local public utilities is one of the key factors for the reform housing management. The old state-owned management structures have collapsed, but have not yet been replaced by appropriate new forms of corporate governance. As long as these problems remain, neither foreign development assistance nor local resources will be utilised effectively.

In the process of introducing modern governance methods, municipal governments will introduce a performance (service) agreement to be used as a common instrument to detail the new relationship between service providers and local governments. Another element could be the introduction of private sector operators through management contracts, with a view to privatisation of service provision in the future.

3.1.6 Financing rehabilitation: credit and subsidies

Major rehabilitation will require efficient housing finance institutions and a well-designed subsidy system. No efficient housing finance can be built around a deteriorating housing sector, because the financial sector will price the risk so high that housing finance will be unaffordable for the majority of the household sector. The key issue is affordability (to pay for rehabilitation and renewal). Housing policy should accept the reality that the gap between incomes and housing costs cannot be bridged by general subsidies for all. The aim should be that the majority of people should finance their own housing needs **by savings (intergeneration savings included) and by credit** provided through the financial sector with no or only shallow subsidies. **Targeting subsidies** is a widely accepted principle in housing policy reforms. The experience of the countries in transition is that the housing subsidy system can be restructured gradually, and in the process certain compromises should be made to create a feasible system. The ideal solution would be to target subsidies to low-income groups, but this means that the

middle-class will be frustrated in their attempts to access mortgage finance. Thus, government programs tend to be withdrawn from targeted lower income groups.

3.2 Proposal for future programmes

Housing management reform is in very different stages within the region. We have learnt from experience that progress depends on a complex group of factors. Legal, social, institutional and financial factors are forces that work upon each other, and a lack of coordination in the area of reform can undermine progress in another area. The major elements of the housing management reforms are:

- 1.** A critical review and improvement of the law related to housing management is needed. There has been much progress in the countries; what is missing, however, is the enforcement of the laws, monitoring and inspection. The factors explaining the lack of law enforcement should be identified and corrected.
- 2.** The increase of the performance of management companies is inevitable. The law should specify the technical capacities of these management companies. This could be introduced gradually. It is very important that HOAs realize that higher expenditure on the services of professional management companies pays off.
- 3.** Implementing pilot projects which demonstrate that individual households will be better off with a higher level of maintenance and higher fee are needed. Changing the attitude of households is as important as the direct results. A public campaign should be organized to disseminate and intensify the results.
- 4.** The key element of housing management reform is the efficient operation of homeowner associations.
- 5.** In designing the subsidy program, a special effort should be made to oblige households to cooperate and follow the rules prescribed in the laws. It is important to give a positive incentive to follow the rule of law.
- 6.** A complex rehabilitation program should be implemented, whereby the program goes beyond the building-by-building approach and tries to renew an entire area.
- 7.** The role of credits should be increased in rehabilitation programs introducing a specially designed subsidy system and a guarantee scheme. However, a housing finance system reform requires changes in other factors as well.
- 8.** The restructuring of housing-related public service companies is needed. The efficiency of the public service sector has a bearing on the level of maintenance. An efficient, transparent, well-managed or regulated public service sector would lead to a consumption and cost level that is affordable to the users and leaves financial room and incentive to carry out proper maintenance.

To conclude, the housing policy of the countries in the region should place more emphasis on housing management reform, introducing pilot projects which link the factors analysed above.

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POLICY ISSUES IN SOCIAL HOUSING IN SOUTH EASTERN EUROPE ?

Housing is a vital requirement for every individual and any society. For those people living in South Eastern Europe housing is of the utmost importance, since it is inextricably linked to their physical survival and security. Housing has become a symbol of existence, identity, solidarity, economic activity and social cohesion. It is a key factor in the stability of the population's movements besides being a preferred instrument for managing the dynamic processes of urbanization and migration.

The countries of the region are undergoing a difficult transition towards viable market economies and political stability. The transition process has been hampered by armed conflicts, the disintegration of countries and the emergence of new states and territorial units. These developments explain the difference in the economic and social situation between South Eastern Europe and the countries of Central Europe. However, since the start of the Stability Pact for South Eastern Europe, continuous international and national efforts have successfully been deployed in order to overcome the errors of the past. These efforts must be acknowledged as proof of commitment to achieving the common goal of regional prosperity and stability.

The gathering and analysis of specialized housing information is a condition for carrying out and developing a successful housing policy, including a Social Housing (SH) policy, with a view to promoting social cohesion. There has been neither continuous observation nor study of the on-going transformation process affecting the social housing stock. Therefore, the limited resources for investing in SH require precision and avoidance of random decisions.

4.1 Analysis of the social housing policy development in the region

In the countries of the region the notion of housing differs from the prevailing concept in other European countries: people wish to be owners of their housing and are reluctant to rent, sometimes devoting their entire lives to this goal. This can be explained by looking at the specific historical and geopolitical challenges in the region. It is a sign of insecurity in the social environment, containing as it does, threats, as well as endless political and social upheavals. However, with the change of general living conditions, habits are also undergoing rapid change. This is illustrated with the emergence of the new model of social housing and rental policy.

SH in the region had a brief and fragile history up until 1945. During the communist regimes, the term Social Housing was incompatible with the communist ideology as it was associated with homelessness and poverty. Two types of housing were predominant: "state-owned" (public) and "personal" meaning private housing. The notion of 'social housing' gradually emerged with the reform process. Some countries (Croatia, Romania) have embarked on elaboration of social housing policies using the experience of other European countries. They are making efforts to introduce new legal, institutional,

and financial instruments to ease access to affordable housing as well as to assure maintenance and management of existing stock. Their experience constitutes a benchmark for the establishment of a coherent housing policy for the region. However, not all of the countries yet have complete legal provisions for access to social housing within their legislation.

A national housing policy is lacking in many countries of the region. With a few exceptions, these policies are inadequate and are constantly being renewed. The SH policy is not yet an integral part of the national housing policy, and there exists no clear division of competencies between central and local governments; nor specialized participants in the process, including the roles of private entrepreneurial structures, civic organizations, or the future dwellers.

In those countries where social housing policies are being developed, these policies usually contain old legal provisions and incorporate new ideas and measures. However, there is a lack of coordination of the authorities' responsibilities for social housing policies.

The analysis of the progress made in elaborating social housing policies in the region shows that this development takes place in an environment marked by the following policy trends:

- decentralization
- privatization
- restitution of property
- insufficient new construction and poor management
- urbanization
- elaboration of selection criteria for acceding to social housing

Decentralization had an impact on social housing policies. As a result of a policy shift from central to local authorities, in most of the countries, local authorities are involved in the financing, management and distribution of housing assets. In most cases decentralization is considered to have completely relieved the state authorities at national level of all responsibility for the building, supervision, and management of national housing strategy and policy including social housing. But local government in many of the countries has no means of meeting housing needs: they cannot entirely rely on their own revenues, and depend on central government. Most of the municipalities are practically incapable of independently dealing with the housing problem of socially disadvantaged groups.

The mass privatization of public housing that has taken place in the last decade has had serious consequences on current housing policy. As a result, all countries have significantly reduced their stock of public housing. This has brought about serious and long-term concerns regarding the formation of social cohesion in the countries of the region: whilst the whole of society paid for the creation of the housing supply, only part of the population benefited. Private housing property currently amounts to between 90 and 98 percent of all housing.

The mass privatization of the 90s generated certain corrupt practices associated with the distribution of property. In the great majority of cases, the sale of dwellings to sitting tenants was executed below the market price. This practice led to the establishment of alliances between sitting tenants, buyers and the

competent authorities to by-pass the market. Being a relatively secure asset for capitalizing resources in a time of crisis, housing eventually became a centre of many interests and non-transparent transactions.

The restitution of housing property in all countries provoked disturbances. The restoration of property rights would have been easier in a context where a sufficient housing supply was available for compensation. In some cases, the housing stock made available for compensation of former owners placed additionally pressure on public housing stock. Furthermore, the division between municipal and state property is still not complete due to the lack of property registration in some places.

There is hardly any new construction of SH units in the region. In some cases housing that was begun before the start of the reforms has been completed, and some of these dwellings have been privatized. A small number of new or reconstructed dwellings have been completed, but in terms of trend, strategy, and policy, the issue of building new SH remains unresolved in nearly all the countries of the region.

An ongoing urbanization process is a common characteristic for all of the countries. The large-scale and rapid migration from villages to cities and the reorientation of the urbanization processes is a challenge for countries in which there were residential restrictions before the start of the reforms. As soon as the free movement restrictions were lifted, a significant inflow into urban areas took place. The processes of migration from cities to villages was also observed.

Setting up a selection criteria for persons requesting social housing: another feature of the emerging social housing policies in the region is the elaboration of a set of criteria used by the authorities for granting access to social housing facilities, in particular for “persons in need”. Before the reforms, political, demographic, and local criteria were predominant, while economic criteria played a marginal role.

Various practices guide the selection of “persons in need” for social housing: in some countries, political considerations prevail in determining the relevant category; in others, a combination of political and local criteria or economic characteristics combined with political and local concerns. According to some current practices, the economic criteria (mainly income) are the most used criteria for screening social housing candidates.

The actual and potential candidates for SH have been growing in number and variety. Determining their number and characteristics depends on preliminarily recognized parameters of legitimacy. Nevertheless, the overall trend of rapid growth in the number of people seeking SH arrangements results from:

- the consequences of the wars in the region;
- the great impoverishment of the population during the transition and the incapacity of middle and low income groups to acquire dwellings through the housing market;
- a high rate of unemployment (twice as high among young people), coupled with low average income;
- the breakup of households and the quick multiplication of new, smaller households;
- the growing number of economically dependent persons as a result of the aggravated age structure of the population;

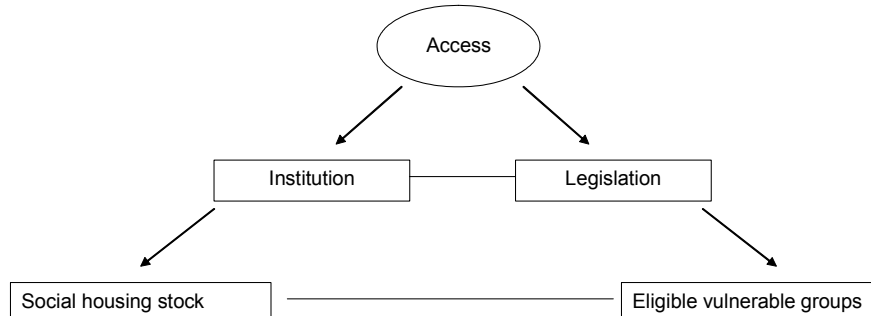
- specific long-term impoverishment of whole groups of the population and particularly of the Roma;
- the aggravated economic situation of women in single households, of single parent families, and of elderly women;
- The rapid degradation of existing housing due to the bad quality of construction and the lack of proper maintenance, hence the appearance of a new type of homelessness.

The emerging current features of the SH in the region can be summarized as follows:

It is provided and distributed by government authorities (state or municipal) and by enterprises⁶ to eligible persons. Although the supply of SH units is smaller than the demand, it is usually rented at low rates. The management and maintenance of SH is neglected by the competent authorities due to a lack of resources. Private housing is usually not used as an instrument in the social housing policies; however, the private stock has a strong potential for enlarging social housing stock.

4.2 Promoting a democratic model of social housing

Every country in the region has a great interest in assuring a social housing strategy in order to protect vulnerable groups and ensure social cohesion. The development of the social housing policy will enable central and local authorities to reduce the migration of their population, combat social exclusion, stimulate labour mobility and offer a starting point for better living conditions.



As summarized in the conceptual framework above, access to SH is possible through the establishment of a legal base and a system of institutions dealing with the evaluation of the eligible vulnerable groups of people; and management and maintenance of the social housing stock.

The right to access alone can not be considered a real access. According to some observations countries with the most expansive recognition of housing rights have the poorest housing provision in practice.⁷

The current situation of the social housing practices in the region reveals some major deficiencies:

- Lack of clear concepts and a legitimately acceptable model for creating, maintaining and managing SH including the setting up of minimal standards for the construction of units;

⁶ In the region that some public and private companies own housing facilities which they lease to their employees

⁷ Daly M. (2002), *Access to social rights in Europe*, Council of Europe Publishing, Strasbourg.

- Lack of clearly regulated mechanisms for social protection to cover different categories of people “in need of SH”; statistical follow up of the homelessness and socially excluded persons by specialized institutions; lack of data and surveys with regard to the condition of the housing, the housing market, the needs of people, and protection;
- Absence of a specialized network of institutions and competent personnel engaged in SH as well as for the adequate line of legislative acts for creating, financing, distributing, managing, and protecting SH.

To overcome these deficiencies and to promote a democratic social housing model, it would be beneficial to address the issues in accordance with European standards. In this respect, the European Social Charter (revised) and the relevant recommendations issued by the Council of Europe could be used as benchmarks. The fundamental European legal text, the first to recognize housing is the European Social Charter (Revised), which refers to the right to housing in Article 31:

“With a view to ensuring the effective exercise of the right to housing, the Parties undertake to take measures designed

- 1. To promote access to housing of an adequate standard;*
- 2. To prevent and reduce homelessness with a view to its gradual elimination;*
- 3. To make the price of housing accessible to those without adequate resources”*

Later, the EU’s Charter of Fundamental Rights refers to social housing as follows:

“In order to combat social exclusion and poverty, the Union recognises and respects the right to social and housing assistance to ensure a decent existence for all those who lack sufficient resources, in accordance with the rules laid down by Community law and national laws and practices.”

Undoubtedly, special attention should be given to vulnerable groups notably, refugees, immigrants, displaced persons as a result of wars, persecuted persons, the socially disadvantaged: unemployed (long-term, young, Roma, etc.), homeless, chronically ill, elderly or infirm, low income groups and single parent families.

In the following paragraphs, some recommendations for the creation of a new model of social housing are listed:

In order to develop a social housing programme for both increasing and allocating dwellings, in line with EU legislations, a clear definition of the competencies of the relevant authorities by law will help consistency of the housing strategy. Establishment of a permanent national unit (housing observatory, agency and institute) independent of political institutions for observing, studying and making strategic recommendations to the authorities concerning housing policy and social housing will ease the whole process.

Designing specific financing mechanisms to ensure a fiscally sustainable flow of resources for the social housing policy will assist the development of durable policies. A good example is the experience of Poland. Participation by local government in the financing of SH is also contributive (Croatia).

Private stock could play an important role in the enlargement of the SH capacity. Incentives should be designed for private owners to rent dwellings to people in need through special funds. But private or semi-privately owned social housing may also be built by charity organizations and by non-profit organizations (or low profit) as in Poland. Part of the degrading private housing could be purchased, reconstructed and offered as leased SH.

An allocation system of SH to different resident categories should be defined, giving a priority to well targeted groups. SH dwelling construction can be diversified according to size, ownership, kind, location, and quality. However, it is important to avoid the creation of remote urban districts of social housing.

Nearby proximate territory should be included as part of the housing strategy and this area should be considered as an inseparable part of the latter. The nearby contiguous territory should be included in the SH, and this area should be part of the object of design, furnishing, management, maintenance, and use in the framework of SH.

The creation of entire residential areas should be avoided due to the threat they create to the homogeneity of the residential environment and the social balance in neighbourhoods. This could help prevent the formation of ghettos including social divisions in the residential and settlement areas.

The implementation of a democratic model of SH cannot be carried out without appropriate forms of training and practice for personnel at both central and local level. Social housing programmes should also include a training component preferably in cooperation with specialized international institutions.

REFUGEE RELATED HOUSING ISSUES IN SELECTED SOUTH EASTERN EUROPEAN COUNTRIES⁸

The Stability Pact for South Eastern Europe (SP) has undertaken several initiatives in which housing figures are prominent. One initiative is the Social Cohesion Initiative in which housing in the region is looked at from the point of view of structural socio-economic development and regeneration after the political transitions and in the aftermath of the conflicts in former Yugoslavia in the 1990s.

Housing development is also one of the priority areas identified in the Agenda for Regional Action (AREA) programme initiated by the SP's Regional Return Initiative (RRI) in June 2001. This initiative focuses on policies, programmes and measures to rectify and overcome the consequences of displacement which occurred in the series of armed conflict in the former Yugoslavia during 1991-99.

Refugee-related housing issues form a major element in the AREA programme, because over 1.2 million refugees and displaced persons still required durable solutions, including housing, in mid-2001. At the same time, AREA was conceived at a time when normality in the republics of the former Yugoslavia was slowly returning, and humanitarian aid related to the crises began to dry up and, to some extent, was replaced by development assistance. A key consideration in the AREA programme therefore is that (re-) settlement of refugees both in the countries of origin and in recipient countries must be integrated into the development of "regular" housing programmes in the three countries most affected by this displacement, i.e. Bosnia and Herzegovina (Bosnia and Herzegovina), Croatia, the State Union of Serbia and Montenegro.

In order to make a practical contribution to the resolution of housing issues in as far as they concern AREA, the SP/RRI in September 2001 commissioned a Housing Programme Development Study to develop a programme for the financing and management of a sustainable refugee-related housing construction and reconstruction programme in these countries.

5.1 Present refugee and IDP situation

The number of refugees and Internally Displaced Persons (IDPs) still requiring a sustainable solution of their situation continued to decline during 2001-2002, and stood at about one million persons in December 2002 as shown in the table below. Progress made in the region during the last two years with regard to the resolution of refugee and IDP issues has been encouraging. If current trends continue, most issues affecting the implementation of sustainable solutions could be resolved within the next 2-3 years, if all actors continue to co-operate and act in a complementary manner in order to enhance the efficiency and impact of their respective actions.

⁸ This chapter is based on data available at the beginning of 2003

Table 2: State of Displacement in the Region⁹

	January 2002 ¹⁰	December 2002 ¹¹
Serbia & Montenegro	389,650 Refugees 231,000 IDPs	350,411 Refugees 234,261 IDPs
Kosovo	10,850 Refugees 32,500 IDPs	3,800 Refugees 27,500 IDPs
Croatia	19,670 Refugees 22,713 IDPs	8,083 Refugees 17,486 IDPs
Bosnia & Herzegovina	32,488 Refugees 447,318 IDPs	28,157 Refugees 377,500 IDPs
“the former Yugoslav Republic of Macedonia”	4,550 Refugees 21,200 IDPs	2,942 Refugees 9,442 IDPs
TOTAL	457,208 Refugees 754,731 IDPs	393,393 Refugees 666,189 IDPs
	1.211,939 Displaced Persons	1.059,582 Displaced Persons

The refugee/IDP situation related to Kosovo, however, remains problematic in the absence of a political settlement of the status of Kosovo. Policy in each of the four (including FYROM) countries prioritises return but many families prefer to stay and to integrate in their present location. Additionally, about 5% of the above total, or over 53,000 displaced and refugees, mostly women, children and elderly, still live in official or informal collective centres¹². The large IDP and refugee population still living in such collective accommodation in the region at present is an untenable situation, both in terms of social and humanitarian living conditions and in terms of stabilisation for the region. All are fully dependent on and benefit from national and international budgets. The Roma communities amongst the displaced belong to the most affected populations and are facing considerable discrimination during displacement and return.

According to present data available from Croatia some 150.000 former Croat refugees (primarily from Bosnia and Herzegovina and to a much lesser extent from Serbia/Montenegro) have decided to settle in Croatia and have been fully integrated. About 60.000 former refugees in Serbia and Montenegro had already received citizenship under the former regime, with the clear intention of settling in Serbia and Montenegro. Several hundred thousand have settled in countries outside the region; of these, an estimated 50,000 people are still in need of a durable solution. Some 8,000 refugees did not re-register with the Croatian authorities in 2002 and have been removed from official statistics. It is expected that an improved regional information exchange will result in a further decrease in numbers in the three countries still requiring durable solutions, due to decreases in double registration.

⁹ Except persons without durable solutions outside the region

¹⁰ Source: Regional Displacement Map, UNHCR, 15 January 2002.

¹¹ Source: Regional Displacement Map, UNHCR, 18 December 2002.

¹² Of which 26,000 persons in Serbia, 8,400 in Montenegro, 7,500 in Croatia and 11,500 in Bosnia and Herzegovina.

The decrease in the regional displaced population during 2002 as shown in the above table is a continuation of the decrease seen in 2001. This progress is summarily analysed below. 2001-2002 saw rapidly decreasing numbers (compared to previous years) of refugees and DPs. Many found durable solutions by returning: over 120,000 returns were recorded in 2001 in Croatia (23,100) and in Bosnia and Herzegovina (98,900); some 100,000 were so-called minority returns of refugees and DPs. In 2002, 17,600 returns have been registered in Croatia and 108,000 including over 102,000 "minority returns" in Bosnia and Herzegovina by 31 December (Total: 125,600)¹³. 8,000 refugees in Croatia were de-registered; 16,000 refugees in Serbia and Montenegro were de-registered, having returned to Croatia.

Actual property repossession in Bosnia and Herzegovina through the Property Legislation Implementation Plan (PLIP) at mid-March 2003 stood at 74% of the submitted requests for property repossession. Property repossession in Croatia has progressed since the 2001 revision of occupied private property. By 1 February 2003, 8,600 housing units had been reposessed, while 10,300 units are yet to be returned to their owners.

Security concerns are no longer the primary reason for deciding against continued property returns; they have been replaced by economic and social issues. This is important in regard to the sustainability of return, as shown by surveys and re-registration results in Serbia and Montenegro, as well as by the recent high number of returns in previously difficult areas in Bosnia and Herzegovina. In Bosnia and Herzegovina, progress has been made on key legal obstacles and this is also beginning to happen in Croatia, particularly concerning matters pertaining to property.

However, further progress still needs to be made in some crucial areas: despite considerable progress made on the ground and continued international and national efforts, political obstruction by those still opposed to returns continues to be observed, particularly but not exclusively, at a local level. This is evidenced by administrative obstacles, often effectively preventing return from taking place. Administrative procedures generally remain cumbersome, (be it deliberate obstruction or the legacy of the old system), and do not facilitate access to basic rights, including citizenship, social rights and the resolution of property issues.

Misleading information or a lack thereof remains a major impediment to a free and informed decision and needs to be addressed more actively. National registration systems are not sufficiently coordinated, leading to a possible mis-stating of issues and the reaping of double (cross-border) benefits by individuals¹⁴. Despite the progress made, further adjustment to the legal (property) framework in Croatia is required, including provisions allowing for effective implementation of the law throughout the justice system, where required.

As noted above, more than 53,000 people (including Kosovo IDPs) remain in Collective Centres and require to be re/integrated using an individual approach, if additional resources can be made available and focused cross-border co-operation can be used to implement solutions.

¹³ UNHCR data

¹⁴ 32,000 refugees who applied for returnee status in Croatia also registered at the 2001 registration in Serbia and Montenegro. Out of this group, the Croatian government was able to confirm that some 16,000 indeed had received a returnee status (i.e. had physically returned to Croatia) and they were subsequently de-registered in Serbia and Montenegro (UNHCR data).

Available resources are insufficient: reconstruction assistance provided to returnees unfortunately remains far below requirements; for instance, more than 20,000 minority returnee families in Bosnia and Herzegovina were still without assistance at the end of 2001, many remaining accommodated for months – up to a year - in tents and makeshift shelters¹⁵. Only approximately 10,000 houses were able to be reconstructed in 2001 in Croatia and Bosnia and Herzegovina through international cooperation or government funds.

Sustainability of return cannot be ensured as economic activity and employment opportunities in many return areas are far below the (low) national average. Imbalances in the labour market regarding required skills, and direct or indirect discrimination of returnees in urban and other economically attractive areas further contribute to aggravate this situation throughout the region. The high rate of property sales after repossession is one of the indicators for this.

5.2 Housing situation

5.2.1 Overview

Due to the war and its aftermath, the housing sector in all three countries covered by the AREA/RRI housing development study may be characterised as suffering from significant neglect. In all three countries pre-war housing production levels plummeted during the war years and have not reached more than about one-third of those production levels at present. The public sector delivery mechanism through state enterprises (providing housing for their employees), which delivered such supply to varying degrees (25% in Bosnia and Herzegovina; 40% in Croatia and 35% in Serbia/Montenegro prior to the war period), has all but fallen by the wayside.

Pre-war housing shortages existed in the three countries, but also in varying intensity. Overall pre-war (1991 censuses) housing stock data and household data suggest that at that time there was a reasonable supply-demand balance, particularly in Bosnia and Herzegovina and Croatia, even though this probably hides regional differences, and particularly differences between urban and rural areas in all three countries. There is selective evidence that the steady rate of urbanisation had already led to housing market tensions in some urban areas prior to the wars.

The wars and their aftermath radically changed this once relatively stable picture: about a million dwelling units were destroyed or badly damaged and several million homeless returning refugees and IDPs were in need of reconstruction and additional housing (considering the often long periods between displacement and return, the need of the younger generation needed factoring in as well). As noted above, there was very little housing production during the war years, and by 2002 formal¹⁶ housing production had not returned to more than one third of pre-war levels. Little attention was paid to essential maintenance, particularly of the (now largely privatised) public housing stock.

¹⁵ In 2001, UNHCR published that the shortage of housing units needed to be reconstructed stood at 26,536 for those who are in the so-called process of return (while "cleaning" and "overnight" they are accommodated in improvised shelters)

¹⁶ No quantitative information is available regarding the significant amount of informal (and technically illegal) housing construction which takes place in and around major urban centres in the three countries.

Further demand side factors contributing to shortages include the steady decline in household sizes and continuing urbanisation during 1991-2001/2 (both accelerated as a result of the wars, while urbanisation was also spurred on by the dismantling of the state enterprise sector, which has adversely affected rural off-farm employment). These factors have exercised considerable pressure on the urban housing stock, while significant numbers of vacant housing have emerged in rural areas, perhaps most strongly in Serbia, where the aggregate imbalances presently appear largest.

An additional problem is impoverishment; although there are no hard data available to describe magnitudes, it is clear that the combination of war and the demise of the socialist mode of housing production has created a situation in which even a well-functioning housing market would only be able to cater for a part of the needs of the population, as market-based solutions are bound to be unaffordable to some 25-30% of the population.

This is made evident by multiple household occupancy of existing units and the emergence of informal settlements at the fringes of major urban areas, again most significantly in Serbia and Montenegro. The above picture is further complicated by the largely completed, leap-and-bounds manner of privatisation of the public housing stock. This was handled primarily through sales (at less than 30% of estimated market value) to the de-facto occupants. However, in a significant number of cases these occupants were not the legal tenants, many of whom had in fact fled during the war.

Government and private sector responses to this differ significantly between the three countries. Recently, good progress in housing policy programme development has been made in Croatia with their work on social housing law, the allocation of budgetary resources, as well as the mobilizing of local and international capital market resources to address these issues. The situation is problematic in Serbia and Montenegro, where there is less of a government response capacity, and where private financial sector financing is still very limited.

The limited government response capacity in all three countries at a time of economic crisis (particularly in Bosnia and Herzegovina and Serbia/Montenegro) continues to be a matter of serious concern, as it impedes the realisation of the economic potential of a viable and vibrant housing delivery sector. This has a major impact on the overall economy, given the relatively high multiplier impact of investment in housing on income and employment generation, particularly through its demand links to the construction materials industry.

In both Bosnia and Herzegovina and Croatia during the last two years, the financial sector has shown a serious interest in developing a mortgage backed housing finance market, and this has led to several thousands of such loans being approved in each country (it must be recognised, though, that these loans are not affordable to a sizeable segment of the population).

5.2.2 Refugee-related housing issues

Refugee-related housing issues have compounded overall housing sector issues in quite different ways in each of the three countries. In Bosnia and Herzegovina the predominant need has been the reconstruction of housing for returnee refugees and IDPs, along with the repossession by their rightful DP or refugee owner of housing units which were illegally occupied (mainly by other IDPs). In Croatia, this latter issue is complicated by the fact that the government had explicitly provided for this in the Law on Temporary Take-over and Administration of Certain Property (LTTP). The recently amended Law on Areas of Special State Concern (LASSC – which regulates the property repossession regime) specify that properties allocated within the framework of the LTTP may remain occupied by temporary users as long as alternative accommodation is not provided to them. This effectively prevents the owners, who are mostly refugees or IDPs, from repossessing their property until a durable housing solution is found for its temporary users. Although the amended LASSC provides some compensation to the owners for the continued use of their property, it falls short of stipulating the main principle of securing private property – i.e. that the legal owner can freely enjoy and dispose of his/her property as they see fit.

Furthermore, many refugees from urban areas had ‘tenancy rights’ in Croatia before the exodus, which were revoked by authorities once the refugees (tenancy rights holders) had fled. These apartments were allocated to new users who were then given the opportunity to purchase them, instead of the initial tenancy rights holders. This has left refugees from urban areas without the possibility of returning or receiving compensation for their cancelled tenancy rights.

In Serbia the majority of refugees surveyed in 2001 have indicated their preference for local integration, rather than for returning to their place of origin¹⁷ and this is believed to be the same in Montenegro. In part this may be a consequence of problematic cross-border property rights, such as those noted above, but this preference is also increasingly seen as the outcome of broader socio-economic considerations, in which the families concerned clarify that, after having been in Serbia for a long time (some for as many as 10-11 years), and with the socio-economic changes in the region, they no longer expect to benefit economically from returning. Thus the refugee housing issue in Serbia and Montenegro is now largely seen as an issue of local settlement (which, in any event, to a large extent appears to have already occurred spontaneously in the “regular” housing market).

In all three countries the refugees return and (re-) housing issue is well on the way to resolution thanks to the concerted efforts of the International Community (IC) and the growing awareness of the obligation to resolve these issues in a durable way on the part of the respective governments in the three countries, particularly over the last two years. However, in each of the countries there is still a considerable backlog of cases, all of which will require a combination of new housing development, upgrading of existing settlements, as well as better utilisation of the existing housing stock and improved housing finance mechanisms.

However, there is a strong regional dimension to the housing dimension of the returns issue. For example, currently, 21,000 Croatian Serbs with refugee status revision pending are still present in Bosnia

¹⁷ However, when a concrete opportunity to receive reconstruction assistance (subject to de-facto return to Croatia) from the government of Croatia became feasible, UNHCR initiated a campaign in Serbia to enable interested refugees to submit a reconstruction application. Some 57,000 persons then opted for this solution, which is 10 times more than the number of those with damaged properties who stated in the 2001 registration that they wished to return.

and Herzegovina, in many cases occupying Bosnian- or Croat-claimed property in the Republika Srpska. Their prospects of a return to Croatia are complicated by the absence of a regional property exchange information mechanism, as well as by the limited facilitating property legislation in that country - in particular legislation enabling the return of former socially owned property (see section 5.4 below). This population is an added burden on the Bosnia and Herzegovina authorities, since it adds to their already pressing obligations to provide alternative accommodation for Bosnia and Herzegovina citizens who must leave claimed property, in accordance with the Bosnia and Herzegovina property laws (section 5.3 below).

5.3 Refugee-related housing policies and programmes

5.3.1 Overview

Due to the reasons noted above there is a substantial shortage of housing and related infrastructure in all three countries, most obviously in Serbia. Numerical estimates of this shortage are difficult to make due to limited reliable up-to-date statistical information. However, clearly housing market demand in and around the major urban centres is highest, while in certain rural areas there is an oversupply of housing units due to changed socio-economic conditions (the closure of former state factories and the lack of alternative employment).

In each of the three countries there is therefore a clear rationale for a significant programme of new housing development, the rehabilitation of existing units and measures enhancing the functioning of the housing market. There is a clear need for the development of a long-term national housing and spatial development policy and strategy, including mechanisms for the provision of housing related land development and infrastructure.

However, this must be developed in a socio-economic environment with relatively limited options for economic growth, limited capacity to borrow, limited financial sector development, high unemployment levels and an on-going privatisation process. On the other hand, housing production will serve as an economic driver, given the relatively high multiplier impact of investment in housing on income and employment generation, particularly through its demand links to the construction materials industry.

5.3.2 Medium-term (4-5 years) programme development perspective

As noted above, the combination of structural housing demand and supply factors, combined with a still considerable backlog in the resolution of refugee-related housing cases, suggest that there are considerable housing shortages in all the three countries. Meeting these shortages will require a combination of new housing development, the upgrading of existing settlements, as well as better utilisation of the existing housing stock and improved housing finance mechanisms.

Well-targeted housing programmes (to the tune of some 15,000 units over a 4-5 years period) in each country could make a major contribution to the resolution of refugee related housing issues, while simultaneously providing a much-needed boost to the economy and a basis for the development of a long-term housing policy. In all three countries there is a need for capacity building at national level for policy, strategy and finance mechanism development, and at municipality level for the implementation of housing programmes, the development of financial procedures and the organisation of a related infrastructure.

There are significant differences in approaches taken in this regard between the three countries, but in all three, the overall housing agenda is strongly dominated by the need to resolve refugee-related housing issues in that context.

5.3.3 Housing action in Bosnia and Herzegovina

The international community (IC)'s efforts in refugee-related housing support have served the primary objective to reverse the demographic impact of the war, in accordance with the Dayton Peace Agreement Annex VII on provisions. From early 1996 onwards, the IC effort on housing has therefore focused on promoting and facilitating refugee and DP returns, particularly minority returns. In housing terms, this has led to a focus on two major areas of operational concern:

- reconstruction of returnee housing units; RRTF (see below) has been the lead agency in this IC effort, and
- the property law implementation programme (PLIP), to ensure that returnees can repossess their property illegally occupied by others during the war; UNHCR, OHR, OSCE, UNMIBH and CRPC are the five agencies collaborating on this programme.

The caseload of claims filed under PLIP was about 246,000 by end-December 2002. On these, a decision was taken in 210,000 cases, and 169,000 properties were repossessed between October 1999 – December 2002¹⁸. Thus, at end-December 2002 some 41,000 repossession cases were still in various stages of the legal process, while another 36,000 still required a decision, for a total of 77,000 as yet unresolved cases at end-2002 (ultimately leading to the eviction of the illegal occupants of those units).

According to the State Ministry for Human Rights and Refugees, 25,000 properties of returned refugees/DPs with damage to 20% or more were reconstructed between 1996-2000.¹⁹ Of this total, about 13,600 housing units were repaired or reconstructed through IC efforts, as estimated by the International Management Group (IMG – see below) in early 2001²⁰. The IMG also estimated on the basis of a nationwide survey of destroyed and damaged properties that at end-2000 some 15,000 units of returnee housing still needed repair or reconstruction at a total cost of KM 265 million²¹. By August 2001 the net additional reconstruction requirement (accounting for on-going reconstruction) at mid-2000 was estimated by the national level Reconstruction and Return Task Force (RRTF – see below) to be 22,000 units.

In the early years of the reconstruction efforts, there was insufficiently tight management of the process, as a result of which it is estimated that at least 2,000 to 3,000 reconstructed units remained unoccupied, as they did not match the apparent location aspirations of the returned refugees/DPs for whom they were intended. It is thought that this, at least in part, is related to the lack of employment opportunities and infrastructure availability in the locations of origin where their housing was reinstated²².

¹⁸ OSCE/UNMIBH/OHR/UNHCR/CRPC PLIP statistics 31 December 2002

¹⁹ In addition, the Ministry estimated that all properties with damage of less than 20% had been repaired.

²⁰ IMG data base: Reconstruction Needs in Bosnia and Herzegovina, January 2001

²¹ Ibid.

²² Quantitative estimates of the number of units involved vary significantly; some sources suggest that, based on a limited geographical sample, the number of unoccupied units may be as high as 36,000 nationwide. It is clearly important to carry out a comprehensive national survey to establish the actual number of unoccupied units, the reasons why they remain unoccupied, and how these units can still be used productively in resolving housing shortage issues.

Early experiences with reconstruction during the war led to the establishment in 1994 of the International Management Group (IMG) for reconstruction (at the initiative and under the auspices of UNCHR), which included a housing unit that developed a data base on housing reconstruction requirements and on-going efforts (generally implemented through a variety of NGOs with different approaches); proposed common reconstruction standards for various levels of damage recommended for use by all IC efforts²³; provided a forum for sharing experiences and approaches²⁴, and for monitoring achievements. In early 2001 the IMG ceased to function. Recognising that the housing reconstruction effort needed a broader support mechanism, UNHCR and OHR established the Reconstruction and Return Task Forces (RRTFs), which operate at State, Entity and Canton level. Participation is limited to IC and NGO members.

From FY 2001 the State and the Entities started contributing to the reconstruction effort in a major way, to the tune of a budget provision of KM 55 million (ca. EUR 28 million) in that year, mainly for the provision of building materials on site, for an expected additional self-help reconstruction of some 6,500 units. This represented a very positive step forward, and was followed with the provision of about KM 91 million (ca. EUR 46.5 million) for return issues in 2002, out of which approximately KM 8 million (ca. EUR 4 million) was allocated for providing alternative accommodation, while the remainder targeted the direct return of refugees and DPs.

The IC housing reconstruction effort amounted to some 3,700 units in 2001. The funds of the International Community for reconstruction needs in 2002 were estimated at approximately more than KM 100 million (ca. EUR 50 million). Resources for reconstruction are declining, while the interest in and numbers of returns are in constant growth. Currently, the disparity between the level of interest in return and the existing potential for reconstruction is at its highest since the Dayton agreement was signed.

If the necessary resources for reconstruction of housing units for refugees and DPs could be secured by merging and rationalizing all available funds for reconstruction and return in Bosnia and Herzegovina, this would guarantee that, in combination with property law implementation, the majority of requests for voluntary return to and within Bosnia and Herzegovina could be realized in the following two to three years, and the process could be entirely completed by 2006.

There is an urgent need for co-ordination between the State/Entities effort on the one hand and the IC effort on the other, as the above RRTF delivery estimates do not fully consider the Entities reconstruction delivery to date. Projecting the mid-2001 RRTF requirement estimates to end-2001, and assuming that the expected IC/Entities-funded 2001 output will be achieved in full, suggests that remaining reconstruction needs on that basis will be about 15,000 additional units at that time. Based on present knowledge, this can therefore be seen as the minimum reconstruction requirement for 2002 and beyond²⁵.

²³ IMG, Standards for the Rehabilitation of War-damaged buildings, February 2000, Draft

²⁴ E.g. the Norwegian and Swedish supported projects in Zenica and Tuzla, which clustered reconstruction in larger numbers of units in order to make it more cost-effective and to reconstruct communities rather than individual housing units, but which generated much discussion about the interpretation of reconstruction, as it clearly meant that a number of families were not re-housed in their places of origin.

²⁵ However, according to the State Ministry for Human Rights and Refugees, "it can be estimated that, with the aim of meeting the increased level of interest in return, the priority for reconstruction is 50,000 housing units before end 2006, which would secure the direct return of up to 200,000 DPs and refugees over the next four years. In combination with property law implementation, this would represent a substantial contribution to the

As noted above, the IC approach to reconstruction evolved over time, as concerns with cost-effectiveness increased. In the process, some IC members piloted with more clustered approaches, as well as with attempts to link reconstruction to the property repossession programme (see below). Some of the IC supported reconstruction effort currently incorporates a gradual shift to programmes offering reconstruction loans under hard (Prizma) and soft (World Vision) terms as a support mechanism, rather than grants²⁶, as well as to programmes which endeavour to address other issues along with housing (employment through the provision of equipment and/or SME loans and the development/rebuilding of education and health care facilities).

In addition, several banks have initiated mortgage-backed (and guarantor-backed) lending for housing at reasonably long (up to 15 years) maturities. This development has been stimulated by the EU supported (EUR 25 million), KfW implemented Housing Construction Loan Programme (HCLP) of the European Fund for Bosnia-Herzegovina, which has kick-started a commercially oriented housing finance system through local banks, with more than 2,800 loans approved by end September 2001 – at an aggregate loan value of KM 50.6 million²⁷. Some 25% of the approved sub-loans in this programme are refugee-related.

5.3.4 Housing action in Croatia

In Croatia, housing resolution approaches undertaken by the government in relation to returned refugees and IDPs fall into three distinctly different, but linked categories:

a) Reconstruction of housing units damaged or destroyed during the war: In the governmental Action Plan on Refugee Return²⁸ it was estimated that some 25,000 units still needed reconstruction in mid-2001 (under the provisions of the Law on Amendments to the Law on Reconstruction) in order to facilitate the return of refugees and displaced persons. Depending on the degree of damage, government provides compensation in the form of cash to the beneficiaries in case of minor damage (categories i to iii), and undertakes to reconstruct houses in case of major destruction (categories iv to vi), once a positive decision has been taken on a request for reconstruction, filed under the above legal provisions).

Funded by government budgetary resources, a Council of Europe Development Bank loan and some smaller grant support from international agencies, the government embarked on a programme of reconstruction of about 12,500 units during 2001-2002. As of end-2002 there remains a maximum estimated number of 12,500 units of the inventory still to be covered through cash grants for repairs or through full reconstruction. It should, of course, not be assumed that all requests will receive a positive decision, but it appears a reasonable expectation that some 6,000 additional cat. i-iii grants will still be required, and that an additional 4,000 units with category iv –vi damage will still require reconstruction during 2003.

b) Provision of alternative accommodation related to the repossession of refugee-owned properties temporarily occupied by other families under the provisions of the law on Temporary Take-Over and Administration of Certain Property (LTTP decisions). In the early 2001, the review of more than

implementation of Annex VII (GFAP) and the return process, in accordance with the criteria for an assessment of the implementation of Annex VII (GFAP).

²⁶ The volume of these efforts is still small; the shift in approach has been inspired by perceived donor fatigue related to refugee-related reconstruction (RRTF, 10 October 2001)

²⁷ KfW HCLP overview. In December 2001, the Netherlands FMO added a loan of EUR 2.56 million to HLFP, and further support to the fund is envisaged to be provided through a CEB loan.

²⁸ Republic of Croatia, Action Plan on Refugee Return, June 2001

Government 21,000 LTTP decisions found that at that time about 10,000 units were still occupied by temporary users and should be repossessed by their owners. After further verification, it appeared that the number of allocated units for temporary occupation was about 18,500²⁹. As of 1 February 2003 about 8,600 units had been repossessed by their owners, some 3,600 units were vacant but not yet repossessed, while some 6,700 units were still occupied by temporary users³⁰.

Out of these remaining temporary occupants, 1,700 occupy the house they live in illegally or have already obtained alternative accommodation (and in both cases have been served with eviction notices). Alternative accommodation thus still needs to be found for the remainder of the temporary occupants (5,000 households) in order to enable repossession (under the provisions of the Decree on the Conditions and Criteria of Accommodation in the Areas of Special State Concern).

c) Provision of housing for returning refugees who, prior to their leaving Croatia, held tenancy rights to an apartment in formerly publicly owned housing units, which have since been privatised. Government has recently recognised that, in principle, a former tenancy right holder is eligible to restoration of title, if illegally dispossessed. However, the estimates of households for which the government has an obligation to provide alternative housing vary considerably (in part because criteria for entitlement have not yet been clearly established). If this obligation is restricted to de-facto returnees, up to 5-7,000 households may require alternative housing provision in Croatia.

These categories are linked to the extent that some houses to be reconstructed are de-facto occupied by temporary occupants under LTTP, who will need to be provided with alternative housing and thus move out before reconstruction can begin. Additionally, alternative accommodation is needed for both the LTTP occupants and for the former tenancy rights holders. It appears a reasonable expectation that the total, as yet un-provided for (budgetarily or from the existing stock) reconstruction and alternative accommodation requirements will be in the order of 15,000 housing units. In addition to these specific refugee related housing requirements, there is likely to be a significant unmet general housing demand in urban areas, fuelled by the demand of the above returnees who lost their refugee status (aside from LTTP temporary occupants).

The government is embarking on further programmes to meet these requirements with additional domestic (from the capital market) and international (CEB) loans. In addition, since mid-2002 the Government has been implementing a new USAID-assisted housing support programme consisting of two pilot projects, designed to help expedite the above issues: a voucher system for self-help reconstruction, and use of the private banking system, supported by a USAID guarantee, to finance alternative accommodation and reconstruction.

5.3.5 Housing Action in Serbia and Montenegro

In Serbia and Montenegro, refugee and IDP-related housing issues differ from Bosnia-Herzegovina and Croatia in that there was only very limited property destruction during the wars (with the exception of Kosovo), so that the basic housing resolution issues are by and large twofold:

- reconstruction of housing/property and restoration of property rights of refugees in Serbia and Montenegro in the countries of origin (as discussed above), and ;

²⁹ Estimate of units occupied under LTTP; in addition, “spontaneous” occupation also took place – there are no numerical estimates of the number of cases in that category still requiring resolution.

³⁰ MPWRC-ODPR Update on repossession of property, February 2003

- housing development required to accommodate the local settlement of refugees and IDPs, in as far as they prefer that option over return; the importance of this is illustrated by the fact that 62% of refugees and IDPs in Serbia interviewed in the registration survey in 2001 indicated their preference for local integration in Serbia, with 5% indicating a preference for return and 33% being undecided. In Montenegro a similar situation was indicated in the surveys carried out in 1999 and 2000.

A sizeable proportion of the refugees in Serbia and Montenegro rely on the “regular” housing market in their municipality of residence, with the largest group in both republics (40%) relying on the rental market, while a further 28% in Serbia and 20% in Montenegro live with friends or relatives. 22% own their own house or apartment in Serbia (illegally); in Montenegro this percentage is 18%. The proportion of refugees and IDPs living in collective centres is limited to 5% in Serbia, but is much more significant in Montenegro at 12%.

Impressionistic evidence which has emerged over the last ten years suggests that in major urban centres (like greater Belgrade and Novi Sad in Serbia and Podgorica in Montenegro) refugees are strongly dependent on the “informal” housing market, with rental and ownership arrangements covering a wide spectrum of “housing solutions” ranging from renting rooms and garages, through to renting unfinished houses to owning complete, single family dwellings.

Institutional framework, housing strategies and programmes in Serbia

In Serbia the government considers housing to be a private sector activity with only limited direct government intervention (related to socially disadvantaged households); indirect intervention relates to urban planning; urban land management and building permits procedures at local government level. At Republic level in Serbia the Ministry of Construction and Urban Planning has responsibility for policy setting, the legislative and regulatory framework and for programme development.

There are plans for developing a western style mortgage-based housing loan market, with the resuscitated pension funds as major investing institutions, but this awaits not only the revitalisation of the pension funds, but also that of the banking sector.

Apart from private sector, individual and developer-led housing in the formal and informal sector, there are about 600 registered housing co-operatives in Serbia, of which about 150 are operationally active, with an annual production level of 900-1,000 units over the last few years.

With regard to refugee (re-) housing, the UNHCR Local Settlement Programme (LSP) includes a large number of small externally supported projects (UNHCR/SDC/HRC primarily), which delivered 1,600 housing units for 9,000 refugee beneficiaries between 1999-2002³¹. The lessons of these projects (ranging from delivering complete units to self-help with a variety of financial and operational mechanisms) are interesting and point the way to possible directions for up- scaling.

The inter-ministerial task force on durable solutions for refugees (consisting of representatives from the Ministries of International Economic Co-operation, Foreign Affairs, Social Affairs, Construction, Labour and Privatisation and from the Office of the Commissioner for Refugees) has developed a national

³¹ UNHCR Local Settlement Programme data, Feb.2003

strategy for resolving the problems of refugees, which includes integrative action including (re-) housing and (re-) settlement, and which was adopted by the Government of Serbia in June 2002.

The strategy considers that all measures aimed at promoting integration should be in conformity with international standards and should avoid promoting any discrepancies with the economic and social conditions of the local population. Integration projects should also include a proportion of local citizens as beneficiaries, in particular the socially disadvantaged, and these projects should be prepared and implemented in close co-operation with municipal authorities.

The type of strategic actions to support the housing sector envisaged in the strategy include provision of credit and fiscal benefits to refugees and providing incentives to local authorities to develop the required infrastructure. Four major housing programme development lines are included in the strategy:

- building new apartments and housing for purchase;
- building new apartments and housing for rent,
- (in both cases building on the variety of approaches already tested in the LSP, also reaching out to similarly disadvantaged groups among the local population);
- providing self-help support to ensure the completion of unfinished housing units; and
- providing credit for the purchase of property in the villages of Vojvodina and central Serbia.

Specific programmes for making these approaches operational are currently being elaborated for external support by the Ministry of Urban Planning and Construction (MUPC) together with the Serbian Commissioner for Refugees, assisted by the newly formed Social and Refugee-related Housing Secretariat (SRRHS), which was established in late 2002 to assist the Government of Serbia in implementing the housing part of the national strategy. The two most significant projects under preparation are:

- the UN-Habitat/Co-operazione Italiana supported Settlement and Integration of Refugees Programme (SIRP), intended to make a contribution to the implementation of the national strategy by delivering 670 housing units in 6 municipalities, and through capacity-building support for policy and programme development at national level, primarily in the MUPC.
- A proposed CEB supported refugee-related housing project, intended to make a contribution to the implementation of the national strategy through the delivery of about 2,000 housing units in selected municipalities.

The SRRHS also assists the Ministry in the elaboration of an overall housing policy, which is envisaged to be completed and adopted in late 2003.

5.3.6 Refugee-related housing development in Montenegro

With a population of about 160,00 (2002 projection – no population census has been undertaken since 1991), Podgorica is the capital and the largest city in the Republic of Montenegro, having about a quarter of the total population and 28 % of the refugee and DP population in the country. The city's housing shortage is acute, as illustrated by the significant numbers of housing illegally built on municipal land (about 14 -17,000 units), which house a sizeable segment of the refugee and DP population. The housing stock more generally suffers from considerable lack of maintenance and is thus in a state of dilapidation. The city additionally houses a large number of Roma families in sub-standard living conditions. Similar

conditions, although to a lesser extent, are found in other urban areas. Illegal settlements, collective centres for refugees, IDPs and Roma and a general lack of housing maintenance are visible throughout the towns in the republic.

The international community (primarily through UNHCR/SDC) has provided for 200 refugee and IDP housing units since 1996 in several locations throughout Montenegro. The Municipality of Podgorica is preparing a major project for international support: the proposed municipal area upgrading project in Zagoric/Zlatica area. This project, for which a feasibility study was completed in November 2002, entails the legalisation of land tenure, the upgrading of municipal infrastructure and the densification of occupancy in the project area, leading to the legalisation of some 950 existing housing units (in part occupied by refugees and IDPs) and the creation of some 650 new legal housing opportunities. These are intended to be used in part to re-house refugees and IDPs, and thus are intended to absorb some refugee and IDP families currently housed in family settlement-type Collective Centres in Podgorica.

5.4 Outstanding issues and constraints

5.4.1 Limited institutional capacity

As noted above, the decade of war in the region and its aftermath along with the structural socio-economic transformation has resulted in considerable neglect of the housing sector in all three countries, albeit to a different extent. Apart from plummeting housing completions, and the collapse of the public enterprise system (including its housing management functions), this has also led to ad-hoc policy decisions, such as the ill-considered sale of the socially-owned rental housing stock at rock-bottom prices to the tenants in all three countries, and the adoption of the LTTP law in Croatia. In addition, formal housing sector deficiencies in responding to demand, have led to the emergence of informal housing development in and around major urban centres in all three countries, as well as to excess supply in locations where there is little demand as a result of the above factors.

In their attempts to resurrect the housing sector and integrate concerns with refugee and IDP-related housing issues, the first concern of governments and the international community has been to remedy war damage, to a large extent supported by international donations. From 2001 such immediate action support has begun to make way for the development of more structural approaches to housing. However, this requires housing policy makers to consider the housing market in supply and demand terms in all its segments. It also requires a changeover from grant financed housing support for refugee and IDP related housing projects (as well as for housing for the locally needy population) to programmes supported through local and international loans, with appropriate repayment and cost-recovery provisions.

Central government institutional capacity to develop appropriate enabling instruments to support market-based housing development is still limited (or absent in the case of Bosnia-Herzegovina, where housing is not a subject of State concern, but of Entity concern). This relates to the development of enabling national legislative frameworks and institutional mechanisms, calibrated and effective (national) subsidy schemes, the appropriate divisions of roles and responsibilities between central and local government, support for the development of housing finance through private sector financial institutions, land information systems, and the development and implementation of housing programmes and projects which integrate refugee and IDP-related housing with housing for the local population in need.

The central government departments concerned have a shortage of well-trained staff to envisage what is required, and to develop policies in these areas (much of which is new), to design programmes, and to handle a range of related practical operational issues, such as how to prepare feasibility studies appropriate for international financial support agencies and work with these agencies. Similar constraints exist at local government level, where local housing projects must be supported by enabling local government actions improved access to land and infrastructure.

In large measure such capacity problems relate to the unfavourable terms and conditions of service in government, and by implication to the budgetary constraints faced by the governments. However, the above capacity problem is compounded by similar problems in the institutions for academic and professional education, where specialised teaching and training capacity on market-based housing policy and programme development is virtually nil.

5.4.2 Lack of comprehensive policies

As noted above, housing development in the post-conflict period in the three countries is characterised by ad-hoc decisions and isolated projects, mainly geared to reconstruction. From 2001 onwards an awareness emerged that such interventions are not sustainable and that there is a need for a more comprehensive policy framework, but this has not yet led to the development of comprehensive housing policies.

In Bosnia-Herzegovina this has been complicated by the legal fact that housing is a subject for Entity concern, not State concern. This hampers the development of a comprehensive national housing policy. However, as resolution of refugee and IDP issues is a subject of State concern, refugee and IDP related housing have begun to be addressed comprehensively in the framework of the State Commission for Refugees and Displaced Persons, through the establishment in October 2002 of an Expert Group on Housing Issues as regards refugees and returnees. The Expert Group, however, has just started its work by preparing its 2003 Action plan and is short of resources to implement it.

In Croatia, important steps have been taken towards the development of a national policy framework, but there are still important building blocks to be developed, including a framework for tenant management associations; a municipal asset management policy and development programme; improvements to cadastral registration systems; and the development of further financial instruments to provide incentives to private financial sector participation in housing. The latter could be in the form of the promotion of a secondary mortgage market, the establishment of a mortgage guarantee fund and a title insurance fund.

In Serbia, the MUPC has embarked upon the development of a national housing policy, while with respect to refugee and IDP-related housing it has adopted a programme of action by contacting the approved national strategy on resolution of refugee and IDP matters. This effort is supported by the Social and Refugee-related Housing Secretariat (SRRHS), established in November 2002, which organised a housing policy stock-taking roundtable in March 2003. From this inventory it transpired that many important issues still require to be addressed in these contexts, such as the recognition of the informal housing market and its legalisation, the resurrection of the rental housing sector for social and affordable housing, as well as institutional roles and responsibilities, including those of local governments and existing housing co-operatives. In addition, there are major missing pieces with regard to a market-based housing finance system, the beginnings of which are now emerging. An additional

constraint in the further development of policy and programmes is the fact that the SRRHS is a temporary service organisation without legal status.

In all three countries there are some pilot projects on the way, which will provide important lessons and experience and which will inform housing policy development. It must be recognised however, that this “learning by doing” approach, whilst essential, will require considerable time.

5.4.3 Financial sector limitation

A significant constraint in the development of a market-based housing finance system is the relative underdevelopment of the financial sector in all three countries. A commonality is formed by the fact that the banking sector by its nature finds it difficult to engage in the long-term commitment required for lending in the housing sector. Commensurate with the economic life of the asset embodied in a housing unit, one would typically think of loans with at least a 15-year maturity.

Under the best of circumstances, banks would only enter into that type of long term exposure if their risks were adequately covered. This requires that the wherewithal for a well-functioning mortgage-backed housing finance market should be in place (including adequate property information and title systems, which are accessible and transparent, a property valuation capability, enforceable mortgage legislation through the judicial system, and a mortgage loan insurance and/or refinancing facility). For the development of an institutional rental housing market (based on housing associations or corporations) similar (but institutional) financial safety requirements apply.

In addition, however, such a market-based housing finance system presupposes a viable and vibrant financial sector. The financial sector in all three countries is still in an early stage of development. In Croatia, which is furthest on the developmental path in this regard, the financial sector has expressed considerable interest in developing mortgage-backed financial instruments. In this case the constraint lies predominantly in the absence or underdevelopment of some of the (government-led) support elements in order to enable a mortgage backed housing finance market to operate broadly and to reach down fairly deeply into the housing market.

In Bosnia-Herzegovina, there are similar constraints, but in addition, there are as yet not many viable financial institutions that can comfortably develop such financial products (particularly in the RS). The KfW managed European Fund for Bosnia and Herzegovina’s Housing Construction Loan Programme plays a major role in the development of the banking sector’s capability to service this market, through its combination of refinancing housing loans from the collaborating (12) original banks, due diligence and capacity-building. Its operation deserves to be reviewed so that an assessment can be made to identify the extent to which it might be expanded and/or developed into a more sophisticated set of housing finance instruments (in as far as refugee-and IDP related housing possibly backed up by the Return Fund envisaged in the Annex VV (GFAP) Strategy, for which a basic regulatory framework is already in place).

In Serbia and Montenegro, the banking sector as a whole is still underdeveloped, and this significantly limits the possibility of developing viable housing finance. However, consideration could be given to developing a capacity-building refinancing facility along similar lines to the European Fund in Bosnia and Herzegovina, starting initially with a few of the recently established and restructured banks.

5.4.4 Cross-border property issues

Due to the still large number of unresolved cross-border property claims of refugees, property titles in one country cannot be used in support of housing action in another. This forms a significant problem in resolving refugee and IDP-related housing problems in a market-based way, as, effectively, these cross-border assets remain “dead capital”.

A series of support measures will be required to unlock this asset base, starting with the development of a regional property information data base recognized by all governments, which would identify (and possibly adjudicate on) outstanding cross-border property claims and liabilities. A second step would be to attach a monetary value to these claims and develop financial mechanisms for their cross-border resolution, perhaps in a similar way as is done for pension rights. An appropriate valuation mechanism is required to make this possible, recognized by the three governments.

Enhanced flexibility in dealing with such claims may also more easily resolve some of the outstanding in-country reconstruction issues: monetizing reconstruction support rights, and untying these rights from physical reconstruction at the pre-war site where property was destroyed, would increase the effectiveness of such grants. The introduction of the reconstruction voucher system in Croatia for this purpose is an interesting example towards this; its impact needs to be assessed and consideration deserves to be given to wider spatial applicability beyond the Areas of Special State Concern.

5.5 Recommended orientations for further policy responses

5.5.1 Policy development

As the post war situation in the three countries gradually returns to normality, and as the market-based socio-economic organisation of society takes hold, it is important that concerted efforts are made by the countries’ governments to develop a comprehensive housing policy, incorporating refugee-related housing policy and programmes, and which is appropriate for each country’s socio-economic position and the financial capacity of its civil society and government.

As such, the emerging efforts to move towards this in the countries described above are steps in the right direction. However, they need to be reinforced and nurtured in a participatory policy development process, which brings together all major stakeholders (including concerned central government agencies, local government, financial sector representatives, associations, developers, etc). The process will, of necessity, have a strong element of learning-by-doing. Development of a policy should not be seen as an end in itself, but rather as a dynamic policy articulation, which will need to be adjusted from time to time as experience with policy, programme and project implementation grows. The monitoring of such implementation, and feedback from that into policy adjustment is therefore an essential part of the process.

In order to make this operationally possible, it is essential to install a central government capacity to drive such a process, as much as possible building on mechanisms and structures which already exist, such as SRRHS in Serbia. However, these structures and mechanisms will require considerable strengthening if they are to play their role appropriately.

5.5.2 Programme development and implementation

Within the framework of such a policy, and in the process of its development, a variety of programmes and projects will be required. The basic precept is that any government intervention will be to lever private investment and/or is directed to assisting the socially weaker and vulnerable groups in society.

There is a rationale for a programme of 15,000 housing units each in Bosnia-Herzegovina, Croatia and Serbia for implementation over a 4-5-year time span (and a lower number of perhaps 5,000 units in Montenegro).

Such a programme could have the following features:

- a) Recognition of and incorporating existing illegal “wild” housing areas, which have come to house a significant segment of the (peri-)urban population, including local low-to middle income groups, as well as refugees and IDPs; these illegal neighbourhoods are all located in areas where there is an unquestionable housing demand; they generally comprise a high proportion of incomplete structures, the completion of which is a cost-effective way of increasing the housing stock; in these areas infrastructure is generally partially completed, and there is significant potential for in-fill and densification, which, again, is a cost-effective way of utilising scarce resources to develop infrastructure and to generate additional housing opportunities; the Zagoric/Zlatica project concept in Podgorica (in which public infrastructure development costs can be fully recovered from land legalisation, lease and sales charges) provides a model to emulate with appropriate local modification;
- b) More generally, upgrading/conversion and extension of existing housing units in the stock should be seriously considered for similar reasons of cost-effectiveness, particularly where this concerns abandoned, disputed or partially completed buildings of intrinsically good quality (some collective refugee centres have such potential) ;
- c) New government inspired housing could be developed in municipalities with high demand levels and significant proportions of refugees and IDPs; the municipality concerned should take a lead role in identifying demand and appropriate locations, as well as providing serviced land. The technical scope of projects will vary significantly from place to place, and could include a range of housing opportunities from fully self-help through core housing to complete units (free standing or in apartments) ;
- d) In tenure terms such schemes could have a range of options, including freehold ownership, hire-purchase, co-operative ownership and housing for rent; given the emasculation of the former social housing stock for rent, and the high proportions of refugees and IDPs who depend on rental accommodation, it is particularly important to ensure a good proportion of new rental housing ;
- e) For any programme of apartment development and housing with non-freehold ownership, considerable attention needs to be paid to the issue of the management of the stock once it is built in terms of operation and maintenance (particularly of the communal areas), rent/instalment collection and tenants relationships. Moreover, the issue of the form of institutional management needs to be addressed: sometimes existing structures and mechanisms can be used (e.g. the housing co-operative model or that of the tenants’ association), but experiments with alternative institutional forms of

management (for instance the Austrian Housing Association GPA-built apartment complex leasing arrangement to the Canton Sarajevo) will need to be monitored as to their replicability as well;

- f) Such physical development programmes need to go hand in hand with the (further) development of housing finance mechanisms through the private financial sector, supported by an enabling framework which is itself provided by government; the likely trajectory will vary significantly, depending on the degree of development of the financial sector. The HLCP of the European Fund for Bosnia-Herzegovina is a useful model to consider and emulate with whatever further sophistication may be required in terms of guarantee and risk management mechanisms;
- g) Government grant support, where this continues to be required, for the targeting of effectiveness reasons will need to be increasingly provided through demand-side subsidies related to income, vulnerability and refugee/IDP entitlement criteria, rather than to physical structures; the Croatian pilot utilisation of housing vouchers is an example which needs to be monitored and assessed for its wider application.

5.5.3 Institutional development, capacity building and training

Clearly the above policy and programme development and their implementation will require major institutional development, capacity building and training, as many of the directions are to all intents and purposes a departure from the socialist past. Major efforts will be required to strengthen the central government units and structures where the lead is taken in these efforts, in some cases (like in Bosnia-Herzegovina) experimenting with a so-far untried institutional set-up. In addition, further institutional development and capacity-building will be required to enhance the capacities of local governments, housing co-operatives, housing associations (and the establishment of new ones) and tenants' associations in order to play their role in the development process. In doing so, good use may be made of already on-going efforts supported by SP/RRI, SDC, UN-Habitat, UNDP, UNHCR and other agencies, not only with regard to housing development, but also for the purposes of strengthening local government management.

In the light of these requirements, institutional structures will be required to change; the staffing strength of institutions will need to be augmented quantitatively and qualitatively; and terms and conditions of the necessary operational staff must be made which are commensurate with staff attraction and retention objectives. While this is clear in general terms, this could be operationalised in each of the countries within the terms of an institutional development action plan for the housing sector.

In addition, the above developmental requirements also generate new education and training requirements, for instance in the areas of property valuation, cadastral management, housing loan administration, as well as more generally with regard to housing finance, housing management, and urban land management. This will require further capacity building in educational and training institutions within the countries (as part of a sector institutional development action plan, or as part of more broad-based education and training reforms).

5.6 Regional co-operation

Regional Property Information Exchange Mechanism

The need to develop a coherent approach to a regional and bi-lateral information exchange mechanism, focusing initially on property-related data, has been identified as a major regional issue by the Stability Pact's Regional Return Initiative. The three Governments, involved in the elaboration of AREA I, repeatedly stated their concern that property and social benefit related information, albeit existing in numerous databases, needed to be exchanged between the states, in order to streamline and better plan refugee assistance programmes. This would reduce the incidents of "double benefits" and allow for the genuine beneficiaries in need to be identified and targeted. As result of better bi-lateral relations, promoted through the AREA process, and the resulting bi-lateral agreements, limited information is already being exchanged today (i.e. Croatia/Bosnia and Herzegovina), but with only a few results being produced and important delays encountered.

This limitation is partially due to the absence of established procedures and regulatory provisions, or due to technical difficulties and the incompatibility of data, as well as administrative delays, but it is foremost due to the absence of safe systems in accordance with international data safety and protection standards. Particularly in the case of Bosnia and Herzegovina, this prevents international agencies, who still hold the bulk of data, to share this information with the Bosnia and Herzegovina central government.

In this context, a project identification mission has been carried out on behalf of the RRI Secretariat and the Government of the Netherlands. The mission concluded that the establishment of a central data base, merging available information and exchanging information in bulk within the region, was not realistic at this stage and would result in considerable delays. The time required to reach agreement with all parties and consequently to implement such a project would not be responsive to the immediate information exchange needs.

Therefore only a system which can provide case-specific country of origin information, obtained exclusively upon request, would yield rapid and satisfactory results. Experience in other situations has shown that this methodology can address the vexing questions of fragmented information resources, unnecessary duplication of efforts and resulting high costs. Such a system can operate in a standardised and systematic manner; thereby retaining the highest standards of personal data protection, while simultaneously ensuring that the information obtained is fully documented, and cross-referenced.

Enhancing regional capacity in housing development

Clearly each of the countries in the region has much to learn from one another's efforts as they chart through significantly unexplored areas in developing their housing sector and endeavour to deal with sustainable solutions for refugees and IDPs in that context.

To some extent regional information exchange is already taking place, but there is a strong case to be made for the enhanced and organised exchanges of good housing practice, through study visits, case-study documentation, dissemination and exchange. This applies similarly to the development and exchange of training and education curricula development, as they relate to the above new subject areas, while there may also be a case for regionally-based specialised training programmes.

5.7 Role of international support

Capacity-building technical assistance support

The above policy development, project and programmes as well as the proposed capacity-building measures will not come about automatically. The international community will have a major catalysing role to play in supporting these developments with capacity-building technical assistance support. In many cases this will mean building on existing initiatives already undertaken by various international support agencies, such as the Swiss Development Co-operation (SDC), directly and through the SP/RRI, SIDA, the Netherlands government, GTZ, UN-Habitat, UNDP and UNHCR. These agencies, by their nature, are well placed to provide such support through technical assistance grants

Housing finance support

The larger development support agencies, such as the international development banks (CEB, World Bank, EIB, KfW, FMO) and the European Commission/EAR are well placed to support the countries in financing housing development programmes. This is so not only because of the stream of concessionary lending/grants such agencies could provide for housing finance, but more importantly because of their ability to support the development of housing finance systems and mechanisms to lever domestic (and international) commercial funding into the housing sector.

Regional property information exchange

Considering the above urgent regional need for the resolution of refugee and IDP property claims, international support will be required for the development of a regional mechanism of property information exchange. The ultimate goal of international support for such an initiative is to develop national data management capacity in all fields related to Migration and Displacement in line with international standards, within a timeframe of 2 years. This would facilitate national, regional and international exchanges of information, through an Information Exchange Mechanism (IEM), building on the “Information Exchange Platform (iEP)” or Project Team already recruited and established through the RRI Secretariat. The first and pre-conditional task of the iEP is to develop the necessary legal and operational framework between the beneficiary governments, which will allow for the effective and successful application of the phases which follow. Thus the team will facilitate the gradual establishment of the IEM and assist the country specific projects to be developed.

Regional exchange of good housing practice

As noted above there is a clear need for increased exchanges of good housing practice, through study visits, seminars, case-study documentation, dissemination and exchange, the development and exchange of training and education curricula development as they relate to the above new subject areas, and for regionally-based specialised training programmes. International support will be required to more closely identify specific needs and to support the countries in the region to establish appropriate mechanisms, including the strengthening and equipping of specific focal institutions, for this purpose in each country.

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THE CHALLENGES OF DEVELOPING HOUSING FINANCE MARKETS IN EUROPE: ARE THERE LESSONS TO BE LEARNED ?

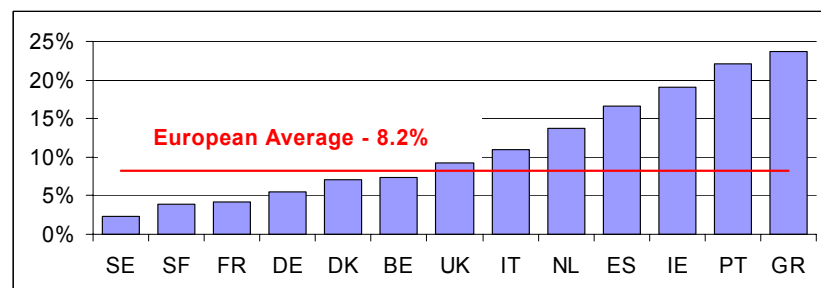
Housing represents a major asset for every household owning a dwelling. In South Eastern Europe, the housing ownership is often synonym of personal wealth. From an economic point of view, the high level of ownership in the region is an indication of the potential of this individually held capital for poverty reduction and economic growth. There is no “European housing finance model” that can be copied. Europe’s housing and mortgage markets are essentially characterised by their diversity, despite years of single market regulation. Differences in national legal systems and tax regimes combined with cultural differences have all contributed to shaping the mortgage products which are available in each country. The different product characteristics, lending procedures and the degree of consumer protection give rise to different house purchase and mortgage costs. There are however powerful catalysts at work, such as the introduction of the Euro and the increasing focus on consumer protection, which will progressively integrate European mortgage markets.

This chapter outlines the lessons which can be learned from the European experience and endeavours to summarize the pre-requisites of a well functioning housing finance system.

6.1 European housing markets – different phases of evolution

Europe is characterised by a North/South divide. When measuring the significance of national mortgage markets (by relating mortgage debt to gross domestic product) one finds that Southern European countries, including Spain, Italy and Greece, are still catching up compared to the more advanced markets in the North. These countries joined the European Union at a later stage.

Figure 5: Country breakdown for average annual mortgage lending growth (1992/2002 as a average annual % growth rate, based on volume outstanding)



Their housing finance markets were characterised by publicly owned mortgage lenders, high levels of owner-occupation, high transaction costs, few transactions, relatively few products and high mortgage

interest rates. Since joining the European Union, these countries have started to catch up and have seen a rapid expansion of their markets. Figure 5 gives a country breakdown for mortgage lending growth.

On the other hand, the Scandinavian countries and the UK have relatively developed markets characterised by high transaction levels and supported by highly liberalised financial markets.

Figure 6 : Outstanding loans backed by mortgage in residential and non-residential property (year 2001)

The final housing model is one which involves a larger segment of the population living in rented accommodation and lower levels of owner-occupation (i.e. 40 to 50 percent).

Housing finance markets in Germany and Austria are examples of this model. In these countries, housing finance systems are more specialised, highly regulated and integrated and this creates more stable but less active markets.

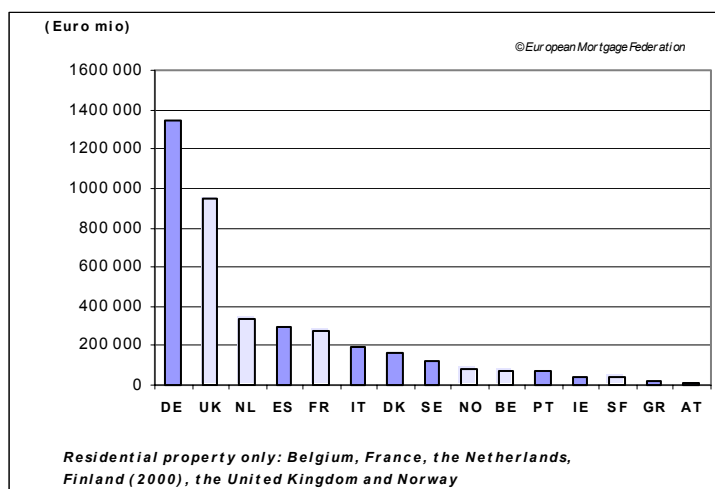


Table 3: Owner occupation levels in selected countries

Country	Most recent	Year
B	74%	1998
DK	51%	2001
D	41%	1998
EL	78%	
E	81%	
F	54%	
IRL	80%	
I	66%	1998
L	54%	
NL	53%	2001
A	50%	
P	76%	
FIN	61%	1997
S	60%	
UK	69%	2001
NO	76%	1997

6.2 No common standards for regulation of Mortgage credit

Real estate, including property rights, the registering of mortgage collateral, repossession procedures, tax & subsidies, valuation, etc., are all regulated at national level. As a result, mortgage credit is largely outside the competence of the European Union. Housing ministers from EU member States meet on a yearly basis to exchange information, focusing primarily on social housing. Although outstanding mortgage loans now exceed 4 trillion Euro, there is unfortunately little expertise and understanding at EU level of the impact of EU housing finance systems on Europe's economy³².

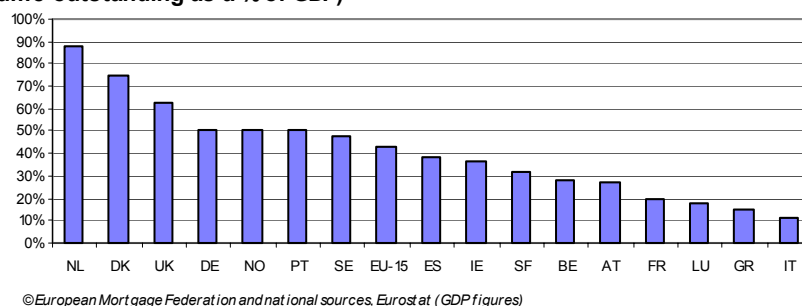
The data gathered by Eurostat is not sufficiently refined to allow adequate monitoring of developments on EU mortgage markets. The European Union however, influences the activities of mortgage lenders

³² The ECB has recently started to examine the structural factors of Europe's housing markets and this initiative is very welcome.

Figure 7 : Mortgage loans as a percentage of GDP - 2001

through regulations applying to the solvency of banks (such as capital adequacy rules, large exposures, deposit guarantee, etc.) and consumers (such as regulations on consumer lending, the annual percentage rate of charge, distance selling, unfair terms in consumer contracts, etc.). In addition, the mortgage industry has adopted a code of conduct which standardises consumer information and helps prospective borrowers compare mortgage offers. The European Commission has endorsed the code of conduct with an EU recommendation and encourages Member States to work in the same direction.

(volume outstanding as a % of GDP)



© European Mortgage Federation and national sources, Eurostat (GDP figures)

The mortgage industry has adopted a code of conduct which standardises consumer information and helps prospective borrowers compare mortgage offers. The European Commission has endorsed the code of conduct with an EU recommendation and encourages Member States to work in the same direction.

6.3 Pre-requisites for a well functioning housing finance system

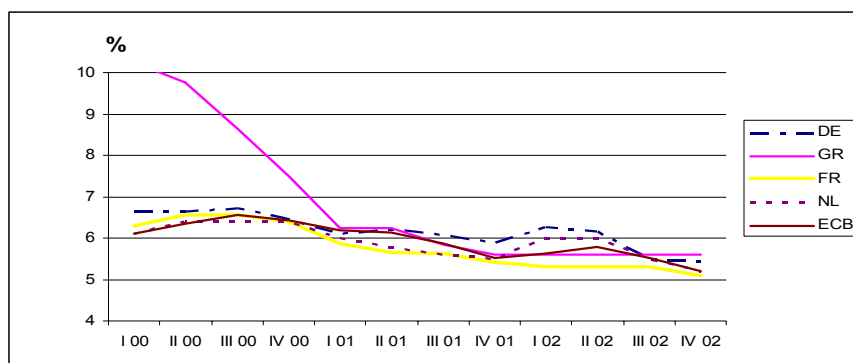
The sheer diversity of housing finance systems in Europe inevitably triggers comparisons which lead us to make some basic recommendations for a well functioning housing finance system. We have summarised them in this article although they are by no means exhaustive:

1. Sound macro-economic policies are more effective in creating housing finance wealth and owner occupation than complicated tax incentives or subsidies because they deliver stable and low interest rates.
2. Keep transaction costs low and mortgage registration systems efficient to allow borrowers to re-mortgage.
3. Concentrate on getting the “primary market” right, e.g. transparent property rights, mortgage and credit registration, efficient mortgage collateral and repossession procedures, etc. before creating a “secondary market” to finance those loans.
4. Create transparent markets for lenders through approved valuation methods, house price indices and data on mortgage industry.
5. Protect and inform borrowers, for instance, by helping them compare mortgages products.
6. Create standardised AAA rated funding instruments (i.e. covered bonds and mortgage backed securities) in order to tap capital markets and reduce funding costs.

Sound macro-economic policies

Most EU Member States have complex tax/subsidy systems in place which directly and indirectly affect the housing and mortgage markets. This reflects the special role of housing in public policy. Tax/subsidy regimes have tended to favour fixed assets rather than financial assets, and owner occupiers over those in the rental sector. In some countries, they favour purchases of new vs. existing dwellings. Tax incentives or direct subsidies are not always successful in targeting low income households and are sometimes expensive to administer. In addition, when introducing subsidies or tax advantages, it is important to consider an exit strategy (as borrowers have calculated their mortgage repayments taking into account the tax relief/subsidy).

With the introduction of the Euro and a Euro zone interest rate, mortgage rates in all Euro-countries have converged and fallen, thereby making housing finance available to a large number of households. Looking at the EU experience, low mortgage rates triggered by sound macro-economic policies were probably more important in



Source: European Mortgage Federation and national sources; ECB Monthly Bulletin.

developing mortgage markets in the South of Europe than tax incentives or subsidies. At the moment, mortgage interest rates continue to reflect the downward trend in ECB rates. In general, the level of mortgage rates in all euro-zone countries is declining and converging (see chart below) whilst at the same time, the volume of outstanding mortgage loans is increasing:

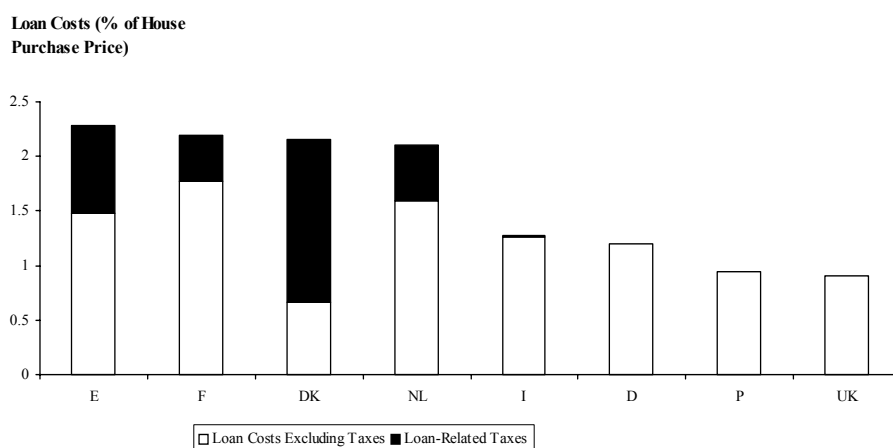
Low transaction costs

Low transaction costs help to create liquidity in the housing market, allowing borrowers to match housing to their actual needs. In addition, low transaction costs favour labour mobility, which is important for a well functioning economy.

On average in Europe, the cost of purchasing a dwelling financed by a mortgage loan is estimated at c. 6.5% of the purchase value. Differences exist between the most expensive countries (i.e. Belgium and Greece) and the least expensive countries (UK and Portugal). The figure below shows the transaction costs in each country for taking out a mortgage. However, the reader should also be aware that some or all of these fees are sometimes waived when the loan is switched, particularly if the borrower switches to a new product with the same lender (as is the case of Spain, Portugal, and the Netherlands). It should also be noted that many lenders allow some of the mortgage-related fees (including valuation fees and taxes in some cases) to be added to the loan, which improves mobility, but the costs are still borne by the borrower.

Figure 8: Costs of Mortgage Purchase³³

More than two-thirds of the costs of mortgage purchase are incurred with the property transaction where taxes (on average 52% of total costs), legal fees and property registration account for the largest share.



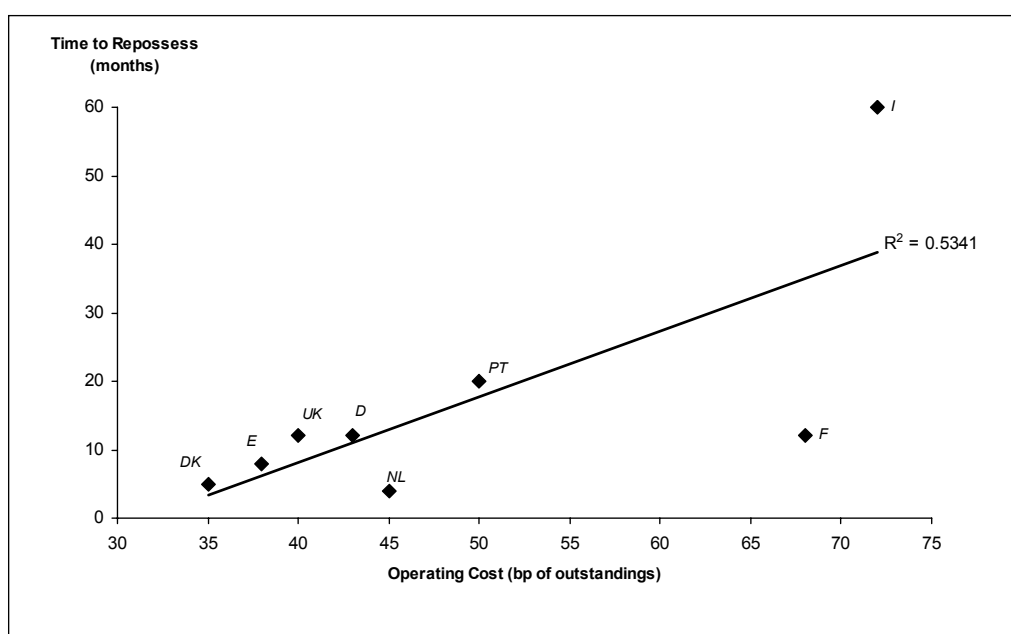
Source: Mercer Oliver Wyman analysis based on European Mortgage Federation survey

³³ Note: Loan costs include property valuation, solicitor/notary fees associated with loan purchase, mortgage registration costs, taxes associated with the loan, administration agency costs and other loan costs including lender charges for the loan.

Concentrate on getting the “primary market” right

Before thinking of creating a secondary mortgage market (i.e. how to fund the loan), it is important to concentrate on creating a sound and efficient legal framework. This legal framework should include clear property rights, transparent (and if possible electronic) mortgage registration as well as efficient mortgage collateral and repossession procedures. Process efficiency is a key driver of costs in the different countries and warrants separate examination. Our figures shows that on average the longer it takes to repossess, the higher operating costs are. The time taken to arrange a loan varies from a couple of days in Denmark to just over one month in Italy and Portugal. Denmark has the quickest processes, with products being processed in a matter of days, partly driven by automated systems and by the need to ensure bond funding at a particular rate (warehousing in Germany means they do not need to operate so quickly to ensure a particular rate on bond-funded loans).

Figure 9: Operating Costs vs. Time to Repossess³⁴

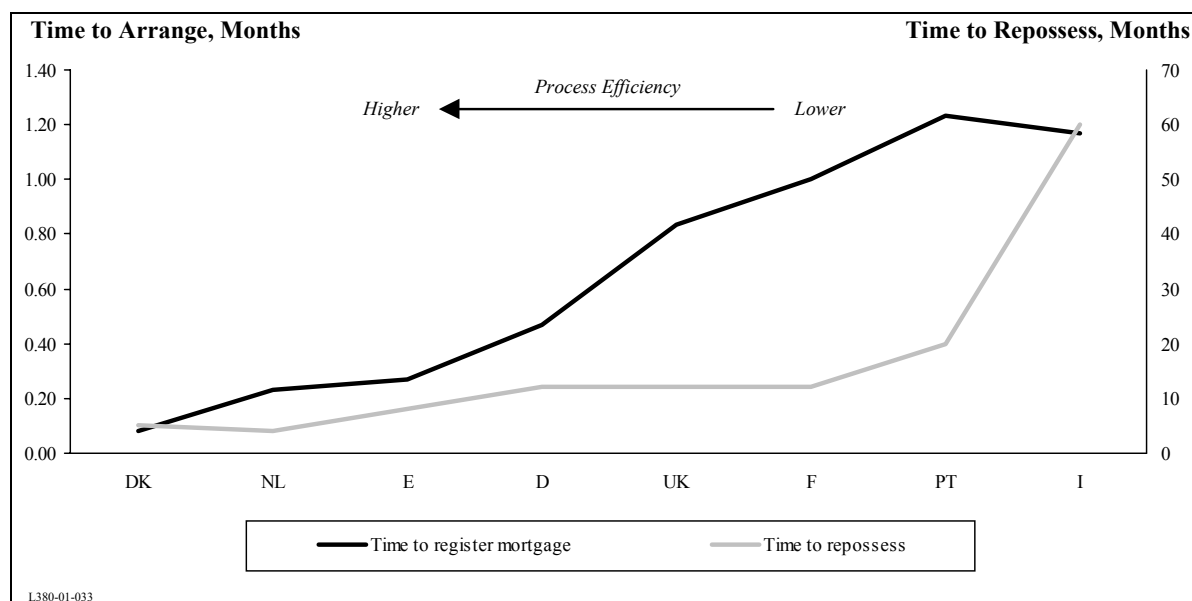


The main drivers of arrangement time are the valuation and credit assessment processes:

- Valuations in countries where collateral registration is centralised and automated can be completed very quickly.
- Portugal and Italy do not have centralised registration of collateral and in some cases this is not in electronic format. Correspondingly, valuation is time-consuming and costly.
- Centralised credit bureau access speeds up credit assessment.
- Where credit bureau information is not available (e.g. Portugal) credit assessment processes are long unless it is for existing borrowers.
- The burden of borrower documentation required by lenders can increase process times and costs. Self certified loans available in the UK reduce this cost but have higher rates due to the increased risk taken by the lender.

³⁴ Sources for Fig. 9&10: European Mortgage Federation - Mercer Oliver Wyman

Figure 10 : Average Mortgage Registration and Repossession Times



Italy, Portugal and France demonstrate the slowest processes, particularly in relation to repossession times, driven as they are by complex legal processes and extensive consumer protection legislation. At the other extreme, in Denmark, Spain and the Netherlands, legislation is much more lender friendly and so repossession times are under 9 months. Costs associated with this process are correspondingly lower as it is less time consuming and less complex. However, it should be noted that a balance needs to be struck between lower lender costs associated with an efficient repossession process and the benefits for the consumer and society of a more flexible approach to foreclosure despite the higher costs.

Make markets transparent

The future of mortgage markets will be shaped by the new rules on bank capital adequacy. The current discussions in Basel and Brussels will lead to a new set of prudential rules that will apply to all credit and financial institutions. The new regulatory own funds requirements will revise the current risk weighting regime to take into consideration a broader range of risks (credit and market risks but also operational, legal and reputation risks). Internal ratings, market discipline and supervisory related issues are also the focus of both regulators.

A well functioning market needs access to reliable and publicly available information. Transparent valuation methods and house price indices help both sellers and buyers. In terms of land registration, inefficiencies prevail. Land registers are not always easy to access and the land registration process is slow in a number of European countries. Some jurisdictions require hand written records (e.g. Belgium), making the process lengthier and information not as readily available if it were computerised. In other countries land registers are neither insufficiently centralised nor accessible, and restricted access is often justified on the grounds of data protection rules. Finally, there are high and variable costs of entry through the use of notaries (Germany, France) or long registration periods (Italy). Therefore, in order to make markets more efficient, it is important to make land registries more efficient and transparent by, for example, standardising the information content of national or state land registries by supporting online access.

Protect and inform your borrowers

Borrowers should be properly informed and educated to understand the products they are buying. Information on products should be standardised to allow consumers to compare offers. The calculation of the APRC (Annual Percentage Rate of Charge) should be standardised.

In Europe, the APRC is combined with a standardised information sheet which gives indications of the costs elements which are not included in the APRC. Standardising the disclosure of cost elements through the Home Loan Code has been an important, if not the single most important step towards greater pricing transparency and fairer market practices.

The level of consumer protection is a factor influencing the overall level of service received by the borrower when taking out a mortgage loan. Measures that protect the consumer from taking out an inappropriate product should be considered in this discussion. As noted above, however, it is difficult to quantify all of the impacts³⁵ that consumer protection measures have on customer satisfaction and also on costs and prices.

The key aspects of consumer protection regulations in relation to residential mortgages are:

- The provision of pre-contract information to allow the consumer to make an informed choice to purchase the loan. The European Code of Conduct specifies an information sheet that lenders must provide to the borrower as part of the contract. This often includes rules relating to the definition of an APRC i.e. a common definition of the rate paid across lenders.
- Regulation relating to rights of early repayment and levels of fees charged.
- Restrictions on interest rate adjustment mechanisms e.g. compulsory indexation.
- Usury regulation to prevent the exploitation of borrowers.
- Restrictions on amounts lent in order to avoid over-indebtedness.
- Mandating of reflection periods within the purchase process.

The level of consumer protection varies by country and this difference is most noticeable in relation to indexation of adjustable rate products and the treatment of early repayment fees. These two factors also have implications for the efficiency of mortgage markets and so consumer protection measures should not be viewed in isolation but as an integral part of the overall mortgage system.

Create funding instruments

Despite the convergence of European interest rates referred to above, there remain significant differences in mortgage rates within Member States. Therefore, Euro capital markets will be a major driving force towards convergence. Since the late 1980s, the deregulation of the financial sector and historically low interest rates have helped develop the housing mortgage market. The ensuing competition has resulted in incentives to cut costs and make housing finance more accessible, and engendered emergence of new funding instruments.

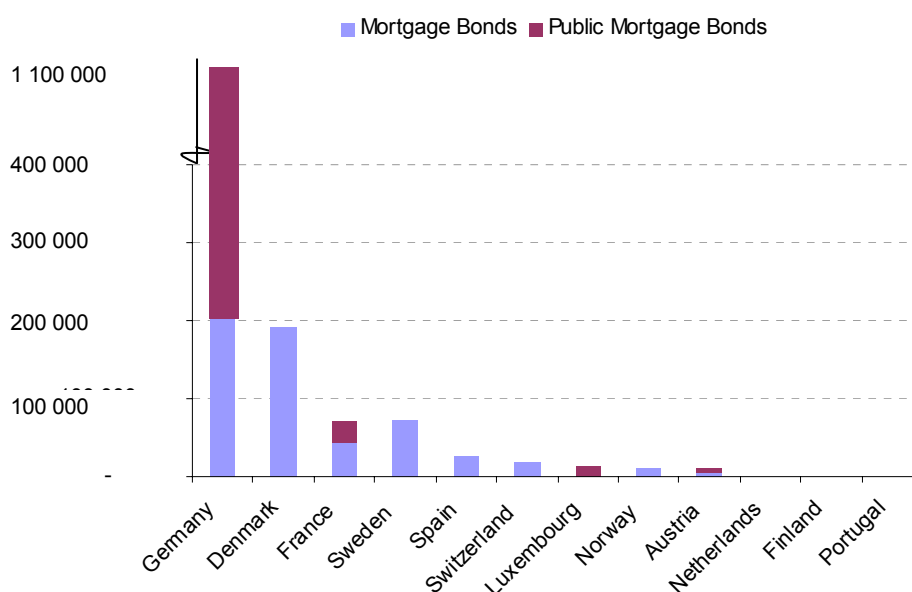
In order to continue developing housing finance markets, it is important to create standardised AAA rated funding instruments (i.e. covered bonds and mortgage backed securities) to tap capital markets.

³⁵ Although some impacts could be quantified in isolation e.g. value of prepayment options.

Denmark, for example, has been able to build a well-functioning capital market. Ireland (which accounts for approximately 3% of Europe’s capital markets) has adopted a covered bond regulation to broaden its access to the Euro capital market. With the introduction of the Euro, mortgage bonds have undoubtedly developed into one of the dominant components of the European capital market. The total volume outstanding at the end of 2002 amounted to €1.5 trillion³⁶, which represents around 17% of the EU bond market. The importance of the bond market as a source of funds for mortgage credit institutions varies significantly from one country to another. Countries which traditionally have recourse to the use of mortgage bonds are Denmark, Sweden, Germany and more recently France and Spain. The other significant components of the EU bond markets are primarily government bonds and to a lesser extent financial bonds. The chart below shows the volume of outstanding mortgage bonds as of the end of 2002.

Retail deposits, which currently fund 60% of European mortgage loans, are in relative decline as households shift most of their savings to long-term investments such as life assurance and pension funds. Thus, although retail deposits used to be the most common form of loan funding in Europe, now mortgage bonds and securitisation are playing an important role in improving liquidity and capital management.

Fig. 11: Volume outstanding of Mortgage Bonds and Public Mortgage Bonds 2002 (EUR mill)



European primary mortgage markets have been growing at a faster rate than GDP and have proved surprisingly resilient in the face of change. Mortgage lending has been growing at approximately 8% per annum. Despite this rapid change, the establishment of a single European market in the field of mortgage credit is only likely to take place in the longer term. Differences in tax and subsidy rules and consumer protection regulations largely operate at national levels. However, these structural differences are increasingly subject to change, slowly moving the industry towards more integration. Following the introduction of the single currency, all indications are that we are moving towards a European capital market with the funding of house purchase being an integral part of that market via funding instruments ranging from mortgage bonds to mortgage backed securities.

³⁶ This number includes mortgage bonds covered by mortgage loans and public sector loans.

CONCLUSIONS

“Every observer in the region concludes that the deterioration process of the multi-family housing stock has reached a critical stage when even the life-hazard issue can be raised in respect of this part of the stock”, Hegedüs and Teller (2003), Report on the management of the housing stock in South Eastern Europe.

This final section summarises the conclusions of the Conference presented in “Concluding remarks of the organisers” endorsed at the Ministerial Conference and draws on the main recommendations formulated at the end of the thematic chapters of this report.

The Housing Ministerial Conference (23-24 April 2003) was an important event within the broad context of economic and political reforms underway in South Eastern Europe. It has clearly indicated the determination of countries to push forward housing reforms and the willingness of the international community to support this process. For the Council of Europe Development Bank and the World Bank this Conference forms part of their efforts to contribute to regional development in general and to sector progress in particular.

The Conference participants recognized the crucial importance of housing and spatial planning policies for economic growth, social cohesion and poverty reduction. Ministers particularly stressed the need to address housing requirements in South Eastern Europe, especially with regard to low income groups, refugees, IDPs and other vulnerable groups. They stressed the importance of regional cooperation in promoting the social and economic development in South Eastern Europe.

Three main issues lay at the heart of the Conference discussions:

Sector challenges

It is clear from the experiences of other countries that there is a strong correlation between the sectoral context in a given country and the success of relevant housing policies and projects. A legislative framework conducive to the housing sector's development, dedicated structures to deal with social housing, the existence of reliable banking partners, and the involvement of the local authorities are all crucial factors for the success of any housing initiative. Other countries in transition (Poland, Lithuania, Slovakia) have implemented similar reforms to create a sustainable policy environment and ensure the success of their sector policies. Within the framework of the Stability Pact Social Cohesion Initiative, countries from South Eastern Europe are encouraged to develop coherent, stringent legislative and institutional frameworks, making it possible to safeguard the quality of housing as a key investment at national level and a crucial factor for social cohesion and regional stability.

The management of the existing housing stock is a particular challenge. It involves the management of housing stock, land administration and urban planning. The overall challenge is to put in place a robust legal framework providing for the establishment of condominiums and/or housing co-operatives and specifying the management responsibilities and financial obligations related to common housing assets. Regulatory and financial conditions when in place will enable owners to maintain their property and provide them with security of tenure. Promoting the development of the private rental housing sector through adequate incentives to small-scale investors in order to improve access to housing has emerged as a policy option for the building of public-private partnerships.

According to data reported at the Conference, dwellings located in high residential buildings (blocks) account for more than a quarter of the total housing stock in the region. The poor physical condition of these buildings, their premature ageing and declining market value are factors explaining why this type of housing is increasingly seen as stigmatic of poverty and social exclusion. Furthermore, the rehabilitation of this type of housing would require resources in the future along with substantial fiscal implications.

Social challenges

Housing is recognised as an essential instrument in the fight against social exclusion. In this perspective, countries from the region are encouraged to develop innovative approaches in this field with the support of all Stability Pact partners. The availability of a reasonable level of housing stock capable of responding to the needs of social housing policy could successfully accompany the transition towards a market economy and sustain economic growth, by mitigating the social tensions arising from limited public resources. In addition, social housing policies have spill-over effects on employment: in areas of buoyant employment markets social housing will facilitate the mobility of job seekers and their settlement.

Containing the social implications of poor housing conditions will also be crucial in the context of the European Union Stabilization and Association process.

According to the latest data, there are 1.2 million refugees seeking durable settlement solutions. The three countries most concerned are: Bosnia and Herzegovina, Croatia, and Serbia and Montenegro. Refugee related housing issues are multidimensional. The conflict of the past decade has caused significant damage to housing and the civil infrastructure. This is a challenge which spans the issues of refugee return, the repossession of previously owned assets, the rebuilding of housing facilities and the local integration of persons willing to settle outside their home country. In their approach to refugee related housing, countries from the region facing this problem consider it an issue of overall sector policy development. This probably reflects the fact that policy development in these countries now takes place within a more stable political, economic and social environment.

The availability of financing instruments

Macro-economic instability, the banking sector's problems and the reform of legislation governing financing activity at the onset of the transition process, combined with high inflation, have slowed down funding of the housing sector at national level. Now that the economies have returned to positive growth, countries are exploring various options for funding housing policies and projects. The pre-requisites for a

well- functioning housing finance system include sound macro-economic policies, low transaction costs, a well-functioning primary market, market transparency and consumer protection.

As far as the financial aspects are concerned, the countries' own experiences in introducing instruments for long-term financing of the housing sector vary. New long-term financing instruments have, however, been developed. Housing funds have been set up, under various formulae, in a number of countries (Bulgaria and Romania) and are fed, in part, with resources drawn from the state budget (own funds). In addition, mortgage lending is now available to households as well as schemes relying on household savings. These improvements facilitate greater complementarity between national measures and actions taken by other finance providers, such as IFIs. This policy, the development of the property market and the introduction of instruments such as mortgage loans, are positive policy actions.

How do we go about these challenges?

Strong leadership and broad political support will be essential to finding solutions to the multi-dimensional problems of housing in South Eastern Europe. In addition, three other factors are important for the future of the housing sector in South Eastern European countries:

- a strong sector policy framework and sustainable settlement of legal and property issues;
- the continuing search for new financing instruments;
- the development of concrete policy and project responses to identified needs;

Ministers attending the conference acknowledged the different stages and approaches towards housing reforms and agreed to commence with an initial program of action to:

- Develop, adopt and implement national policies, strategies and action plans;
- Consult regularly on sector issues and policies through a network approach and review progress with other transition economies drawing on their know-how;
- Undertake to prepare a joint “regional housing profile” based on the published national housing profiles by UNECE and the Council of Europe regional sector reports;

The establishment of a sustainable policy environment opens the way for designing concrete projects responding to the structural needs of the region and improving the quality of life of its populations. The involvement of the regional and local authorities in designing policies and projects is essential. This would also require an exchange of knowledge and expertise between countries from the region and other European countries and technical support in order to strengthen the capacity of the countries and local municipalities to identify needs and design appropriate housing programmes.

Finally, the Croatian authorities have extended an invitation to hold the second ministerial conference in their country in the course of 2004. It is more than encouraging that the Conference follow up decided by Ministers in April 2003, reflects their commitment to regional and country ownership.



**Council of Europe
Development Bank**

The World Bank



**HIGH-LEVEL CONFERENCE
ON HOUSING POLICY REFORMS IN SOUTH EASTERN EUROPE**

23-24 April 2003, Paris

Scope and purpose

Scope and purpose

The issue of housing in South Eastern Europe is attracting increasing attention from national policy makers and international agencies. During the respective meetings of Working Tables I and II of the Stability Pact in

Istanbul (12-13.06.2002) and Sofia (20-21.06.2002), delegates discussed this complex issue at length.

In the Chairman's conclusions of Working Table I, the Council of Europe Development Bank (CEB) and the World Bank (WB) were called on to sponsor a housing conference. Similar endorsement was expressed in the conclusions of the Working Table II.

For this reason, the CEB and the World Bank, in association with the Council of Europe, plan jointly to organize a conference on housing issues in South Eastern Europe (23-24 April 2003, Paris) under the auspices of the Stability Pact. This conference will initiate a process of policy dialogue among countries and stakeholders on the potentials of the housing sector for economic growth, social development and poverty reduction.

Several countries from the region have already undertaken serious reforms in the housing sector. Some other countries are still examining the possible reform pattern. This momentum has to be maintained and sustained from economic, social, fiscal and legal points of view.

The purpose of the proposed conference is to give impetus to the reform process in the housing sector in South Eastern Europe, to contribute to the improvement of the policy environment and to address some major reform challenges.

● Sector challenges

The management of the existing housing stock is a key challenge in the countries of SEE. The objective of better management practices is to put the legal, regulatory and financial conditions in place to enable owners to maintain their property. This involves the creation of structures to organize the management of multifamily housing units, such as the creation of condominium associations and housing cooperatives. It also involves the establishment of clear and contestable property rights, as well as a legal and regulatory framework so that banks can lend for housing maintenance, construction, and purchase of housing etc in an efficient and prudent manner. Moreover, the creation of a social safety net that helps those who cannot participate in the benefits of a private housing market without government assistance is another key challenge.

● Social challenges

Housing is a private commodity with a strong social component. Access to it could be discontinued for people with low income or through defaults on loans and eviction for unpaid rents or other reasons. Housing is also a major source of wealth and often the single most important asset that an individual or family unit will own. Protecting access to housing to reap the social and economic benefits from the asset is a prerequisite for a mobile, efficient, modern market based society. Finding the right balance between private initiative, private finance and public sector support is therefore a major challenge for policy makers concerned about social cohesion and protection of vulnerable groups. The absence of a flourishing public and privately owned rental stock is a constraint in SEE on smoothly integrating the economically and socially disadvantaged into the changing social fabric. This issue is particularly pronounced in urban areas. In addition, the post conflict circumstances in some countries influence the elaboration of housing policies and can set new priorities for the social development process, the physical reconstruction of damaged stock and successful integration of refugees.

● Economic and financial challenges

The housing sector in socialist economies was to a large extent funded through public means. As part of the countries' transition to a market economy, much of the public housing stock was privatized so that today about 94 percent of the total stock in SEE is privately owned. The expectation was that the private owners would maintain and operate this stock without state assistance, but in only very few countries has this been effectively the case. Household incomes and savings are often insufficient to meet these costs, and access to housing finance which can help bridge the savings gap is either not available or only accessible to a very small fraction of households. In many countries, however, subsidies to the housing sector remain high, frequently hidden in off budget expenditures or implicit in accelerated deterioration of the capital stock down to outright loss. The implications for the economy in terms of fiscal outlays, the potential for job creation in the construction sector, reduced labor mobility, loss of capital stock, and unhealthy living conditions can amount to a substantial portion of GDP.

Implementing sound housing policies is a very complex task for any government. As a result, the conference should be seen as the starting point of a wider process of dialogue between the Countries of the Region and the International Community on housing issues. It will serve as a tool for regional ownership by providing a forum for senior officials to:

- Exchange their experiences on the housing sector;
- Establish the principles of a coherent housing strategy; and,
- Establish a framework for regional cooperation on housing.

The conference agenda and subject material will correspond to the major challenges identified above. Each subject will be introduced by a key note speaker and a case study from the region or from other countries in transition. A discussion will follow during which countries could confront their experience and lessons learned.

The conference will build upon the work undertaken by various organizations in the field of housing:

- Intergovernmental work: the Council of Europe, the Economic Commission for Europe of the UN, the Stability Pact Social cohesion and Regional Return Initiatives, the UN-HABITAT and others
- International financial institutions and bilateral partners: the Council of Europe Development Bank, the European Investment Bank, the EBRD, the KfW, Switzerland, the World Bank and others



**Council of Europe
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**HIGH-LEVEL CONFERENCE
ON HOUSING REFORMS IN SOUTH EASTERN EUROPE**

23-24 April 2003, Paris

Concluding remarks of the organisers: the way forward

Concluding remarks of the organisers: the way forward

Ministers in charge of housing and finance from South Eastern Europe met in Paris on 24 April 2003 at a High-level housing conference. The meeting was convened by the Council of Europe Development Bank (CEB) and the World Bank (WB) under the auspices of the Stability Pact for South Eastern Europe (SP). Some 15 countries and 10 international organizations attended the conference³⁷.

The conference was opened by Mr. Raphaël Alomar, Governor of the Council of Europe Development Bank, and by Mr. Shigeo Katsu, the World Bank's newly appointed Vice-president for Europe and Central Asia, and by the Deputy Special Coordinator of the Stability Pact, Mr. John Riddle.

Participants recognized the crucial importance of housing and spatial planning policies for economic growth, social cohesion and poverty reduction. Ministers particularly stressed the need to address housing requirements in South East Europe, especially with regard to low income groups, refugees, IDPs and other vulnerable groups. They stressed the importance of regional cooperation in promoting the social and economic development in South Eastern Europe.

Participants examined and discussed several main challenges:

- **Sector challenges:** These revolve around the management of housing stock, land administration and urban planning. The overall challenge is to put in place the legal, regulatory and financial conditions to enable owners to maintain their property and provide them with security of tenure. Another challenge is to promote the development of the private rental housing sector through adequate incentives to small-scale investors.
- **Social Challenges:** Housing is a private commodity with a strong social component. Finding the right balance between private initiative, private finance and public support is therefore a major challenge to policy makers as they seek to establish housing delivery mechanisms that support socially weaker or vulnerable groups.
- **Economic and financial challenges:** The housing sector has been deeply affected by the transition to market pricing for land and services and by harder budget constraints on subsidies on rents and maintenance. The stock is deteriorating rapidly as it has changed hands from largely public or quasi public to private ownership of well above 90 percent today. Affordability constraints, the limited availability of housing finance, the high ownership rates, all have limited the potential of the sector to become an engine of growth and facilitate labor mobility. International experience on the key conditions for a sound development of mortgage finance, including financing of social housing was discussed and some innovative formulas were presented.

To overcome these constraints will pose political, social and economic challenges, yet these must be faced as the requirements of migrants, refugees, and young families are urgent. Strong leadership and broad political support will be essential to finding solutions to the multi-dimensional problems of housing in South East Europe. Containing the social implications of poor housing conditions will also be crucial in the context of European Union Association and the Stabilization and Association process. Close cooperation with the European Institutions was recommended in view of achieving greater conformity with recognized standards (i.e. Revised European Social Charter).

In light of these discussions Ministers acknowledged the different stages and approaches towards housing reforms and agreed to commence with an initial program of action to:

- Develop, adopt and implement national policies, strategies and action plans,
- Consult regularly on sector issues and policies through a network approach and review progress with other transition economies drawing on their know-how;

³⁷ The Swiss Agency for Development has made a significant contribution towards the practical organization of the ministerial conference, which allowed ministers from the region to attend.

- Undertake to prepare a joint “regional housing profile” based on the published national housing profiles by UNECE and the Council of Europe regional sector reports;

Ministers look forward to a substantial follow up to this conference. They invited the organisers to prepare a sector note reflecting their discussion, expert presentations and conclusions of the conference.

Ministers welcomed the invitation of the Croatian authorities to hold a ministerial meeting in Croatia in the near future.

Ministers considered the support of the Stability Pact for South Eastern Europe and of the various international organizations active in the field of housing, urban development and social cohesion to be extremely important and urged them to continue with their activities.

Housing and urban matters represent an important area of the lending and non-lending services provided by the international community. Ministers took note of the willingness of the represented international financial institutions (IFIs) and other represented international and bilateral institutions to continue deploying their support for the improvement of housing and urban conditions in South Eastern Europe. Furthermore, they asked the Council of Europe Development Bank and the World Bank to maintain a dialogue on sector issues in the region.

Appendix 3

HIGH-LEVEL CONFERENCE ON HOUSING REFORMS IN SOUTH EASTERN EUROPE 23-24 April 2003, Paris

List of ministers and international organisations attending the Ministerial conference

COUNTRIES

ALBANIA

Mr. Besnik DERVISHI (*Excused*)
Minister of Territory Planning and Tourism

AUSTRIA

Mr. Martin SAJDIK (*Excused*)
Co-ordinator for the Stability Pact for South Eastern Europe

BELGIUM

Mr. Jos AELVOET
Délégué du Gouvernement Flamand - Paris

Mr. Laurent GÄBELE
Cabinet du Ministre
Ministère du Logement de la Région Bruxelles
Attaché - Cellule Logement

BOSNIA AND HERZEGOVINA

Mr. Jusuf KUMALIC
Deputy Minister of Finances and Treasury

Mr. Mustafa ALIKADIC
State Secretary with Special Duties
Minister of Human Rights and Refugees

Mr. Josip SOCO
Head of Delegation Paris and
London Club and multilateral relations
Ministry of Finance and Treasury

Ms Nermina DZEPAR-GANIBEGOVIC
Expert Advisor
Minister of Human Rights and Refugees

Ms. Jadranka KALMETA
First Secretary of the Bosnia and Herzegovina Embassy – Paris

BULGARIA

Ms Petya GEGOVA
Deputy Minister
Ministry of Regional Development and Public Works

Mr. Krasimir KATEV (*Excused*)
Deputy Minister of Finance
Ministry of Finance

CROATIA

Mr. Radimir ČAČIĆ
Minister of Public Works, Reconstruction and Construction

Mr. Damir KUŠTRAK
Deputy Minister of Finance

FRANCE

Mr. Dominique CHASSARD
Ministre Plénipotentiaire
Coordonnateur national du Pacte de Stabilité pour l'Europe du Sud Est

Mr. François GAVE
Conseiller des Affaires Etrangères
Direction des Affaires Economiques et Financières
Ministère des Affaires Etrangères

GERMANY

Mr. Haje SCHUETTE
Principal Project Manager
Kreditanstalt für Wiederaufbau

ITALY

Ms Loredana MAGNI (*Excused*)
Ministry of Foreign Affairs

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Mr. Vanco KARGOV
State-Secretary
Ministry of Finance

Mr. Dejean KOSUTIC
Deputy Minister
Ministry of Transport and Communications

MOLDOVA

Mr. Mihai VIERU
Deputy Minister of Ecology, Construction and Territorial Development

Ms Zinaida GRECIANII
Minister of Finance

Ms Lilia RAZLOG
Director of the Debt Department

POLAND

Ms Irena STOCKA (*Excused*)
Head of Hypovereinsbank

ROMANIA

Ms. Ileana TUREANU
Secretary of State
Ministry of Public Works, Transport and Housing

Mr. Ioan BEJAN
Senior Advisor
Ministry of Public Works, Transport and Housing

Mr. Răzvan VIOREANU
Financial Advisor of the Minister
Ministry of Public Works, Transport and Housing

Mr. Mihai Nicolae TANASESCU (Excused)
Minister of Finance

SERBIA AND MONTENEGRO

Prof. Dr. Dragoslav ŠUMARAC
Minister of Urban Planning and Construction of Serbia

Mr. Dragen GOLUSIN
Senior Advisor
Minister of Urban Planning and Construction of Serbia

Mr. Dragoljub MARKOVIC
Deputy Head Minister
Ministry for Urban Planning and Ecology of Montenegro

Mr. Milan MILANOVIĆ
Premier Conseiller
Ambassade Union Serbie-Montenegro - Paris

Mr. Branko MILIC
Adviser of the mayor of Podgorica for International economic affairs

Mr. Vladan DJUKIC
Special Advisor
Ministry of Social Affairs of Serbia

UNMIK - Kosovo - Provisional Institutions of Self-Government

Mr. Ethem CEKU
Minister
Ministry of Environment and Spatial Planning

Mr. Siegfried BRENKE
Principal International Officer
Ministry of Environment and Spatial Planning

Ms Lirie BERISHA
Head Policy Division
Ministry of Environment and Spatial Planning

Ms. Lulzim Vincent HISENI
Translator of M. CEKU

Mr. Ali SADRIU
Minister of Finance and Economy

Mr. James WOOSTER
Permanent Secretary
Ministry of Finance and Economy of Kosovo

Mr. Shkelzen QORRAJ
Minister of Environment and Spatial Planning
Department of Housing

Mr. Agim TONUZI
EU Advisor
Ministry of Finance and Economy

SWITZERLAND

Mr. Hubert EISELE
Head of Division, Special and Regional Programmes, Eastern Europe and CIS
Swiss Agency for Development and Cooperation

ORGANISATIONS

COUNCIL OF EUROPE

Ms Gabriella BATTAINI-DRAGONI
Director General of Social Cohesion

Mr. Stefano DOMINIONI
Coordinator, Joint Programme with the CEB

Ms Giusi PAJARDI
Head of the Partial Agreement on the Council of Europe Development Bank

EBRD

Mr. Peter STREDDER
Senior Banker, Financial Institutions

Mr. Jacquelin LIGOT
Director of Team, Energy Efficiency

EIB

Mr. Brian FIELD
Economist, Urban Renewal,
Project Directorate

EUROPEAN COMMISSION

Mr. Hans RUNDEGREN
Unit D1 Horizontal matters Western Balkans DG External relations

EUROPEAN MORTGAGE FEDERATION

Ms. Judith HARDT
Secretary General

OECD

Mr. Toshihiro HAYATA
Head of Division,
Directorate for Public Governance and Territorial Development

Ms. Malory GREENE
Head of the OCDE Russia, NIS and SEE programmes

UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)

Mr. Francis M. O'DONNELL
UN Resident Coordinator & UNDP Resident Representative for Serbia & Montenegro

UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE (UNECE)

Ms. Sylta PAYSEN
Environment and Human Settlements Division

UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES (UNHCR)

Mr. Raymond HALL
Director - Bureau for Europe

UN-HABITAT

Mr. Daniel BIAU
Deputy Executive Director

Ms Shipra NARANG
Head of Planning for Kosovo Programme
Coordinator, Urban Planning and Management Unit
UN-HABITAT, Kosovo Office

USAID

Mr. Jean R. LANGE
Senior Financial Sector Advisor
Office of Economic Growth
Bureau for Europe and Eurasia

WORLD HEALTH ORGANIZATION (WHO)

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