International experiences in social housing (with a special focus on new EU member states)

List of Boxes

1 Introduction – are the experiences of transition countries relevant?

The aim of this paper is to give an overview of social housing in countries whose experiences can be useful in the development of a housing strategy of BiH, which aims at enhancing access to housing for vulnerable groups.

After several years of experience with the introduction and analysis of the practice of rental programs in the region we are able to discuss some of the key dilemmas and formulate some conclusions that would be relevant for BiH. Reviewing the existing models from all over Europe critically will inform decision-making, but experts and politicians in Bosnia-Herzegovina are expected to work out the solutions which are applicable in their particular context.

In Bosnia-Herzegovina (as in other countries where radical privatization took place) there is practically no public rental sector in existence. Thus the question is what institutions will represent the new public rental sector and what tools can be considered relevant in the BiH context, with what constraints or advantages for a future housing policy aiming at increasing the participation of socially vulnerable groups in housing policy measures.

1.1 The legacy of the socialist housing system – similarities and differences

Ex-Yugoslavia was part of the block of centrally planned economies, which had a housing system very similar in its logic to that of the other socialist countries, especially to Hungary. The important characteristics of this housing system were the one-party political control over the housing sector, the subordinate role of market mechanisms, the lack of market competition among housing agencies (bureaucratic coordination), and a broad control over the allocation of housing services (huge, non-transparent subsidies). However, under this model several "sub-models" (versions) emerged as responses of the individual countries to challenges in the process of the development of the socialist economy. In Yugoslavia, the model of "socialist self-government" led to a special tenure form of social-ownership, which was basically a version of owner-occupation. (UN-Habitat,2005) Similar forms of housing were found in other socialist countries under different names (cooperative, etc.) The differences in tenure structure (state-owned rental, cooperative housing and owner occupation) and in different financial schemes (cooperative, state bank financed owner-occupied, etc) were not relevant from the point of view of the operation of the housing sector.

1.2 Social housing in the pre-transition period – how efficient was it?

The definition of ***social housing*** in the model of the Eastern and Central European housing model was not clear. The vast majority of services (including housing services) were provided "in kind" or at an under-cost/market price, allocated according to "merits". As a consequence of the artificially low, subsidized housing prices, an enormous shortage emerged leading to a dual housing market. The presence of a "dual housing market" meant that aside from the state controlled housing sector there were informal market segments: self-help buildings, private transactions in the rental sector, a certain proportion of the private real estate market transactions, a market for sub-tenancy, and a small, entirely private rental sector. State housing included the housing provisions of different tenures (rental, cooperative and owner-occupied), which were under strict state control in all areas (investment, housing standards, costs and prices). There was no special sub-sector or sphere that could be called "social housing". Thus, in the formal housing market, there was no need for housing assistance because of the subsidized, low cost housing services. At the same time, the informal market was not officially acknowledged, and thus, no income support was offered.

2 Housing issues after the transition

Housing issues that emerged after the transition in several Central and Eastern European countries are comparable with those currently present in BiH. Dissimilarities, however, do exist, since in most of the countries of the region, there was a peaceful transformation, which has not resulted in any experience with large-scale housing destruction and migration as in Bosnia-Herzegovina.

2.1 Privatization – diminishing of the social rental sector

Under the fiscal pressure caused by the transitional recession, governments in the region "moved out from the housing sector" terminating or cutting subsidy programs and diminishing the direct role of the state in the housing system. Decentralization was part of this process as the local governments were given the majority of the state owned stock, and they managed the privatization process.[1] As a consequence of the privatization, the share of the public stock has decreased to 5-10%. There are countries like Poland, the Czech Republic, and Latvia, which have a slower privatization rate: they still have 25-30% of their stock public, but they failed to introduce structural changes in the public sector. (The tenants, in most of the cases, still have property rights to "sell" or re-let their tenancy, illustrating the lack of the structural changes in the sector.)

2.2 Affordability problem

The housing policy was faced with a huge affordability problem both in terms of paying the cost of the existing housing and in terms of access to housing. In most of the countries in the region, the ***cost of housing related services*** has 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 caused most of the households a financial hardship and resulted in accumulated arrears. An unrecorded private rental sector emerged where the rent-to-income ratio stabilized much above the affordability limit (20-25% of income). Affordability in terms of ***access to housing*** became an important issue as the state financed and subsidized housing forms disappeared, and the new housing finance system is only able gradually to fill the gap.

2.3 Deterioration of the housing stock

The housing stock, even at the beginning of the transition, started deteriorating, partly because of the low standards of construction and maintenance technology, and partly because of under-investment in the stock before the transition. In the countries of transition new

[1] Not in Serbia or Albania, where the privatization was administered by the central government.

construction dropped to 30-50% of the 80s, and it has not reached the level of the 80s, not even in countries with the highest GDP in the region, such as Slovenia, Poland, the Czech Republic and Hungary. The housing estates in the region represented very different technical levels. Their deterioration accelerated after the transition, as the state moved out of the housing sector. In addition to the problem of deterioration, further 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 poor performance of the housing management of multi-apartment buildings is related partly to the lack of household incentives, and partly to an inefficient use of housing wealth. A cluster of issues: the underdeveloped housing market, a mistrust of institutions and the uncertain legal framework makes it difficult to realize the economic and financial importance of housing wealth. But even in cases where households do have the incentives to realize the significance of housing wealth in the household economy, the absence of efficient intermediaries (condominiums, cooperatives, associations etc.) render such a realization impossible.

2.4 Illegal housing construction

The need assessment study identified illegal construction as an important housing issue in BiH, which is not present in most of the transitional countries. After the political changes, illegal construction and illegal settlements emerged in Albania, which has a relatively low level of urbanization similarly to BiH. The illegal construction is partly a legacy of the ex-Yugoslavian housing system, thus to a certain extent it was an issue in Serbia, Macedonia, and Montenegro as well. A further reported source of illegal construction is the gap in the recent and current regulatory framework and a slow *ex post* regularization process.

2.5 Response to housing crisis: new social housing programs

By the end of the 90s several governments in the region realized that the lack of social housing would be causing a huge political problem. Social housing is an important element of the European housing systems. The lack of a social housing sector was considered to be a constraint to a successful accession strategy. These governments started an active program backed by the positive macroeconomic changes. Slovakia, Romania, Hungary, Poland and the Czech Republic started programs revitalizing the social housing sector and helping the provision of affordable housing. The program introduced new subsidies both into the owner occupied sector, and into the public rental as well. Typically these countries spent 0.8-1.2% of their GDP on housing, calculating both the budget and off-budget subsidies.

3 The social rental housing programs

At the end of the 90s most countries in the region recovered from the transitional recession and realized that housing is an important and neglected area of public policy. National housing programs were prepared (Slovakia: 1999, Hungary: 2000 etc.), in which the role of the rental sector had a high importance. Three types of rental program were proposed and partly introduced: 1. expanding the existing – but shrunken – social municipal housing stock; 2. introducing or expanding rental housing of the non-profit housing institutions; 3. using the private rental market for social housing (rent voucher).

These program proposals represent different international rental sector models, which can be considered as adaptations of cases and structures of international models (TBS in Poland, Matra Co-operative in Slovakia, etc.)

3.1 Local government programs

The mainstream approach was to base social housing programs on the capacities of **local governments:** Slovakia, the Czech Republic, Romania and Hungary chose this solution. The programs typically used a matching financial structure, where the central government subsidized the construction; in return, the government imposed certain conditions in terms of rent setting, allocation and construction. The conditions were not only different in the various countries, but changed in time as well.

One of the conditions set up by the programs is to apply a ***rent regulation***. The government set a ceiling to the rent for public rental units as a percentage of the "replacement value". It was 3% in Slovakia and Poland[2], and 5% in the Czech Republic. The actual rents were set by the local governments, and they were much lower than the ceiling, as local governments were uncertain about the tenants' ability to pay. In Poland, for example, the average rent is around 1.5% of the replacement cost. (Uchman and Adamski, 2003). In Romania, the rent is limited to 25 percent of the net family income or the net average wage, whichever is less. (Pascariu and Stanculecu, 2003) In the new rental program the maximum rent is 10% of the net family earnings. Interestingly enough, the rationale for the regulation was to impose an upper limit on the rents, because the legislators supposed that the local governments would like to increase the rent above this level. In Hungary, the rent regulation aimed to force the local governments to charge a rent for the newly established cost rental units, which is close to the rent level ensuring cost recovery.

[2] The rent ceiling was planned be abolished in 2004.

Box 1: The Hungarian rental housing construction program in 2000-2004

In Hungary the rental housing construction program was launched in 2000. The program gave an investment grant to the local governments up to 75% of the investment costs for various purposes: social rental, cost based rental[3], young family housing, elderly homes, and pension homes. In the years between 2000-2004 several hundred local governments took part in the program. Between 2000 and 2004, the total grant amounted to 240 million EUR, and close to 13 thousand units were established including 5.7 thousand social rental and 3.2 thousand cost rental (beyond the rental housing the program supported investments into elderly homes as well)

The program designers were concerned with the ***construction costs.*** In Hungary, the local governments had to compete for a close-ended grant, and one of the most important selection criteria in the program was the construction cost. In Slovakia, the matching grant depended on the construction cost. To provide incentive for lowering the construction costs, the grant was higher in the case of lower cost projects. In the Czech Republic the projects with higher costs than the ceiling were rejected. In Croatia the government defined the maximum construction cost and land value for their program. (Cacic, 2003) In Romania the National Housing Agency (ANL) manages the construction of the flats, and then transfers the completed flats to local governments, which are responsible for owning, operating, and maintaining them.

In some of the programs, the central government defines the ***criteria for allocation***, e.g. the new social dwellings have to be allocated to young families, or for families with income falling into some specific income brackets, etc. In other cases, it is the responsibility of local governments to select the eligible households, like in Hungary or in Romania, where local governments use their own scoring system in the allocation process. In the Czech Republic means testing was introduced as a tool for allocation of new social housing only after 2002.

A further important question related to social housing construction programs was whether the new units were eligible for privatization. In many cases, tenants became quite soon eligible for privatizing their dwellings. For example, in Tallinn, a public housing program made it possible for tenants coming from restituted apartments to buy their home after 5 years. (Kahrlik et al, 2003).

[3] The cost based rental was allocated according to the locally defined procedures (typically by social criteria), and forced the local goverments to charge minimum 2% of the investment cost per year.

Box 2 Housing Construction projects in the Czech Republic

"Until 2002 subsidized new municipal housing rents were limited by state guidelines and were not to exceed cost rent (up to the three times the prevailing regulated rent). Therefore, a financial contribution by the future tenants toward the construction cost became almost inevitable (usually 30 % of the cost). As a rule, a joint venture was formed by the local authority, a building company, and the prospective tenants. The local authority contributed the land, and if needed, infrastructure. It applied for the necessary state grant and for complementary market loans, and it issued building permits. When all dwellings were allocated to tenants participating in the scheme, the building company recovered its investment and some profit. During the following 20 years, the tenants were recovered the capital and running cost, and would finally become owners at no extra cost." Donner, 2005, 72.p.)

3.2 The non-profit housing associations, the co-operative sector and PPP programs

The co-operative sector is in crisis in most of the transition countries, because this tenure form is considered as a version of public ownership. It has lost most of its privileges (grants, subsidized loans, free access to land, etc.), and has to compete with the private sector. However, there were several attempts, frequently supported by European donor agencies, to establish new non-profit (or "limited-profit") organizations providing apartments for rent.

The most successful attempt was Poland's TBS (housing association) program, which was based upon a French HLM model. The program has received some criticism not because of its performance, but because it has diverted resources from municipal housing construction. One analyst concluded that the TBS program was able to provide good quality housing, but even the controlled rents were too high for many poor households. (Zavislak, 2003) A key subsidy element is provided by the state in the form of a low-interest loan. Other financing sources can include tenants, local government, and the non-profit entity. The TBS can take different legal forms: limited liability company, joint-stock company, or cooperative of legal persons, but they cannot make profit. The majority of the TBS-s are set or initiated by the local governments. The rent for TBS housing is set by the Municipal Councils as a cost rent; but the rent cannot be higher than 4 percent of the construction cost (replacement value) of a unit set by the voivoda (head of the Regional Council) in its quarterly edicts. The total income from the rent payments for all dwellings owned by a TBS must cover all maintenance and repair costs, as well as the repayment of the qualified loan from the National Housing Fund (cost rent). The explicit rules for allocating new rental flats and income ceilings were introduced by a special act. (Lux, 2003)

Box 3 Polish TBS and the state subsidy program supporting it

The National Housing Fund (KFM) is a public rental program that has financed since its inception in 1996 completion of 61,573 occupied new rental units for moderate income tenants (an additional 11,758 dwellings are currently under construction). The Fund is directly administered by the state bank BGK through long-term credits extended to non-profit landlord TBS organizations.

The repayment performance of this subsidized long-term portfolio was until 2004 excellent, partly because of subsidized credit rates. The main operators and borrowers are non-profit associations ("TBS") championed by municipalities, and some rental cooperatives and sometimes even private developers (in total about 450 institutions by the end of 2004). The applied rents must cover the credit repayment and all maintenance and renovation costs, and should not exceed 4% of the replacement investment value. The program does not target particularly low income tenants. The KFM does not control the declared incomes, as this responsibility is delegated to the TBS and the sponsoring municipality according to its own local housing policy, but anecdotal evidence suggests little follow-up monitoring and evaluation. The rental associations or cooperatives are required to provide 30% equity, the Fund financing up to 70% of the project. This down payment may derive from the tenants, who as a result consider themselves as quasi owners and are selected through this qualification. The funding of the KFM depends excessively on budgetary grants from the national housing budget.

About PLN 3.2 billion or 60% has been funded by Government budget grants. The rest was mainly funded by long-term public debt contracted after 2002 from two multilateral institutions in order to keep expanding the program. A 3.5% interest rate is applied to the KFM's dual-index mortgage loans ("DIMs"). The debt interest rate is adjusted quarterly to half of the NBP base rate, whereas repayments are indexed quarterly to the official cost of construction (in case of no rise in construction costs index it is still raised by 0.3%). Through this mechanism, the first monthly installment is kept at a very low level (0.35% of the loan amount) in order to gain as much as possible on affordability and reduce the level of rental repayments. This corresponds to an expected maturity of 35 years, although best practice recommends keeping the expected maturity of DIMs within 20 years. This implies an interest rate subsidy in Net Present Value terms in excess of 60% of the loan amount, notwithstanding the inherent risk of any unpaid residual debt balance. As mentioned before, the targeting of these subsidies has become questionable, notably as the fiscal pressure is more intense, and as some other housing programs require as well significant public funding, such as the new system of mortgage credit interest buy down.

Source: World Bank, 2006

The conclusion is that the non-profit housing associations (TBS) provide good standard housing with controlled rents, but this type of housing is too expensive for the lowest income households ("affordable" sector). Meanwhile, the existing social stock is insufficient to bridge the supply gap in the "true social" sector. Expanding this sector would make it socially acceptable and politically viable to relax rental regulations. The size of the program depends very much on the Housing Fund resources. In 2001 10 thousand TBS dwellings were built, which was 10-15% of the new construction.

Box 4 The SIRP Program in Serbia

The reform of the housing sector in Serbia has been initiated through the transformation of Solidarity Funds for Housing Construction into Municipal Housing Agencies, as the basic implementing instruments of a new social housing system in the country. The model of MHA is introduced at wider national level through the draft Social Housing Law. The final goal is to establish quality management at MHA level, which will be the basis for setting the regulatory framework for licensing non-profit housing organizations in the country, as defined by the Draft Social Housing Law. CHA of Kragujevac was founded as a public non-profit housing organization for the implementation of the city housing policy in the field of social housing. The City of Kragujevac provided adequately serviced land for this construction, while CHA Kragujevac financed the preparation of project documentation and the obtaining of appropriate building permits. This should mark the beginning of the formation of the city rental housing stock. (SIRP, 2005)

Box 5 The Matra Program in the city of Martin, Slovakia

In the framework of the Netherlands' Matra grant program, a non-profit housing organization was created in the Slovak city of Martin. The grant was given to the city of Martin as technical assistance to improve the management of public housing, which has 4% share in the local housing stock. The non-profit organization Matra was established in 2005, which is owned entirely by the city, and manages 678 municipal dwellings. According to the plans, during the first five years of the activity of the non-profit housing organization will be subsidized by the city, but after this period it is expected that the organization will be self-financed. (L'ubomíra, 2005) However, because of the financial burden of the local government an option to privatize the units was offered.

In Slovenia, as a replacement of the "solidarity housing" till 2006 65 limited-profit housing organizations were set up by municipalities and construction companies. They constructed around 2,500 units between 1991 and 2004, which represents less than 5% of the new construction. (Donner, 2005)

The sustainability of the social housing programs can be easily challenged if the financial and organizational structure is not in place. For example, high operational cost of social housing gives an incentive for social landlord to transfer of the stock into ownership of the sitting tenants.

Box 6 PPP program in Poland

In Poland as well alternative forms of public and private partnerships is under consideration (Worldbank, 2006). According to the concept, privately produced rental housing is made available to municipalities, as jointly promoted by the Polish Banking Association, and developers through their trade organization (PZBD). The municipalities that are unable and/or uninterested in building their own new social rental housing, would partner up with developers and bankers responsible for producing these new residential dwellings, subject to pre-arranged long-term leases with municipalities, backed possibly by some guarantees giving comfort that leased rents will be paid (by municipalities). Municipalities would also most likely facilitate this process by providing well planned and serviced building lots for these construction projects. At expiration of the leases the buildings would become municipal property. The initiative may help to broaden the spectrum of rental housing solutions by including market driven production of social housing that would complement budget funded support to municipalities.

3.3 Drawing on the private rental sector for social housing purposes

The housing units of the private rental sector are used in an increasing number of programs for social housing. A good example for that is social housing in Germany, which is heavily based on a model of regulated and subsidized private rental sector used for social purposes. The two key elements of the model, which has a more than fifty-year long history in Germany, are soft rent control and housing allowances.

A special solution to increase access to housing for vulnerable groups is the social rental agencies, which mediate between the private landlord and the socially weak households. The landlords' reluctance to let rental units to vulnerable groups, e.g. immigrants, Roma people, handicapped, etc., can be managed by these institutions which can provide direct or indirect guarantee to the landlords. In Brussels, the first social rental agency – which at the time had no officially recognized status as 'social' by the regional authorities – was founded in 1978. In Flanders, it was first in Brugge in 1986 and in Wallonia in Namur in 1989 that organizations aiming at social management of the private rented accommodation were established. (Dragana w/o year)

Box 7 Social Rental Agency in Flanders, Belgium

"There are 60 000 applications (who may stand for more than one person) on the waiting list for social housing in Flanders. This shortage of social housing certainly doesn't facilitate undocumented people's access to social housing. However the main reason for their exclusion from this housing sector is their illegal status that structurally prohibits them from receiving social benefit (like other people with a low income), essential for accessing social housing all over Belgium. The refugee service Antwerp Minority Centre and the social rental agency in Antwerp (Kosova), a private social housing service present throughout the country, have a joint project which enables them to place undocumented migrants in eight houses rented by the rental agency. The agency rents flats or houses from private owners, then rents them at low prices to poorer people. The undocumented migrants who access this rented housing must pay a minimum rent of 25 Euros a month, which does not include gas and electricity bills. The rent increases in relation to a person's income. A person may apply for accommodation on condition that he or she is being accompanied by a refugee help service for at least three months or is considered by the service to have some prospect of obtaining a legal stay permit." (source: http://picum.org/HOUSING/Housing_socialB.htm)

A similar idea was adopted in the UK a little later, in the second half of the eighties, when the discrimination of minority groups in the housing allocation process was identified. (See Box 8).

Box 8 BME HA in the United Kingdom

The Black and Minority Ethnic Housing Associations (BME HA) in the UK have emerged in the second half of the eighties, reaching a small (1,5%) but important share on the social housing market. The BME HA's fall under similar schemes like other HA's in the UK, but they are regularly smaller, thus have difficulties in sufficiently cross-subsidizing their activities and raise funds for investment. The rents applied are mostly higher as well. The BME HA's have two groups: the one is managed by the community and provides standard services, the other group focuses on specialist services (e.g. conflict management, special social services, etc.). The articulation of the population's needs is more supported (e.g. because of less language barriers), but keeping the service level high is a natural demand from the renters. They gain importance in places where access to housing and other social services is limited for BME groups.

(The Housing Corporation, 2003)

To draw on the private rental market can become very difficult if the expectations of the investors are kept high in terms of the profitability of participating in state housing programs. A further constraint to including private rentals into social housing programs in the Central European region is the highly informal functioning of the private rental sector, due to which there is very little tenure security and transparency in this sector.

Box 9 Attempts and failures to include the private rental sector into social rental housing programs in Hungary

In Hungary, the government decided to launch a rent allowance program through PPP schemes for rental investment. (Hegedüs-Teller, 2005) According to the proposal, the local governments would make a long-term contract with a private investor for using the newly built rental units for social use; the central and local government would jointly provide a rent subsidy which would bridge the gap between the affordable rent and the market (cost plus profit) rent for the private sector. The proposal failed because the guaranteed rent level (asked by the investors through the proposal) was unacceptably high (twice the existing market rent). However, the importance of the social rental sector had never been questioned in the government documents. In 2005 finally a new rent allowance program was introduced in Hungary, which aimed to use the private rental sector for social purposes. The local governments could apply for a rent allowance for the low-income families with children, who have a private rental contract. The rent allowance paid by the central government could be maximum 30% of the rent or 25-30 EUR/month, and the local government has to contribute minimum with the same amount as the central government. The local governments can apply for 3 years. The program was a failure: only very few local governments put forward a proposal. One reason for this was that the program expected the landlords to be registered at the Tax Authority. The majority of the private landlords do not pay tax, and they did not change their behavior for the sake of participating in this program. The income limit (lower than 180 EUR per capita per month, which includes only the lowest two income deciles.) was an important other constraint.

3.4 Critical issues related to social rental programs

There has been a long history of social rental programs in European countries. As a result, the currently applied models are of a dynamic and continuously changing nature embedded in a policy environment, which is also in a constant transformation. Thus, there are permanent adjustments made according to the changes of the macro-environment conditions and social needs, of which some elements can be clearly identified.

The most critical question is the *availability of budget resources*. Support to the public rental sector was a real burden on the budget for all of the countries in Europe, although the trend is that the overall cost of housing programs decreases as the society becomes wealthier. The transitional countries typically have their GDP per capita around 30-50% of the European average, and their real estate market prices (and rents) are around 70-90% of the European level. Thus to maintain a public rental sector costs more for the transitional countries (New Member State and Accession countries), but these expenses can be lowered in the long run. The costs of social rental programs are high, and the expenses (subsidies for increasing and also for managing and running the stock) should be thoroughly planned, based on need. If there is an unrealistic calculation of future program costs, very soon there can be a withdrawal or termination the program.

There are several *institutional forms* for “implementing” the public rental programs, and it is difficult to make any priority order among the alternative solutions. The choice between the two basic models, the residual and the universal, is more a theoretical than a practical question. The residual model is targeted at the most vulnerable groups, whereas the universal model includes the private and the social rental sectors alike for all target groups. Taking into account that each housing system requires to have a stock run as rented stock for socially vulnerable groups who are not able to maintain home-ownership for whatsoever reasons, an extremely small residual stock would result in a "very social stock". Such housing should be complemented by a complex set of social services, because without these the groups in the social rental sector would further marginalize, soon facing multiple problems that at the end can be resolved only in a socially very costly manner. Opting for a model including also better-off vulnerable groups can contribute to the sustainability of the sector. Careful planning, implementation and monitoring should at the same time ensure that the most vulnerable ones are neither pushed out from the social housing sector, nor from "mixed" and gentrifying neighborhoods.

We have seen that the transitional countries have attempted to make use of many various models which exist in developed countries. The key question is how to ensure that *the new institutions should have their own interest and capacity to survive and continue to operate* in order to guarantee the sustainability of the respective model.

When designing a new public rental sector, *targeting* is a critical issue. The basic question is how we can guarantee that the allocation will be *fair* and the model *sustainable*. Fairness means that the neediest households will have a chance to get access to the subsidized rental units. Typically the number of eligible households (who do not have access to housing on the market) are several times higher than the units available for allocation, and there is limited reliable information on income, etc. – thus the choice is difficult. There are at least two methods constraining the demand of the better-off households: 1. limits on the size and value of the apartments allocated (maximum size limits, price ceiling), and 2. limiting the property rights of the tenants.

The *tenancy right* in the public sector is a key question in the transitional countries where the tenants in the public sector enjoyed very wide property right including the right to inherit the flat, to invest into flats and even to sell the tenancy right. Thus the tenancy right was practically not different from the ownership of property, meaning that the tenants could tap the capital gain in a similar way as the property owners. Giving the tenants a limited property right will narrow down the potential demand substantially as opposed to pre-transition (war) times.

Interestingly enough, despite this, many rental programs are turned into ownership programs through making available the privatization option for the sake of a short-term (political) advantage, which at the end causes the failure of the social rental programs. As for the BiH context, there are several conditions that very much contribute to such a development: first of all, the mass scale privatization contributed to a "social pressure" for privatizing remaining/newly constructed units, a practice of which will, in the long run, most probably result in a non-sustainable housing sector due to the complete lack of social dwellings. Secondly, the current regulatory framework does not deal with social housing issues and manifests nearly exclusively the legacy of the return process. The focus of the (re)construction investments and allocation is very much tailored to meeting the outstanding demand of displaced persons and refugees, whose return related housing needs have to be addressed by the municipalities. Thus, local housing investment has to be targeted at these groups, whereas other "social cases" can hardly be included in the beneficiaries' groups receiving access to housing.

The financial sustainability of a program means that the new tenants will be able to maintain the apartments, i.e. they can afford the rent and housing cost. Hence, it is a question of selection (not only the poorest should have access) and putting in place an efficient housing allowance system, which guarantees that the housing will be maintained and managed properly, and thus, be sustainable in the long run.

4 Social programs in the owner occupied sector

4.1 Why should the owner occupied sector be supported?

After the large-scale privatization programs in the region, due to the diminished and residualised social housing stock, social housing policy had to find techniques to help households to access and maintain owner occupation. The task was to design programs targeting at low-income groups that enhance access to owner occupation or help low-income households to improve their housing conditions through renewal and reconstruction.

The advantages of these programs are that they do not need a special institutional/organizational structure, the administration costs are low and the (immediate) political support is stronger. The disadvantages of the programs are that they use budget resources and consequently put a fiscal burden on the economy for supporting the middle class that does not necessarily need to gain state support. (Typically this layer of society has access to sufficient funds and savings to maximize the efficiency of the benefits.) A further drawback can be that owners will improve their wealth and income level in the course of benefiting from long-term subsidies, typically mortgage-subsidy programs, while, in fact, they may not be "in need" for the entire period. This creates a very costly long-term commitment for the state budget.

Nevertheless, there are situations when homeownership programs can be considered more effective than rental programs, e.g. in rural areas where there is no demand for rental housing and no skills or organizational capacities for managing and maintaining social housing. A further case is represented by formerly privatized multi-unit housing buildings (e.g. large-scale housing estates) that require investment into modernization so as to avoid the depreciation and marginalization of the value of that housing stock on the hosing market. In this latter case, preventing such processes through subsidy programs for home-ownership can be very effective and can decrease the social costs of renewing such estates in a later phase.

4.2 Types of mortgage programs in the home-ownership sector

Most of the countries in the region had to deal with the housing problems of middle and even upper-middle income households. Because of the collapse of the housing finance system in the region, even these groups had an affordability problem. However, the introduction of support for savings banks, interest rate subsidies, tax allowances not only served first of all the higher income groups, but created a huge fiscal burden for the governments.

Very different subsidy schemes were introduced to support the households in the owner occupied sector.

The most important concern of the housing policy was to offer affordable loans for middle-income households. **Mortgage programs** aim to reduce the effective interest rate paid by the borrower from a market rate.

Box 10 Mortgage programs in the region

A solution in the region is to use a *special fund* to issue loans at a below-market rate of interest. Different solutions were used including the revenues from privatization (Estonia, Slovenia). In Slovakia, the Housing Development Fund issues loan for the eligible client at the discount rate of the National Bank in Slovakia (Zapletalova, et al, 2003). In Poland, the National Housing Fund gives loans for TBS at an interest rate equal to 50% of the discount rate. In principle, the "solidarity fund" in Serbia belongs to this category, which is based on a wage tax. However, the typical solution is offering funding from the general budget at below-market rates. Mortgage programs used interest rate subsidies to reduce the effective interest paid to a private bank.

To introduce an efficient housing finance system, the role of the mortgage insurance is critical. Programs based on mortgage insurance have not been always successful because setting up a government-sponsored agency to manage the risk may involve the elements of the moral hazard. In Estonia, after abolishing the Housing Fund, the self-managing guarantee fund, KredEx, was established in 2000 within the administrative field of the Ministry of Economy. It guarantees housing loans for purchase by special groups and loans for condominiums. (Kahrlik, et al, 2003) In Hungary, some 35 thousand young households have obtained loans with state guarantee to access home-ownership in the last two years (2005-2007).

Another technique to reduce the effective interest rate is the introduction of **tax advantages**. The personal income tax can be reduced by the amount of interest (or other payment) paid on a loan used to finance the purchase or expansion of a dwelling occupied by the taxpayer. Tax allowances can be used beyond supporting the mortgage loans for decreasing the transaction cost of the mobility, or property tax payment, etc. In Poland, for example, eligibility is defined very broadly, so the tax can be reduced by expenditures connected with a purchase or construction of a new dwelling (land cost included) and with renovation and modernization of buildings, and by savings on a special housing account. (Uchman and Adamski, 2003)

Among the homeownership programs the state support to savings was very popular in the region. The **contract savings schemes** are designed after the German models. The households receive a bonus based on the amount saved each year, but it can only be withdrawn after a minimum number of years. This scheme was introduced in Slovakia (1993), the Czech Republic (1994), Hungary (1997), and Croatia (2000), but, for instance, not in Poland. Subsidies to such schemes can become very costly and regressive; as an example, the Slovak and the Czech government pay 30-50% of their budget subsidies to the Bausparkasse institution supporting middle-class savings.

Lump sum subsidy is a type of cash grant applied to enhance housing investment by individual households. It is typically used for financing new investment, but can be given for reconstruction or even to support transaction costs. The lump sum grant is used in Hungary to support families with children (new construction)[4] and it is given to the condominiums for rehabilitation, especially for "thermal rehabilitation". In Poland, the National Housing Fund can give up to 10% of the investment cost as a lump sum subsidy for a TBS investment.

Vouchers for home-ownership are applied as a sort of replacement of "cash" subsidies e.g. US voucher scheme. In Armenia in the framework of the program for housing purchase certificates for existing units in the earthquake zone (Anlian and Struyk, 2003).

[4] In Hungary, between 1994 and 2000 a special program was launched to help Roma people to have access to a lump sum home ownership grant required for construction. The local governments provided the land, an NGO organized the project, and the central government supported the NGO by giving the lump sum grant to the beneficiaries.

4.3 Microfinance options for housing

There have been a range of microfinance products, but typically less in the housing sector. In this area, two main products can be mentioned, micro credit to housing finance (MCHF), and shelter advocacy to housing finance (SAHF) (World Bank, 2000). The most important difference between the two models is that MCHF is based on the fact that often shelter and business are very closely connected, and the house is the place for income-generating activities, thus it serves housing construction and home improvement. SAHF is a more advocacy-related "product", aiming at the poor and their access to resources, services and rights, i.e. land acquisition, infrastructure development and access to shelter.

These schemes are small-scale, and are mostly community based initiatives. The first scheme is based on a transparent legal system and registered ownership, also allowing for individual (and collective loans). The SAHF targets informal shelters with the help of collective loans. Both approaches include a savings scheme so that the savings habit is developed to ensure later repayment of the loan.

Box 11 Microfinance products in South America

There are several types of SAHF programs, e.g. establishing a community based savings and loans association that can qualify "for matching funds, such as a loan from an NGO or an in-kind grant from the municipal government in the form of building materials. Individual loans are awarded to members of an eligible savings and loan association and are guaranteed by a usufruct right to the land and collective liability. Peer pressure and the incentive of future access to credit—up to three consecutive loans are awarded—effectively ensure timely repayment of loans. An example of this type of program is Casa Melhor and PAAC in Brazil." (World Bank, 2000) A further type of SAHF offers products that enables the households to get access to national housing subsidy schemes for which they are eligible but do not possess the necessary down payment. Other programs enable the dwellers to legalize their status through assisting the registering process which is often a precondition for investment in housing improvement.

4.4 Alternative home-ownership models

In high-demand areas, access to home-ownership might be limited to the wealthiest, even in case of highly developed housing systems with a considerable supply for housing finance tools. In such cases, alternative models for accessing home-ownership can be applied. A precondition for such models is a well developed institutional and regulatory framework.

Box 12 Shared ownership models in Great Britain

In Britain (and Ireland), shared ownership programs are used to support the low-income households to buy homes that have a higher price than what they can afford. The household purchases an affordable portion of the value of the home, and rents the remaining portion from the social landlords (typically housing associations are running these programs). The models are aimed at people who cannot afford to buy their entire home in one go. It allows the eligible households to buy a proportion of the home to begin with, increase that proportion step by step until they can own the whole house. Whilst they are buying a portion of their home, ownership is shared between them and the institution that manages the program (local authority, social landlord like housing associations). The households make payments on a mortgage for the part they own and pay rent to for the other part.

There are different versions of shared ownership depending on the legal structure of the contracts. "Sharing owners are long leaseholders (in England and Wales) or have an occupancy agreement (Scotland) and are responsible for all maintenance. (Bramley and Morgan, 1998) "Equity loan" (Homebuy) is a further type of the low-cost home ownership program of shared ownership in Britain. Under this scheme the eligible household will get an interest-free loan equivalent to 25 (earlier 30) per cent of the property value, and will pay for the remaining part. The social landlord will pay the cost of the loan (there is no rent for the household).

There are eligibility criteria set by the social landlords for the shared ownership scheme, and targeting is an important part of the program; households have to meet the criteria set by the local authority. This model could be very efficient for the programs aiming at helping „key workers", because increased house prices make housing unaffordable for people with average incomes and below. This is the case in the health service, for teachers, transport workers and others required for the success of the local economy. (Martin, 2001)

4.5 Critical issues related to social housing programs in the owner occupied sector

Without an *efficient housing finance* system no socially committed housing policy can be developed. The basic question is how evolving institutional reforms will influence the effectiveness of the housing finance system. The high growth rate of outstanding mortgages is generally a healthy trend but only if the interest rate and liquidity risks of these large balances are properly managed. Governments have to evaluate their policy from the point of view of financial and fiscal sustainability. A short-term "generous" but longer-term unfeasible program could cause more damage, supporting the illusion that housing is a public responsibility. A key recommendation based on the experiences of the transition countries is that governments must undertake very substantial efforts to design institutional reforms where needed, and offer the subsidies that may be necessary to induce the institutional cooperation needed for reform implementation.

To *improve the governance of housing* is a further key element. But without sharing responsibility among different private and public stakeholders even the best administration is inadequate. Creation of fair competition is one of the most important elements of a well-functioning system.

Social housing policy needs a *well-targeted* subsidy system. However, on the basis of our experiences, targeting is not politically feasible without the support of the middle class. If housing is not affordable for the middle- and even upper-middle-income groups, subsidy programs will become regressive – helping higher income groups more than low-income groups. An efficient mortgage finance system makes housing affordable for the middle class, sometimes through shallow housing subsidy schemes (tax advantages, interest rate subsidies, etc.), and frees up budget sources for social programs.

Increasing the efficiency of the housing finance system draw the attention to the immature social housing policies in the region. Fairness and efficiency should complement and not substitute each other.

The *question of targeting* at the owner occupied sector is critical in any housing program. In rental programs targeting is very important as well, however, it can be improved in time, whereas if a program on enhancing access to owner occupation has not been targeted, the grant is lost for good. The targeting techniques could be the following:

- Means testing: the income and wealth test could help; however, it may not work in countries where more than 30% of the GDP is not taxed. The solution is not to give up means testing, but much more to improve income measurement.

- Proxies are used to substitute or supplement the income test. Age and the number of children are used frequently, as the financial situation of the household correlates with these variables. Young families, first time buyers, etc. are among the typically used categories.

- The value of the subsidized unit could be a criterion for eligibility. Dwellings above a certain limit (in terms of the m2 per capita or value) are not eligible for subsidies. The rationale behind it is that high-income groups are heading towards more expensive units.

- The type of building or the type of investment could limit the access of the high-income groups to subsidies. Prefab housing, for example, is mostly inhabited by lower income groups; the rehabilitation of the rundown urban areas is another example. Most of the home ownership programs are used for new housing, which could have a regressive income effect.

A further issue indirectly related to allocation and social targeting is the spatial distribution of the benefits for home-ownership in terms of targeting housing investments at specific parts of settlements, settlement types (urban-rural distribution), at rehabilitation or reconstruction programs. Investing large resources into areas with a very low housing market position (and hence most probably little access to infrastructure and employment) will actually contribute to an increasing marginalization of the affected residents. On the other hand, some urban rehabilitation programs can contribute to motivating lower income residents to move out and cash the value gap gained through increased housing value and consume these windfall gains while moving down (e.g. to poorer suburban areas or low-cost remote villages).

Future BiH programs for home-ownership should very much take into account the lessons that could be gained from the effects of the return process related reconstruction projects on the housing market and related transactions of the past few years so as to avoid leakage of the subsidies.

5 Housing allowances and support to cover housing costs

5.1 How do housing allowance programs contribute to resolving affordability issues?

The government needs to develop a policy that can deal with housing affordability issues 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 which would decrease the price of services or investment; 2. Modification of the tariff structure for public services in order to help special type of consumers; 3. 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.

From the 60s, the developed countries have been introducing housing allowance programmes operated as income related, demand-side subsidy schemes (Howenstine, 1986). These developments 'reflected housing policy rather than social security concerns' (Kemp, 1997, p. 16). The introduction of the housing allowance system was accompanied by the reduction of the supply-side subsidies and decontrolling private rents.

In transition countries, housing sector reform proposals gave housing allowances a high priority. Housing allowance programs were considered to be a key factor in helping to restructure the public rental sector making it possible to increase the rent to the market or a cost-recovery level and introduce mean-tested subsidy to low-income households. The purpose of the housing allowance program was more to provide households safety against the hardship related to the increased cost of housing services such as energy, water, garbage collection, etc. The comparison of the housing allowance programs in the region indicates that they were more an income support for paying housing costs than a demand-side housing subsidy as in the western countries (Howenstine, 1986).

5.2 Housing allowances in transitional countries

After the transition, housing costs increased faster than household incomes, which led to an 'affordability' issue. Because of the low level of public sector rent, the allowance necessarily went mainly toward helping to pay the utility cost for low-income households. There has been a range of hosing allowance schemes developed in Central and East European countries applying very different solutions and leading to diverging effects.

However, it is important to emphasize that housing allowance systems are changing, and in almost every transition country the housing allowance systems are under 'pressure'. For example, the rent regulation is under constant criticism in the Czech Republic (Sunega, 2004) and in Slovenia, and any change to the rent control could have a significant effect on the housing allowances. Hungary represents one case among the transitional countries facing the 'affordability trap'. In conclusion, right after the transition, housing costs have increased faster than household incomes in the region, and the gap had to be 'bridged' by three factors. First, the households had to adjust their housing consumption according to their income situation; second, the efficiency of housing services had to be improved; and third, the safety net program had to deal with households that were 'trapped'. The challenge was universal, but the responses were country-specific with some common elements.

Box 13 Housing allowance programs in CEE

Typically households both in the owner occupied and the rental sector are eligible for subsidy. In Poland, Slovakia and Slovenia a version of the so-called gap formula is used, where the household is expected to meet a certain part of the housing costs. Housing allowance programs reach 4–8 per cent of the households, and in Poland, Slovakia and the Czech Republic the average size of the housing allowance is between 25 to 37 EUR per month. Slovenia uses rent allowance for a relatively small group (around 2,700 households). In the Czech Republic and Slovakia the program is managed and financed through the de-concentrated administrative units of the central government, while in other CEE countries it is administered by local governments. In Poland and Hungary the costs are shared between the two levels of government. In general, the housing allowance program is most significant in Poland and the Czech Republic, and less significant in Slovenia. (Hegedüs-Teller, 2005)

5.3 Critical issues related to the housing allowance programs

It is very important to emphasize that in housing systems where there is a need to contribute to ensuring affordability of at least a basic level of housing consumption, and also at least to a certain extent compensate for the inequalities among the costs of different types of housing, governments have to develop housing allowance schemes in order to avoid raising arrears and severe under-financing in the utility service sector, and also raising insecurity for low-income households.

Housing allowance programs should be an integrated part of the social benefit programs, since the money transferred through any benefits is "fungible", thus we can suppose that a substantial part of the income benefits is spent on housing. For example, in Estonia 79.4% of the total benefit program was spent on housing allowance in 1994, and it decreased to 20.1%.(Kahrik, et al) In Hungary the share of housing allowances was less than 4% in 2002 (Hegedüs, 2003), whereas the number of the claimants has doubled by today, and the expenditure of housing allowances was increased by 5 times.

There are several critical issues that will have to be taken into account when a BiH housing allowance is developed. The urgency of developing such a scheme is increasing, as the reported affordability and non-payment problems are arising, especially in multi-unit buildings, where utility services are under-financed (canton-level responsibility).

One of the key issues is *targeting*: how to measure the need for a contribution to the housing costs. Especially among the needy people, the proxies that could be applied instead of relying on the very vague income data, it can be very difficult to be defined. (For a further discussion of possible targeting see the targeting issues as of the home-ownership benefits).

A further issue is *what costs* should be considered as eligible housing costs, e.g. rents, energy costs, water, etc. Having different housing cost levels for numerous housing types (e.g. single-family housing vs. multi-unit dwellings with unmetered district heating vs. other heating types) might result in a variety of needs to be faced that should be taken into account when defining the needs and the costs of the programs.

Also the *beneficiary should be defined*: if the household receives a cash housing allowance, the probability of leakage is higher; but because of the shopping incentive the welfare effect is stronge, as well. The other solution is that the service provider receives the subsidy in order to decrease the price of the service, but in this case the household is not so much interested to control its consumption.

Participation in the housing allowance program is crucial. Having received some numbers and distribution of the BiH beneficiaries of social benefits as of the mid nineties, it can be assumed that there is a severe need for developing social benefits to increase the coverage of poor households in the subsidy schemes. This again, depends very much on the governance of the program: should it be financed solely from constrained municipal budgets, there would be no incentives to increase the number of beneficiaries. If it is co-financed from other budgets (state/entity or canton level), the incentive to operate the allowance scheme would be greater.

6 Institutional structure for social housing

6.1 Fiscal consequences of the housing programs in Central and Eastern Europe

Following the transition, the housing policy in the region has been constrained by fiscal control. Housing privatization in itself (that is, privatization to the sitting tenants) had a positive short-term fiscal effect, but the privatization of housing finance and the construction industry, along with the management and utility services was more important. In the first half of the 1990s, housing lost its political importance and, due to the collapse of the traditional state housing sector, subsidy levels decreased very rapidly. Early observers argued that in the socialist period there was a huge underinvestment (Struyk and Telgarsky 1999); but, because of the fiscal pressure and economic crisis, housing investments were even less after transition. Both direct budget subsidies and indirect (off-budget) subsidies decreased. Parallel to the restructuring of housing services the hidden subsidy transferred through low service prices gradually disappeared (or at least decreased). Through the decline in housing output, direct subsidies decreased as well.

We do not have good comparative data for subsidy levels in these countries, but around 0.8-1.2 percent of GDP is typical. This is at the low end of the scale among European countries. In the Czech Republic, housing subsidies reached 1.12 percent of GDP (2002), but by including hidden subsidies (e.g. subsidies through the below-market rent of the municipal sector) it could be estimated at 1.4-1.9 percent of GDP (Sunega 2004). In Hungary, housing subsidies grew from 0.8 to 1.7 percent of GDP between 1998 and 2003.

At the turn of the century, governments in the region turned to housing policy again with the intention to launch social programs. The targets of these new ambitious strategies outlined in government papers have not been realized, with effects on subsidized social housing rendered questionable in most cases. The basic reason for this failure is that targeted programs for low-income groups can work only if housing is basically affordable for the middle class – and affordability in market societies depends heavily on the effectiveness of the housing finance system.

6.2 Governance of housing

The governance of social housing has always been a critical element in social housing programs. There are different solutions in the region, but the typical one is to set up a government agency[5] which resembles a national housing fund, such as in Slovakia (1996), Romania (1999), Poland (1993), Estonia (1995) etc. Housing-related policy tasks were typically distributed between several ministries, and as a consequence of decentralization the housing responsibilities were shared between the central and local government as well. The national housing fund-like institutions were set up in several countries to manage housing programs financed partly through the revenue from housing privatization. E.g. the Polish fund was administered by the General Development Bank (BGK), which used funds to support a social housing program. These revenues had to be supplemented from the budget to operate a substantial program. One of the exceptions was Slovenia, where the National Housing Fund was set up in 1991 to collect revenue from housing privatization. It played a proactive role in housing policy and had become the biggest financial institution in the housing market by the beginning of 2000. The National Housing Agencies in Romania, Albania, and Hungary played a less important role, as these agencies could not integrate sector policy. They played no greater role than a ministry department, similar to their counterparts in the Czech Republic and Slovakia.

Social housing programs are actually run through “window” institutions in other countries (in Hungary, public institutions are set up under the department responsible for managing housing programs). The agencies or public institutions are under the executive control of the ministries, but they could have other roles as well. The preparation of housing programs, financial management of the programs, monitoring the results and controlling the operation could be their responsibility. The agencies in the region have a potential to develop from the stage being “de-concentrated” units of the government towards being semi-private institutes competing or cooperating with the private sector, which issue and/or guarantee mortgage bonds as primary source of funding and lend it to the costumers backed by the collateral.

[5] Housing is a quite complex area of public policy, so it is not easy to put all he tasks under one ministry or agency. Thus the cooperation among the ministries related to housing issues (from construction law to banking regulations) is crucial, which again can be the task of this agency or department. In Hungary, the housing issues floated among various ministries, and now settled at the Ministry for Local Government and Regional Development as an independent section. However, the housing allowance scheme is operated by the Ministry of Labour and Social Affaires.

Box 14 Housing Agency in Latvia

The Latvian Government recently established the Latvian Housing Agency, “to develop and implement a unified housing policy in Latvia. The Housing Agency was set up in September 2002 and is working on its organizational structure and framework, as well as its strategy for development and performance.

The State Agency "Housing Agency" is a state institution supervised by the Ministry of Regional Development and Local Government. The increasing of housing quality, the availability and a chance of choice for Latvian citizens is the main mission of the Agency. To realize long-term corporate policy in the housing sphere and provide Latvia with the integration of that policy with the help of main approach of European Union is the target of Housing Agency.

The target audience of the Agency is any physical person or legal person in Latvia that could be a house owner, a tenant, a state institution, a nongovernmental organization, an entrepreneur in housing sphere or also any physical person or legal person outside Latvia that could be a house owner, a state institution, a nongovernmental organization, entrepreneurs who can use the experience of Latvia in housing sphere.

The reflected aim includes the following S/A "Housing Agency" main functions of strategy:

1. To manage support programs of state, housing regional, national and cross - border development projects;
2. To manage methodologically municipalities and other owners in housing maintenance field;
3. To ensure housing monitoring and communication with target audience;
4. To end the privatization of state dwelling houses in accordance with the law "Privatization of state and municipalities dwelling houses";
5. To improve housing legislative basis;
6. To make other S/A "Housing Agency" functions those are defined in regulation”

(source: http://www.been-online.net/The-State-Agency-Housing-Agency-Latvia.pp13.0.html)

Local governments typically play an important role in running social housing programs. The successes of the programs are the incentives built in the grant structure. As a consequence of the decentralization, a significant part of the housing responsibility was transferred to the local governments, and they have relatively broad expenditure autonomy. The local governments in the region developed different models towards an efficient social housing policy, some of them are related to central programs, some of them have been carried out for their own responsibility and from own resources. We should emphasize here that some of the countries in the region had a very fragmented system of local government (Czech Republic, Slovakia, Hungary, etc.).

Non-profit organizations are currently active in neglected segments of the social sector, some of them combining housing and other social services. This development can definitely give a new impetus to the social housing efforts.

In the developed European countries, there is a restructuring process in the governance of social housing in which the non-governmental and private actors are playing an increasingly important role. (Boelhouwer, 2000) However, we could conclude that national housing policies differ very much, and in several cases they are using, for good reason, supply side subsidy schemes and direct institutional solutions. The special program targets, the state of the local housing market and the existing institutional settings determine the best solutions for social programs. There are no cross-national recipes.

Because of the historical differences in the social housing sectors, it is not easy to summarize this trend in one paragraph. The substantial point is that in the course of the transformation process either the function of social housing is taken over by new non-profit or private institutions (like in the UK), or the existing non-profit institutions are changing change, and become more independent and market oriented organizations. The story of Dutch housing associations is a good case in this view. The housing associations in the Netherlands have become more independent, but there are clear ties between the housing associations and the government. There are new proposals, which try to loosen these ties more.(Priemus, 2003)

The other example is the setting up of a new system of social housing as it happened in the U.K. from the 70s, based on the emerging of a new and powerful stakeholder, the social landlords parallel to the (forced) withdrawal of the municipalities from the social housing sector.. A further interesting example is the appearance of the regional level as stakeholder in the UK housing policy making: besides a coordinating and monitoring role connected to the municipal housing strategies, the regional level has recently been made responsible to actively be involved in tailoring housing policies to be in accordance with national level development policies and enhance the implementation of such policies **and especially their** housing policy element

6.3 Critical issues related to the governance of housing

Besides taking into account the preconditions for an effective governance, e.g. the presence of sufficient data and methodology tools for planning and monitoring (data issue), some further institutional elements have to be established to have a well functioning housing system, in the framework of which housing policies for vulnerable groups can be developed and implemented.

It is especially relevant for the BiH context to underline that institutional design is one of the key elements of sustainable program implementation. Some aspects should be very much taken into account when defining the role of the state and other intergovernmental players in the future setup of the housing governance:

- both risks and benefits should be shared among the interested partners; the partners and levels of governments participating in benefit programs should be motivated to appropriately design and control expenditure and investment and care for future operations of the programs;
- incentives should be made available to enhance participation in programs;
- costs related to management and administration should be kept at a reasonable level, nevertheless, monitoring costs should be planned for when designing programs;

- the institutional setup should be designed so as to ensure sufficient monitoring and proper evaluation of the programs;
- and last but not the least, there should be a solid regulatory framework in place so as to ensure accountable and foreseeable acting and operation.

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