# Sustainable Housing and Urban Development: the CEB's Contribution



CEB

COUNCIL OF EUROPE DEVELOPMENT BANK
BANQUE DE DEVELOPPEMENT DU CONSEIL DE L'EUROPE

# SUSTAINABLE HOUSING AND URBAN DEVELOPMENT:

# THE CEB'S CONTRIBUTION

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## ACKNOWLEDGEMENTS

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# FOREWORD

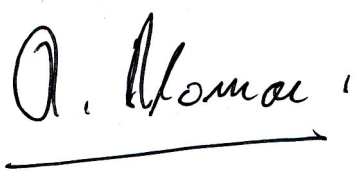
Housing is a basic need for every individual. As a decisive factor in social cohesion, housing is a condition for access to employment and the realisation of fundamental human and social rights. Affordable and decent housing constitutes an essential part of quality of life.

Created in 1956 as the Council of Europe Resettlement Fund for National Refugees and Overpopulation in Europe, the Council of Europe Development Bank (CEB) was initially limited to financing housing in favour of refugees and displaced populations. We have steadily widened the Bank's scope of action in urban development, while constantly seeking to ensure its contribution to the social development of individuals and to their living conditions in general.

The overall objective of this study is to present the CEB's approach in supporting housing and urban development and to review its long-standing experience in this field, detailing different areas of support, beneficiaries, methods of financing and a broad range of projects financed over the last fifty years. The study also offers a prospective analysis of the main demographic, social, economic and environmental trends affecting housing markets in our member countries. From the sectoral and geographic points of view, these trends are shaping new challenges for international financial institutions. Hence, the study sets out different responses which could be brought by the CEB in the housing and urban sectors in the coming years. The study particularly deals with the residential sector as a potential vector of environmental sustainability through improvements in energy efficiency.

I believe it is important that the CEB, as the social development bank in Europe, continue paying particular attention to this sector which is one of the more important challenges to improving living conditions and promoting socially sustainable development in Europe. In line with its position among international financial institutions, the CEB intends to pursue and develop its expertise and activities in this field, in close dialogue with its member countries and in cooperation with the international community. I am confident that continued efforts will allow for improvement of the effectiveness of the CEB's activities in supporting vulnerable populations throughout Europe.

I hope that this publication will provide a wide audience with useful information about our commitment and contribution to sustainable housing and urban development. At the same time, I believe that the following observations and conclusions will add to the ongoing discourse on this important issue.



Raphaël Alomar
Governor
Council of Europe Development Bank

# CONTENTS


**EXECUTIVE SUMMARY** ..... **1**

**1. INTRODUCTION: PURPOSE AND SCOPE OF THE STUDY** ..... **2**

**2. THE CEB's APPROACH TO HOUSING AND URBAN DEVELOPMENT** ..... **3**

2.1. Housing for low-income persons as a principal activity ..... 8
- a. Definition ..... 8
- b. Project portfolio in the housing sector for low-income persons ..... 11
- c. Examples of projects ..... 11

2.2. Housing for vulnerable populations within a cross-sector framework ..... 13
- a. Refugees and displaced persons ..... 14
- b. Migrants ..... 14
- c. Victims of natural or ecological disasters ..... 15
- d. Other vulnerable groups of population ..... 16
- e. Grant financing ..... 17

2.3. Development of housing-related and urban infrastructure ..... 19
- a. Scope of the CEB support for urban renewal ..... 20
- b. Project portfolio for housing-related and urban infrastructure ..... 20
- c. Examples of projects ..... 21

2.4. "Green housing" ..... 24
- a. What is "green housing"? ..... 24
- b. Project portfolio in the field of "green housing" ..... 25

2.5. CEB's added value and lessons learned ..... 29

**3. HOUSING AND URBAN DEVELOPMENT IN EUROPE: NEEDS AND CHALLENGES AHEAD** **31**

3.1. Factors shaping growing demand ..... 31
- a. Changing demographic, social and family patterns ..... 32
- b. Impact of economic factors and market trends ..... 34
- c. Environmental challenges ..... 37

3.2. Regional specificities of housing and urban development in CEB member countries ..... 42
- a. Western Europe: an integrated approach ..... 42
- b. Northern Europe: a decentralised, environmentally sustainable approach ..... 44
- c. The economic crisis and the housing market in the Baltic States ..... 45
- d. Challenges of ageing and immigration in Southern Europe ..... 46
- e. Central and South Eastern Europe: from transition to new challenges ..... 47
- f. Informal settlements and displaced persons in South Eastern Europe ..... 48

**4. POTENTIAL IMPLICATIONS FOR THE CEB** ..... **53**

4.1. Priority sectors of intervention ..... 53
- a. Providing decent and affordable housing: building, rehabilitating or adapting ..... 53
- b. Developing cross-sector operations ..... 55
- c. Enhancing energy efficiency and use of renewable energy in housing and urban infrastructure ..... 56

4.2. Partners and means of action ..... 59
- a. Diversifying borrowers and involving all relevant stakeholders ..... 59
- b. Adapting the financing and technical instruments of intervention ..... 60
- c. Strengthening co-operation with the European Union and donor States ..... 61

**5. CONCLUDING REMARKS** ..... **62**

**BIBLIOGRAPHY** ..... **63**

**STATISTICAL ANNEX A** ..... **65**

**STATISTICAL ANNEX B** ..... **71**

# BOXES

## GENERAL INFORMATION


Box 1 CEB sectoral lines of action
Box 2 CEB financing and monitoring modalities
Box 4 Selective Trust Account


## THEMATIC INFORMATION


Box 3 The CEB's eligibility criteria for financing housing projects
Box 5 CEB's support to sustainable urban development: the JESSICA initiative
Box 6 Procurement issues
Box 7 Ex Post Evaluation: Lessons from CEB's interventions
Box 8 European co-operation in housing and urban development
Box 9 EU financing opportunities for energy efficiency in buildings


## EXAMPLES OF CEB PROJECTS


Box I Social housing and dwelling units in North Rhine-Westphalia
Box II Rental housing for young low-income persons in Romania
Box III Reconstruction of the areas destroyed by the 1999 earthquake in Turkey
Box IV Nordic dimension of the CEB's activity in favour of vulnerable populations
Box V "Green social housing projects" in Hungary


# TABLES


Table 1 Main findings of chapter 3
Tables I-V see Statistical Annex A


# FIGURES & GRAPHS


Figure 1 Sectoral distribution of CEB financing to support housing and urban development (1957-2009)
Figure 2 Geographic distribution of CEB financing to support housing and urban development (1957-2009)
Figure 3 The different stages in the project cycle
Figure 4 Establishing sustainable communities in urban areas
Graphs I-VI see Statistical Annex B

# ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| CEB | Council of Europe Development Bank |
| CECODHAS | European Liaison Committee for Social Housing |
| CEE | Central and South Eastern Europe |
| EEFF | Energy Efficiency Finance Facility |
| EIB | European Investment Bank |
| EPBD | EU Directive (2002/91/EC) on Energy Performance of Buildings |
| ERDF | European Regional Development Fund |
| EU | European Union |
| EU-15 | Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom |
| EU-12 | Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, Slovenia (2004), Bulgaria, Romania (2007) |
| EU-27 | EU-15 + EU-12 |
| IFI | International Financial Institution |
| IOM | International Organisation for Migration |
| IPA | Instrument for Pre-Accession Assistance |
| IPF | Infrastructure Project Facility |
| JESSICA | Joint European Support for Sustainable Investment in City Areas |
| KfW | Kreditanstalt für Wiederaufbau |
| NIF | Neighbourhood Investment Facility |
| NTA | Norway Trust Account |
| OECD | Organisation for Economic Co-operation and Development |
| SEE | South Eastern Europe |
| STA | Selective Trust Account |
| UNDP | United Nations Development Programme |
| UNECE | United Nations Economic Commission for Europe |
| UNHCR | United Nations High Commissioner for Refugees |
| UNICEF | United Nations Children's Fund |
| URBACT | European programme for sustainable urban development |
| WBIF | Western Balkans Investment Framework |

# EXECUTIVE SUMMARY

1. Endowed from its inception more than fifty years ago with an exclusively social mandate, the Council of Europe Development Bank (CEB) has dedicated € 16 billion, i.e. more than half of its total lending, to housing and associated infrastructure projects towards building sustainable communities in urban areas across Europe. This amount includes projects for housing and housing-related infrastructure (€ 10 billion) and also covers cross-sector operations with housing and urban components (€ 6 billion). The leverage effect of CEB financing is considerable and can be estimated at a factor of 2.5, given that the amounts approved by the CEB represent on average 40% of the total volume of the actual investments. It can be assumed that CEB loans of € 16 billion have mobilised at least € 40 billion of total investments.

2. The main purpose of CEB loans is to finance projects for the construction of housing, renovation or refurbishing of the existing housing stock and for the conversion of buildings into housing so as to provide decent and affordable housing for low-income population groups. As discussed in the study, the CEB's approach takes into consideration housing in its social, environmental and economic dimensions.

3. In order to encourage an integrated approach in its operations, the CEB includes housing in a larger cross-sector perspective, such as in the case of reconstruction of housing destroyed by natural disasters, provision of housing for refugees, displaced persons or migrants, and children in vulnerable situations, construction of accommodation for the elderly or persons with disabilities. The financing of housing is also considered a part of comprehensive urban renovation programmes and the CEB pays particular attention to the residential sector as a potential vector of environmental sustainability through improvements in energy efficiency.

4. Demographic, socio-economic and environmental developments will have an immediate and medium-term impact on housing markets throughout Europe in terms of diversified demand with significant investment needs. Furthermore, the financial and economic crisis has engendered a greater vulnerability, both on economic and social grounds, within CEB's countries of operation. This is especially the case in "emerging Europe", which is most affected both by the social consequences of the crisis and by the drying-up of supply in financing.

5. Environmental concerns will undoubtedly constitute a challenge in the vast majority of integrated urban renewal programmes to be implemented in the years to come. As a unique social development bank in Europe, the CEB will be expected to include and promote environmental and energy efficiency standards in all its activities, and to seize the opportunity to invest in the "green" housing and urban sectors in particular.

6. In general, the CEB should see a rise in demand for its financing in the housing sector. CEB will continue to support public and private investments, with areas of intervention and beneficiaries clearly targeted according to the needs of the country concerned and thus consistent with trends affecting the local housing market.

7. In order to best meet the significant needs, the CEB is likely to develop its activities along three main lines: (i) provide decent, affordable and adapted dwellings for those whose needs are not met by the general housing market; (ii) develop cross-sector operations; (iii) promote energy-efficient housing and sustainable urban development.

8. Current trends and implications for the CEB open the way for ambitious programmes which are likely to involve diverse borrowers and partners. The CEB will broaden its co-operation with national, local or regional government authorities, financial institutions, as well as social housing agencies or other public bodies entrusted with responsibilities in the field of housing.

9. Traditional lending instruments will generally remain the main tool for the CEB's intervention. In view of growing demand, one of the key challenges for improving the quality and successful implementation of the CEB's projects will be to increase financial resources for technical assistance and other grant resources for specific cases.

10. Further opportunities may arise from institutional co-operation initiatives. Indeed, co-operation with European institutions may be part of the development of both projects and financial coordination, as it ensures more efficiency, complementarities and sharing of experience. CEB will also seek to strengthen co-operation with individual donor countries and thereby to increase external sources of financing for technical assistance.

# 1. INTRODUCTION: PURPOSE AND SCOPE OF THE STUDY

Housing is a basic need for every human person. As a decisive factor in social cohesion, housing is a condition for access to employment and the realisation of fundamental human and social rights. Housing represents one of the main areas of expenditure of European households. Affordable and decent housing constitutes an essential part of quality of life.

Endowed from its inception more than fifty years ago with an exclusively social mandate, the Council of Europe Development Bank (hereafter CEB or "the Bank") has dedicated an important part of its lending to housing and associated infrastructure within an integrated approach towards building sustainable communities in urban areas across Europe.

Initially limited to financing housing in favour of refugees and displaced populations, the CEB has steadily widened its scope of action in this sector, while constantly seeking to ensure its contribution to the social development of individuals and to their living conditions in general. In order to promote a wider sectoral approach in a socially-responsible perspective, the CEB addresses housing issues within a larger framework of rehabilitation of run-down urban areas. At the same time, it aims at including environmental norms and energy efficiency standards in its investments.

The overall objective of this study is to present the CEB's specific approach in supporting housing and urban development and to review its long-standing experience in this field, detailing different areas of support, beneficiaries, methods of financing and a broad range of projects financed over the last fifty years. The study is illustrated by concrete examples of successfully implemented projects in order to capture disparities throughout Europe, in terms of needs, financing channels and regulation of the housing market, and thus to cover the wide framework of the Bank's areas of expertise and achievements to date. As a further example of the Bank's action to consolidate its visibility with respect to a wider public, the study adds to a series of earlier publications on housing issues (see box 8 and Bibliography) and hence complements the communication actions deployed by the Bank.

Furthermore, this study pays particular attention to partnerships that the Bank has developed over the years, in addition to its project financing activities, with other international institutions mainly in the field of housing, energy efficiency and urban regeneration. The Bank has also actively participated in various European initiatives and networks in the housing sector, with the aim of sharing and enhancing its expertise and its specific role as a social development bank in Europe. These partnerships have enabled the CEB to increase the added value and effectiveness of its actions.

Finally, the study seeks to look at future needs and emerging challenges in the housing sector and urban development in CEB member countries. By examining the main demographic, socio-economic and environmental trends shaping demand for housing and urban infrastructure, the study sets out different responses which could be brought by the CEB, from a financing point of view, in the coming years. The study particularly deals with the residential sector as a potential vector of environmental sustainability through improvements in energy efficiency. The aim of the study is to endeavour to map out those fields of action in which the CEB would have the potential to contribute to improving a given situation.

## 2. THE CEB's APPROACH TO HOUSING AND URBAN DEVELOPMENT

Since its creation in 1956 as *the Council of Europe Resettlement Fund for National Refugees and Overpopulation in Europe*, the CEB has played a key role in the financing of housing and urban renewal projects and has become a reference in this sector. The Bank considers this sector to be of fundamental importance for strengthening social cohesion and ensuring the well-being of the population.

One of the specific characteristics of the housing sector is that it covers several of the Bank's missions. Beyond the obvious objective of improving living conditions for those who are poorly housed, the construction of housing is also part and parcel of the Bank's mission to provide shelter to refugees, migrants, victims of natural disasters or other vulnerable populations such as the elderly, ethnic minorities or handicapped persons. Housing is considered a key factor for stabilising population movements and is a starting point for labour activities.

From a broader perspective, the Bank also plays a role in urban renewal and in the "sustainable communities" agenda through the financing of housing-related municipal infrastructure, including investments linked to environmental sustainability and energy efficiency.

The CEB's approach takes into consideration housing in its social, environmental and economic dimensions, which are closely interrelated. Firstly, housing plays a central role in the lives of individuals as a condition for access to employment and the realisation of fundamental human and social rights. Secondly, sustainable housing makes an important contribution to addressing environmental challenges on local, national and global levels. Thirdly, housing generates substantial local economic activity, including new income and jobs, and additional revenue for local governments.

The objective of this chapter is to describe the CEB's specificity and added value in the multi-sector and integrated support for urban renewal involving projects in:

- **Housing for low-income persons** as a principal activity (section 2.1.);
- **Housing for vulnerable groups of population** such as refugees, displaced persons and migrants; victims of natural or ecological disasters; ethnic minorities; the elderly; the disabled (section 2.2.);
- **Housing-related and municipal infrastructure** aimed at improving living conditions in urban areas (section 2.3.);
- "**Green housing**", i.e. integrating energy efficiency objectives (section 2.4.).

The financial resources engaged by the CEB have been considerable. Financing of housing and urban renewal projects represents a major share of the Bank's activity: between 1957 and 2009, an overall amount of **€ 16 billion** (out of a total of some € 30 billion) has been made available for housing for the benefit of diverse categories of beneficiaries in housing-related, municipal infrastructure and "green housing" projects. The leverage effect of CEB financing is considerable and can actually be estimated at a factor of 2.5, given that the CEB's participation in financing may not exceed 50% of the total project cost and the amounts approved by the CEB represent on average 40% of the total volume of the actual investments. As a result, it can be safely assumed that CEB loans of € 16 billion have mobilised at least **€ 40 billion** of total investments.

In a cross-sector approach, these figures include various categories of projects which cover housing and urban issues. On the one hand, the CEB has financed projects specifically considered as housing and housing-related infrastructure (**€ 10 billion**). On the other hand, the Bank has reacted to broader sectoral problems through projects across its sectors of action, such as aid to refugees and displaced persons, natural disasters, environment, health and education (**€ 6 billion**). While the latter are not explicitly labelled as projects in favour of housing, their main goal was to address specific social objectives by providing housing and related infrastructure (see box 1 on CEB's sectoral lines of action).

## Box 1: CEB sectoral lines of action

Acknowledged for its expertise and know-how in the financing of social projects, the CEB enjoys a unique and original position in Europe, on account of the nature of the projects that it finances, the sectors of action in which it is engaged.

The CEB's original mandate was to respond to emergency situations, but its scope of action has gradually widened to include other sectors of activity that directly contribute to strengthening social cohesion in Europe. Today, the CEB's projects and loans activity is structured around three sectoral lines of action: strengthening social integration, managing the environment and supporting public infrastructure with a social vocation.

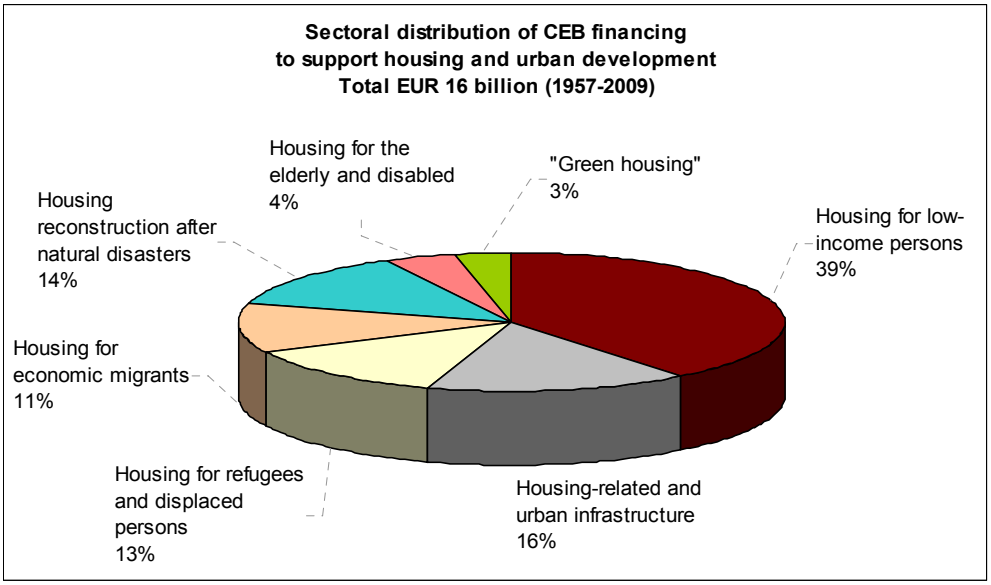
| Sectoral lines of action | Sectors of action |
|---|---|
| Strengthening social integration | • Aid to refugees, migrants and displaced persons<br>• Housing for low-income persons<br>• Creation and preservation of viable jobs<br>• Improvement of living conditions in urban and rural areas |
| Managing the environment | • Natural or ecological disasters<br>• Protection of the environment<br>• Protection and rehabilitation of historic and cultural heritage |
| Supporting public infrastructure with a social vocation | • Health<br>• Education and vocational training<br>• Infrastructure of administrative and judicial public services |

This approach corresponds to a two-fold requirement: on the one hand, to give greater visibility to the Bank's action by grouping together its eligible sectors and, on the other hand, to affirm the institution's mission in favour of sustainable social development.

As can be seen in Figure 1, a total of € 16 billion in loans has been distributed as follows:

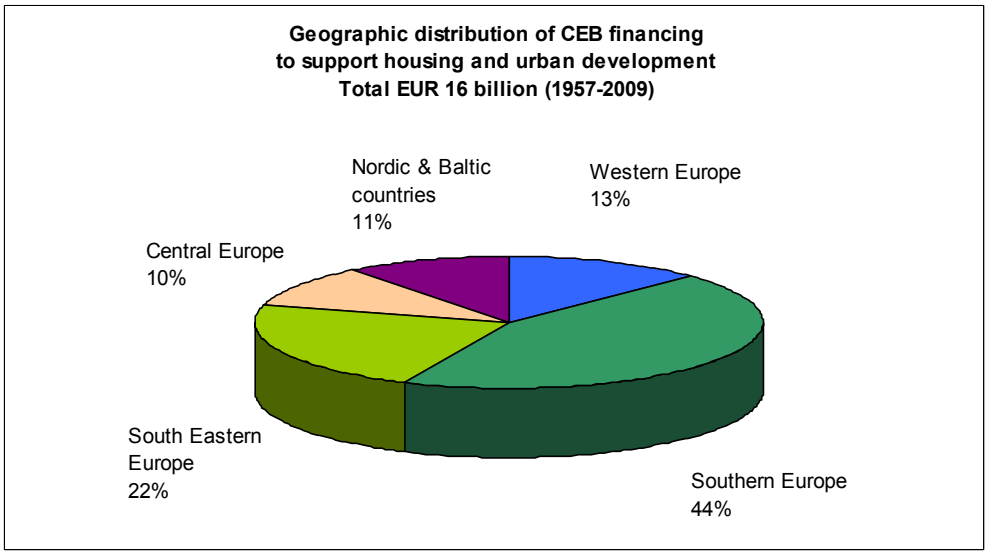
- **Housing for low-income persons** (more than € 6 billion) has been the most important sector to which CEB funds have been allocated.
- A similar amount has been devoted to financing **housing for vulnerable groups of populations** including refugees and displaced persons (€ 2 billion); ethnic minorities; migrants (€ 1.8 billion); victims of natural or ecological disasters (€ 2 billion); the elderly and disabled (€ 660 million).
- Another € 2.5 billion has been allocated to projects for the development of **housing-related and urban infrastructure**.
- Lastly, financing for "**green housing**" projects, although less significant in terms of the amounts involved (€ 525 million), has contributed to improving environmental sustainability.

**Figure 1: Sectoral distribution of CEB financing to support housing and urban development**




The geographic distribution of CEB's interventions in the sectors of housing and urban development, over fifty years of experience, is widespread (see Figure 2), with some major poles of concentration in Italy, Spain, Turkey, Germany, France, Greece, Finland, Portugal, Cyprus and certain countries in Central and Eastern Europe (Poland, Hungary, Romania).

**Figure 2: Geographic distribution of CEB financing to support housing and urban development**




The geographic diversification of loans in favour of housing and urban actions confirms the emphasis placed on a balance to be gradually achieved between the Bank's support in its "traditional" areas in Western[1] and Southern[2] Europe, its presence in the North[3] and the new priority given to Central[4] and South Eastern[5] Europe. Indeed, the increasing focus of the Bank's activities in favour of Central and South Eastern European countries has strengthened its visibility as the European financial institution devoted to social development. In parallel, the Bank has enhanced the added value of its contribution in favour of Western European countries of operation.

[1] Belgium, France, Germany, Ireland, the Netherlands
[2] Cyprus, Greece, Italy, Malta, Portugal, Spain
[3] Nordic and Baltic countries: Denmark, Finland, Norway, Sweden, Estonia, Latvia, Lithuania
[4] Czech Republic, Hungary, Poland, Slovak Republic
[5] Albania, Bosnia and Herzegovina, Croatia, "the former Yugoslav Republic of Macedonia", Moldova, Montenegro, Romania, Serbia, Turkey

## Box 2: CEB financing and monitoring modalities

The CEB takes action in the form of loans, guarantees or through the use of trust accounts. The Bank offers **flexible long-term loans at favourable interest rates**, in specific cases along with interest rate subsidies, to its member states, their regional or local authorities, and public or private financial institutions (€ 2.7 billion in approved projects in 2009). The Bank enjoys the highest rating (AAA/Aaa) awarded by the three rating agencies (Moody's, Standard and Poor's, Fitch), which mirrors its strong financial profile, the support of its shareholders and its stringent risk management policy. The AAA rating enables the Bank to offer particularly favourable financing conditions to its borrowers.

Along with loans, some very limited grant resources can be made available through CEB's **trust accounts** in order to subsidise interest rates and/or to finance technical assistance. On a much smaller scale, the Bank also provides separate grants (see box 4 on the Selective Trust Account).

CEB projects are financed through long-term loans, disbursed in several tranches, generally with a comfortable grace period. The Bank's activity thus makes it possible to alleviate the constraints weighing upon access to long-term credit for projects generating positive externalities.

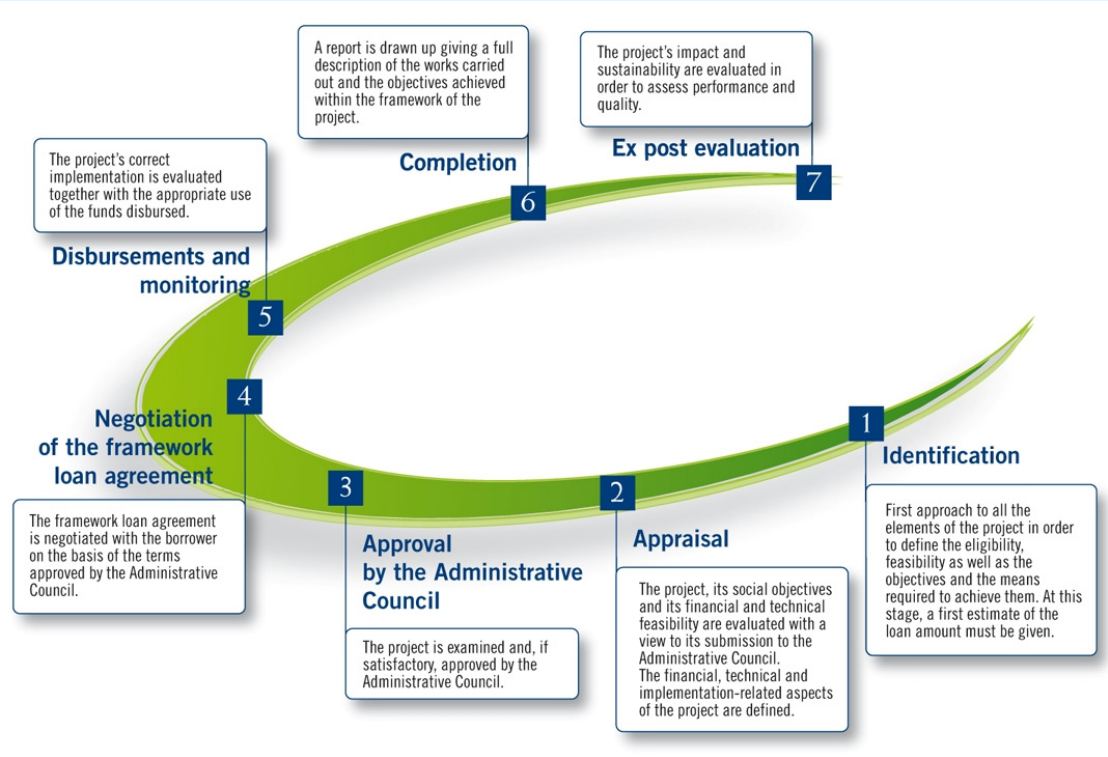
All CEB operations are granted in accordance with specific technical and social criteria and in strict compliance with public procurement rules. The CEB pays particular attention to the quality of the projects in order to optimise their social impact. Therefore assistance and monitoring throughout the whole **project cycle** constitute key factors in the effective implementation of these projects (see Figure 3).

On the basis of the loan request formulated by the borrower, the CEB evaluates the project and its financial set-up. To do this, it carefully analyses the project's socio-economic impact, technical aspects and costs, the institutional capacity to manage the project as well as the project's impact on the environment.

Once the project has been approved by the Bank's **Administrative Council**, a framework loan agreement is negotiated and signed by the Bank with the borrower to provide a contractual basis for project implementation.

After the first disbursement, the Bank's services carry out regular monitoring and on-site visits in order to verify the physical progress of the project, compliance with costs and procurement procedures, and achievement of the project's approved objectives and anticipated social effects. On completion of the project, the borrower prepares a final report.

**Figure 3: The different stages in the project cycle**




Furthermore, the CEB enhances its contribution to the financed projects:

- *upstream*, by introducing operational plans drawn up in collaboration with the countries concerned. Based on the CEB's three sectoral lines of action, namely strengthening social integration, managing the environment and supporting public infrastructure with a social vocation, these plans define, within a determined horizon, the priorities for action and investments in a given country;
- *downstream*, by focussing on **ex post evaluation**, which enables the CEB to measure the medium-term social impact of completed projects and programmes, while improving the quality of on-going and future projects through the learning effect.

## 2.1. Housing for low-income persons as a principal activity

### a. Definition

Since its establishment over fifty years ago, the CEB has extensively supported the housing sector. This section describes the CEB's experience in financing projects that address the constraints on access to housing, especially for the less well-off parts of the population, by facilitating their access to home-ownership or rental housing. The CEB uses different means to achieve this objective.

- **Historical perspective**

Housing was originally designed to provide assistance to refugees and displaced persons, as stated in its statutory priorities. Indeed, statistics covering the projects financed between 1956 and 1992 show that some 60% of the housing financed during that period was concerned with the re-housing of population. From the very first years of its existence, the Bank broadened its scope of action in this sector: beyond handling emergency situations and providing housing for refugees and victims of natural disasters, the Bank also had to respond to the needs of its member states in matters of "housing for the less well-off parts of the population". Thus, the first project financed in Greece, in 1956, was a programme of aid facilitating access to home ownership for low-income craftsmen and for refugees.

- **"Low-income" persons**

The *"Overall Policy Framework for Loan and Project Financing"* (Resolution 1522 (2009)) defines the basic principles for the selection and implementation of the CEB's investment projects in eligible sectors of action, including "housing for low-income persons". The CEB operates within national housing policies and gives priority to the relevant national legislation defining criteria for housing for low-income, i.e. socio-economically disadvantaged, persons.

A word of caution is called for on the term of "low income" which could in fact be misleading. "Low income", as used in the context of housing, does not refer to any classification by income of CEB member countries. In particular, it is not a reference to the World Bank's country classification by income set each year on 1 July for operational and analytical purposes: based on its gross national income (GNI) per capita, every economy is classified as low income, middle income (subdivided into lower middle and upper middle), or high income.

The term attempts to capture various "social realities" across European countries: different national definitions of income thresholds in different countries imply various categories of beneficiaries in CEB projects. The profile of beneficiaries in CEB housing projects may therefore differ across countries in terms of income. Low-income persons, the ultimate beneficiaries of CEB housing projects, are not necessarily the poorest population groups in CEB member countries.

- **"Social housing" in Europe**

The more specific segment of "social housing" in Europe is characterised by a wide diversity of national housing policies across CEB member states and, thus, by the lack of a common definition of "social housing" at European level. However, it is possible to identify some core elements of what constitutes social housing across CEB member countries. "Social housing" can be defined as "housing for households whose needs are not met by the open market and where there are criteria for allocating to benefiting households"[6].

In the case of the less well-off parts of the population in the CEB's approach, "social housing" is taken to refer to housing provided to persons experiencing difficulty in obtaining a dwelling, as a tenant or owner, on the real estate market, due to lack of resources. This mission hence translates into the construction or rehabilitation of housing, both for rent and for ownership, with

[6] Source: European Liaison Committee for Social Housing (CECODHAS).

a view to increasing the supply of affordable housing. The areas of action specific to "social housing" thus become: supply, accessibility, security of tenancy of housing units to low-income groups.

- **Decent and affordable housing**

In a demand-driven context, the Bank's activity, while supporting national housing programs, is not limited to providing housing for the poorest strata of the population. The social mandate of the CEB provides a rationale for the Bank to finance housing for a broader range of persons. Indeed, facilitating access to home-ownership as well as rental housing contributes to strengthening social cohesion for people having revenues around the national average and thus keeping them out of vulnerable groups.

The scope of action of the CEB is thus wider than "social housing" per se, even though the latter constitutes a priority. Indeed, several projects financed were aimed at lower and middle-income persons who may be at risk on the housing market, and not only at low-income persons who are included in this category. These projects are targeted at those who can service a mortgage and therefore seek to increase owner-occupied housing stock by facilitating access to credit. The objective is therefore to finance projects for the construction of housing, renovation or refurbishing of the existing housing stock and for the conversion of buildings into housing for lower and middle-income persons.

The CEB's main mission translates into providing decent and affordable dwellings for socio-economically disadvantaged groups of populations. Taking into account household income as a primary factor in housing affordability, affordable housing describes dwelling units whose total housing costs are deemed "affordable" to those who have a sufficient income to service a mortgage or regularly pay a rent, as low or subsidised as they may be. The concept is applicable to both purchasers and renters in the lower income ranges of a geographic area.

### Box 3: The CEB's eligibility criteria for financing housing projects

The eligibility criteria that the CEB takes into account for housing are income, the physical characteristics of the housing and the purchase and/or sale conditions applicable in each member country or in the region of the member country hosting the project, in compliance with the legal or regulatory provisions in force.

CEB operates within national sector policies/strategies and gives priority to the relevant national legislation defining criteria for housing for socio-economically disadvantaged persons. However, projects can also combine national and CEB criteria. For instance, national legislation can be applicable for some eligibility criteria, such as income criteria or targeted beneficiaries of the programme. In the absence of national legislation in terms of income, size and occupancy of the housing, CEB applies its eligibility criteria set out in "The Overall Policy Framework for Loan and Project Financing" and its implementation document called "Handbook for the preparation and monitoring of projects" (Resolution 1522 (2009)).

In the absence of satisfactory national regulations, the CEB eligibility criteria are based on the following principles:

- the income of the target population is limited to a percentage of a relevant income indicator selected according to statistical data available for each member state or region concerned (other than GDP per inhabitant), namely 100% for projects involving access to property ownership, and 75% for projects involving rental housing;
- the floor space per person is limited to an average 75% of the national or regional level, subject to a maximum of 35 m² per person in the case of households comprising between 1 and 2 people and 23 m² for the others;
- in the case of projects involving access to property ownership, this must be for the principal residence, with a firm undertaking to occupy the premises for a minimum period of 5 years.

Furthermore, projects involving the renovation and/or the rehabilitation and conversion of buildings into housing must meet the following criteria:

- housing units must belong to public or private entities lessors of housing or to eligible owner-occupants;
- rented housing units must be controlled-rent properties;
- housing units must have a maximum total floor area of 92 m², except those occupied by large families (more than 4 persons);
- the floor space of commercial or office premises may not exceed 20% of the total floor area of the building.

Moreover, projects in favour of priority or vulnerable populations can be financed according to specific criteria established for each project (see section 2.2.). The renovation of housing for energy saving purposes may also be financed according to eligibility criteria determined during project appraisal (see section 2.4.).

## b. Project portfolio in the housing sector for low-income persons

Since 1956, the CEB has disbursed a cumulative amount of more than € 6 billion in loans for the housing sector for low-income persons, making the Bank a leading financier in this field across a number of countries in Europe. Housing for low-income persons has represented approximately 20% of the Bank's financing since its creation and this percentage has remained stable throughout its fifty years of activity. During the last fifteen years, CEB's activity has accelerated in this sector. Since 1995, a total of € 4.3 billion in loans were financed in favour of more than hundred projects.

When analysing the project portfolio, some major features can be highlighted.

- From a geographic perspective, the Bank's largest borrowers in this sector are Italy, Spain, France and Finland. Central and South Eastern European (CEE) countries' less significant representation in the portfolio of housing projects in comparison with Western European countries is explained by the fact that co-operation between the CEB and these countries only dates back to 1994, when the first country from the CEE region joined the Bank. However, developing operations in the CEE region has been a priority for the Bank in the last years. In concrete terms, the Bank devoted some 50% of its loans to these "target group" countries[7] in the last five years (2005-2009). The new Development Plan (2010-2014) foresees a continued effort in favour of target group countries in order to reach loans outstanding that could represent up to 60% of the total outstanding by 2014.
- Considering the type of borrower, the CEB's portfolio is quite diversified. Depending on the type of tenure (access to home-ownership vs. rental housing), CEB's intermediary borrowers include the banking sector, national or local authorities and local or regional government funding agencies. Indeed, borrowers, such as the banking sector, may be considered as "intermediaries" distributing mortgages to final beneficiaries in order to help them purchase their dwelling. On the contrary, public authorities or other public bodies entrusted with responsibilities in the field of housing, when borrowing from the CEB, generally aim at providing housing for rental purposes.
- The loan amount of the project can vary substantially. The CEB intervened in large scale programmes contributing with € 100-200 million (France, Spain, Hungary, Poland, or Romania). On the other hand, it financed smaller projects such as those in Albania, Latvia, Slovak Republic (€ 5-15 million), but not less significant in terms of their social impact.

## c. Examples of projects

**1.** The CEB has been a major contributor to housing programmes in **Spain** for many years. Most recently, the CEB approved € 50 million to *Gestion de Infraestructuras de Castilla la Mancha* (Gicaman) to partially finance **mortgages for the purchase of primary residences**, publicly protected housing (VPO-Vivienda de Protección Oficial), in Castilla La Mancha. This housing programme also foresees the possibility of transforming existing constructions which remain unfinished into social housing, provided they adapt their price and maximum surface area to the levels of income of social housing buyers. The procedures for selecting the beneficiaries of the public dwellings will be regulated by National law. The programme is expected to be finalised by 2013.

**2.** During the period 2003-2005, the CEB financed, together with *Instituto Nacional de Habitação*, social housing projects throughout **Portugal**, totalling € 90 million. The investments allowed for the construction or rehabilitation of some 2,700 dwellings undertaken by municipalities, municipal enterprises, cooperatives and housing associations as well as private-

[7] Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Malta, Moldova, Montenegro, Poland, Romania, Serbia, Slovak Republic, Slovenia, "the former Yugoslav Republic of Macedonia", and Turkey.

sector developers, and thus promoted access to **home-ownership or rented housing for low-income families** eligible under Portuguese social-housing programmes.

**3.** The CEB approved in 2009 a housing programme for low-income persons (€ 50 million) to be implemented in **Belgium,** with *Fonds du logement des familles nombreuses de Wallonie (FLW)*, over the period 2009-2012. The programme is targeted at large and single-parent families in Wallonia. It covers social mortgages for families on low income either for the purchase or renovation of their principal residences or the adaptation of existing dwellings to the needs of the elderly members of the family. Energy efficiency measures can also be financed within this programme ("green loans" component).

**Box I: Social housing and dwelling units in North Rhine-Westphalia (Germany)**

**4.** In 2009, the CEB got involved in the "Social housing and dwelling units in North Rhine-Westphalia" programme designed by NRW.Bank to provide decent rental housing for low-income persons, persons living in socially and economically disadvantaged urban areas and families in financial distress. The CEB's participation in this project amounts to **€ 110 million** (13% of the total cost) and is set to be used for sub-projects **targeted to rental housing only**.

This operation aims to meet the needs for social housing in the NRW region which has experienced a degradation of its social and economic situation due to structural changes and the effects of the financial crisis on the automobile sector. It also meets the need for a renewal of the social housing stock, which will decrease from 850,000 flats today to 500,000 flats by 2010, inter alia due to flats that should be demolished.

**5.** In **France,** the CEB has participated in three large-scale social housing programmes with *Caisse Nationale du Crédit Agricole* for some € 700 million during the period 2000-2009. The social objective was to increase the supply of social housing and improve its quality, to facilitate access to **home-ownership for families in the lowest income categories** eligible under the French social housing legislation.

The CEB has also supported several **municipal programmes** with large housing components, successfully implemented in Scandinavian countries. These programmes, implemented in **Finland**, **Norway** and **Sweden**, also involved, to a minor extent, the construction and renovation of the related health, education and environment infrastructure. They were financed with central and local authorities, commercial banks or local government funding agencies (*Kommunalbanken* in Norway, *Kommuninvest* in Sweden, etc.).

**6.** In this respect, the CEB has intervened in Northern Europe, since 2000, mainly in **Finland** for a total amount of € 700 million with borrowers such as *OKO Bank*, the *Housing Fund of Finland (ARA)*, *Pohjola Bank* and *City of Helsinki*. It contributed to the financing of the renovation and construction of **subsidised housing for low-income persons and the associated basic infrastructure**. In these programmes, CEB's funds also participated in providing housing for the elderly, young people (via student housing facilities) and vulnerable population groups (see section 2.2). The implementation of these programmes was deemed highly satisfactory, in terms of institutional organisation, management and social effects attained.

In Central and South Eastern Europe, the CEB contributes to national housing programmes in **Albania**, **Hungary**, **Moldova**, **Poland**, **Romania** (see box hereafter), **Serbia**, **Slovak Republic**, and "**the former Yugoslav Republic of Macedonia**".

**Box II: Rental housing for young low-income persons in Romania**

**7.** The CEB is taking part in a large-scale national housing programme in **Romania**, with total lending of some **€ 250 million** approved in three phases 2001-2002-2005. Implemented by the National Housing Agency of Romania, the objective is to meet the need for the construction and rehabilitation of the rental social housing sector throughout the country, especially for young people in the 18-35 year age bracket, living on low income.

To date, the first two phases of the project (€ 110 million) allowed for the construction or rehabilitation of more than 12,800 apartments providing accommodation for about 28,000 persons.

The continuation of the project, approved in 2005 involving € 140 million of CEB financing, is still under implementation and is expected to be finalised in 2010. When completed, some 9,500 rental apartments for 18,900 young people (aged 18-35) will have been constructed or rehabilitated.

**8.** Within the framework of the national housing programme in **Poland**, the CEB financed two projects (during 2001-2006) totalling € 360 million, in co-operation with the Government and *Bank Gospodarstwa Krajowego*. The objective was to build and modernise more than 26,000 social dwellings for low- and middle-income families, giving them access to decent and affordable housing in the **regulated rental sector**. The programme also aimed at introducing effective management methods and competition rules in the social housing rental market, assisting local authorities in performing their legal obligation to provide decent housing and promoting labour mobility. The evaluation of this programme, carried out in 2007, was very positive and concluded that CEB contributed significantly to the new housing stock. According to the main evaluation findings, the programme was relevant, very effective in achieving its objectives and efficient in its management and cost control.

**9.** The CEB also finances projects designed to promote **home-ownership** in South Eastern Europe. For instance, in **Serbia**, the CEB is currently participating in a € 30 million loan with *Intesa Sanpaolo Group (Italy)* and its subsidiary in Serbia, *Banca Intesa Beograd*. The project, implemented over 2007-2010, aims to address the housing shortage affecting low- and middle-income households in Serbia. Buying a home remains unaffordable for the majority of needy households due to a lack of financial schemes. The mortgages will be used to partially finance the purchase of primary residences especially in the main cities of Serbia. Some 750 families should benefit from the project's mortgage loans. By ensuring primary residence especially for young couples and satisfactory living conditions, the programme will also contribute to reduction of internal migration and the reinforcement of social cohesion thanks to manifold effects on economic activity.

## 2.2. Housing for vulnerable populations within a cross-sector framework

In order to encourage an integrated approach in its operations, the CEB includes **housing in a broader cross-sector perspective**, such as the reconstruction of housing destroyed by natural disasters, the provision of housing for refugees, displaced persons or migrants, and children in vulnerable situations, the construction of accommodation for the elderly or persons with disabilities. It provides support for housing projects for the benefit of these populations defined as **vulnerable**.

The statutory priority of the Bank was initially and still is to provide assistance to populations forced to flee from regions affected by political or economic upheavals, and to help those driven from their homes by natural disasters.

Article 2 of the Articles of Agreement states: "The primary purpose of the Bank is to help in solving the social problems with which European countries are or may be faced as a result of the presence of refugees, displaced persons or migrants consequent upon movements of refugees or other forced movements of populations and as a result of the presence of victims of natural or ecological disasters."

With regard to the sector of action analysed in this study, the Bank has participated in housing and related infrastructure (re)construction in favour of refugees, displaced persons or migrants and victims of natural disasters in the aftermath of crisis situations.

### a. Refugees and displaced persons

A total of **€ 2 billion** was specifically lent to **refugees** over fifty years. These projects financed provided housing solutions for those in temporary accommodation and concretely involved the construction and repair of reception structures (such as reception centres, temporary and permanent housing) and other infrastructure (such as health and school facilities) destroyed by conflicts, education and vocational training, as well as the technical infrastructure and basic equipment necessary to meet the immediate needs of populations that were victims of exceptional situations. These projects allowed the (re)integration of thousands of refugees or displaced persons in different contexts across Europe.

**1.** Among successfully implemented projects, the CEB financed, in 1997-2007, a programme in **Lithuania** (€ 10 million) in favour of ex-deportees and their families returning from the former USSR (5,400 beneficiaries). This project was aimed at facilitating their socio-economic integration by providing them with housing facilities.

**2.** The primary focus of the CEB in the **Western Balkans** has been on financing basic infrastructure reconstruction, essentially housing. With a total loan portfolio of € 200 million, the Bank provided financial support for the resettlement and reintegration of thousands of refugees and displaced persons in the Balkans where conflicts had caused vast movements of populations.

**3.** In **Croatia**, the Bank supported, in collaboration with local authorities and UNHCR, the return and resettlement of refugees and displaced persons by financing the reconstruction of damaged houses and basic municipal infrastructure (€ 69 million, 2001-2005). The Bank also helped accelerate the process of repossession of occupied property by the rightful owners and provision of alternative accommodation for eligible temporary users. The CEB thus participated in one of the most important housing programmes ever implemented in the Balkan region.

**4.** In **Bosnia and Herzegovina**, the CEB approved € 8 million in 2005 to rehabilitate the housing stock damaged during the war in order to provide sustainable return support and to contribute to the stabilisation of the return process of some 4,000 internally displaced persons living then in temporary accommodation (collective centres and alternative accommodation). The project has been implemented in collaboration with UNHCR, national and local authorities. It also received a significant support from CEB's grant resources. The project is expected to be finalised in 2010.

### b. Migrants

A total of **€ 1.8 billion** has been specifically lent for **housing for economic migrants** since the Bank's creation. Three countries – **Italy**, **Spain** and **Turkey** – have received 90% of this amount, so as to enable the resettlement of migrants returning to their countries of origin or to facilitate immigrants' access to decent housing in the host countries.

**1.** **Italy** is the largest borrower in the field of housing for immigrants. Historically, Italy has had to cope with natural overpopulation and massive inflows of refugees. Between 1956 and 1962,

the Fund[8] participated in the resettlement of Italian immigrant workers long settled in France by facilitating access to home ownership (together with the *Istituto Nazionale di Credito per il Lavoro Italiano all Estero*). During the 1970s and 1980s, housing for migrants played a particularly important role following the rapid industrialisation of the North, which entailed massive displacement of migrant workers from the South of the country. For instance, the Fund/CEB participated in a € 150 million loan to *Istituto Promozionale per l'Edilizia* in 1979 for the building of social housing for migrants from southern regions.

**2.** In many European countries, immigrants are still at great risk of exclusion from the housing market. They experience this exclusion in relation to the allocation of housing, the consumption of poorer quality housing and/or the high cost of housing relative to their income. This situation puts at risk their effective integration into the community. In this context, the Bank has recently financed several projects in **Spain** involving access to **housing credit for immigrant populations**. These operations, implemented with the local banking sector for some € 600 million, provided for the financing of mortgage loans for the purchase of principal residences for legal immigrants.

**3.** Several projects for the provision of **housing for vulnerable migrant groups** have recently been financed in South Eastern Europe. For example, the Bank is financing a project (€ 15 million) with the government and local authorities of **Albania** to provide housing for vulnerable persons such as poor persons, victims of violence, migrants, people with disabilities, and orphans that have no access to the formal housing market.

**4.** The Bank's action has also been oriented towards other vulnerable migrant groups, especially **Roma**, one of the poorest communities in Europe and born migrants. The CEB financed several housing projects for Roma, for instance in **Bulgaria** (Sofia and Plovdiv municipalities). Similarly, the CEB participated in the housing provision for Roma in **Hungary** (€ 5 million). Implemented within the framework of the "Decade of Roma Inclusion 2005-2015"[9], the overall objective of this project was to promote the social integration of Roma by addressing the serious housing, education, health and employment problems of the Roma community. Investments were concentrated on the improvement of housing conditions through transfer to new dwellings, rehabilitation of the housing environment and improvements to related social and technical infrastructure, including the improvement of sanitary and environmental conditions. This "housing component" was implemented in a limited number of municipalities where segregated settlement problems are the most serious.

### c. Victims of natural or ecological disasters

The Bank also provided financing of some **€ 2 billion** to projects related to housing reconstruction in order to facilitate the **return of victims forced to abandon areas affected by natural or ecological disasters**. Reintegration of displaced persons thanks to the rebuilding of housing and other infrastructure in disaster-stricken areas represents another statutory priority for the Bank. These loans were concentrated in **Greece**, **Italy**, **Romania**, **Serbia** and **Turkey**. In most cases, priority has been given to inhabitants whose houses were completely destroyed and who did not have access to temporary shelter and could not afford to build new houses. These projects have had major social and economic effects in the affected region by providing normal living conditions and preventing, especially through relocations and rehabilitation of infrastructure, further damages and disturbances to economic activities for their inhabitants.

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[8] The CEB was founded in 1956 as *the Council of Europe Resettlement Fund for National Refugees and Overpopulation in Europe* (referred as the Fund in the text).

[9] The Decade of Roma Inclusion 2005-2015 is a political commitment by governments in Central and South Eastern Europe to improve the socio-economic status and social inclusion of Roma within a regional framework. The Decade focuses on the priority areas of education, employment, health, and housing, and commits governments to take into account the other core issues of poverty, discrimination and gender mainstreaming. The CEB was one of the founding international partner organisations of the Decade.

**Box III: Reconstruction of the areas destroyed by the 1999 earthquake in Turkey**

The CEB participated in the reconstruction of housing in the aftermath of a severe earthquake which occurred in the Marmara region in August 1999. The CEB contributed with almost € 370 million to the reconstruction of over 17,000 housing units either destroyed or seriously damaged by the earthquake. The aim of the project was to rebuild dwellings in accordance with anti-seismic standards. Within this project, Turkey received considerable international financial support and technical assistance, from the World Bank and the European Investment Bank among others.

### d. Other vulnerable groups of population

Other vulnerable groups of beneficiaries of housing construction and rehabilitation projects are **the elderly and persons with disabilities**. In the CEB's nomenclature of sectors of action, these can be labelled either as health or housing projects.

Due to the ageing of the population in many CEB member countries, there has been an increasing need for **housing for the elderly**. The Bank financed projects for some € 660 million mainly in the Nordic countries, Belgium, France, Germany, Italy, Portugal and Spain.

**1.** In **Spain**, the CEB financed in 2003, in co-operation with a public-sector specialised institution *Gicaman*, a project (€ 22 million) aimed at the provision of housing and the creation of neighbourhood social service centres for the elderly in the autonomous community of Castilla La Mancha. The project added 6,800 new units to the existing infrastructure, to the benefit of the community's 250,000 elderly citizens. (This project also comprised a second component targeted at young children and included the construction of 7 day-care centres for children and one centre for handicapped children.)

**Box IV: Nordic dimension of the CEB's activity in favour of vulnerable populations**

The CEB has devoted significant volumes for the benefit of vulnerable persons in the Scandinavian and Baltic countries: € 450 million, equivalent to two-thirds of the total financed for housing for the elderly and disabled. The Bank financed several **housing projects for the elderly** with local authorities, located in **Denmark**, **Norway**, and to a lesser extent in **Finland** and **Sweden**. The Bank's action has also been oriented towards other vulnerable groups, such as the disabled and children at risk, although in smaller amounts, also in the Baltic States.

**2.** In **Denmark**, over the period 2002-2009, the CEB financed four projects totalling € 400 million, through *KommuneKredit*, in municipalities to build and/or rehabilitate public state-subsidised rental housing for the elderly. Within the framework of the national social welfare policy, the programme helped build or rehabilitate approximately 6,500 housing units, benefiting some 10,000 persons, in the form of assisted housing, residences with services and care, and in particular nursing entities for the most dependent elderly.

**3.** In **Lithuania**, the CEB contributed, in 1999-2003, with a € 2 million loan to the rehabilitation of 14 centres for the disabled, the elderly and children at risk. Almost one thousand vulnerable individuals benefited from this project. Within the context of the social policy reform, the project's aim was to avoid the institutionalisation of dependent or vulnerable persons and to contribute to their social integration. Through the development of local social service infrastructure, the municipalities were able to provide community-based social services to vulnerable groups.

**4.** Furthermore, the Bank provided grant resources of € 150,000, in 2005, to **Estonia** for the creation of a centre for the rehabilitation and treatment of young drug addicts in the town of Sillamäe.

The Bank also participated in **housing provision for the disabled,** particularly in Germany, Hungary, Lithuania, Romania, the Slovak Republic and "the former Yugoslav Republic of Macedonia".

**5.** The CEB has also taken part in a large governmental housing programme in **Hungary** with a component (€ 20 million out of a € 150 million CEB loan) devoted to investments aimed at facilitating the mobility of persons with disabilities in their own apartments or houses. Implemented in the 2007-2010 period, the programme is expected to allow some 12,500 beneficiaries per year with disabilities to significantly improve their living conditions.

**6.** Under the "National Programme for Improving the Living Conditions of People with Disabilities" implemented in the **Slovak Republic** over the period 2001-2006, the CEB contributed with a € 5 million loan to the construction and rehabilitation of buildings and infrastructure in 23 centres that provide social services for people suffering hardship or social exclusion because of mental or physical disabilities. This project has proven to have a high social impact in the targeted vulnerable population. One of the most important results has been the improvement of living conditions for the targeted population and the possibility of creating a working space for the development of social and therapeutic activities.

**7.** Similarly, the CEB financed a € 10 million loan in favour of vulnerable children in **Romania**. Implemented over the period 1998-2007 with the Government of Romania and co-financed with the World Bank, the project aimed at the conversion of 50 existing residential care institutions (orphanages) for children in difficulty and disabled children into new community-based institutions, such as maternal, day care centres and family-style healthcare centres. Institutionalised children benefited from significantly improved living conditions and thousands of children at risk of being institutionalised and their families were supported in order to avoid child abandonment.

**8.** The Bank approved in June 2009 a "rental housing project" for the most vulnerable in "**the former Yugoslav Republic of Macedonia.**" It aims to co-finance with € 25.4 million (50% of total project cost) the construction of 37 buildings with 1,708 rental housing units in 19 municipalities throughout the country in favour of vulnerable beneficiaries coming from different groups: (i) residents of areas affected by natural disasters; (ii) orphans attaining legal age for leaving institutional accommodation; (iii) socially threatened Roma; (iv) dependent or disabled households; (v) permanently unemployed and welfare recipients; and (vi) single parents with young children.

### e. Grant financing

The CEB principally uses loans to finance housing projects; yet, it provides grants on an exceptional basis, in specific situations, mainly in favour of vulnerable groups. The debate for the use of loans rather than grants is to a large extent discussed in development economics (Ratha 2001, Lerrick-Meltzer 2002, Bülow-Rogoff 2005), as well as their possible equivalence, respective efficiency and sustainability. Actually, loans and grants do not carry the same incentives for both the creditor and the borrower.

The CEB, as a majority of multilateral development banks do, favours loans that allow for conditioning and monitoring, provide a long-term relationship between the borrower and the Bank, and are advantageous for the borrower because of grace periods and grant elements included. However, loans may not be the exclusive means of action in some sectors which require a strong and immediate intervention for vulnerable populations at risk. In such cases, grants may be more efficient and effective as regards to the needs for quick financing. In other cases, a combination of loans and grants may facilitate the preparation and implementation of an otherwise "bankable" project through grant financing of technical assistance. The interest subsidies from grant resources can help improve the economic viability of a given project.

The CEB provides **grants** via its **Selective Trust Account** (see box 4), mainly and almost exclusively for the benefit of refugee and displaced populations and socially vulnerable groups (Roma, children, etc.). For instance, the Bank provided in 2008 six grants within the framework of collaboration between the CEB and different specialised agencies of the United Nations (UNHCR, UNDP, UNICEF). This collaboration and use of grants has proved to be effective:

**1.** In 1999 and 2001, two grants worth a total of € 2.3 million, were implemented through UNDP and UNHCR, in favour of **Kosovo** for humanitarian aid for refugees and Roma from Kosovo in Albania and "the former Yugoslav Republic of Macedonia".

**2.** The CEB financed several grant projects (2004-2008) totalling € 1.3 million in **Bosnia and Herzegovina**, implemented by UNHCR, in order to enable vulnerable internally displaced families, living in collective centres, to return home through provision of permanent accommodation.

**3.** The Bank financed in **Serbia**, through UNHCR, the construction of houses in favour of locally integrating refugee families originating from Bosnia and Herzegovina and Croatia on the one hand (2004-2005), and provided refugees and ex-refugees with housing micro-loans that helped them to create permanent accommodation and enabled the final step towards complete integration, on the other hand (2006). In 2008, the CEB granted a further donation aimed at provision of micro-loans to locally integrating displaced persons from Kosovo. The projects implemented in Bosnia and Herzegovina and Serbia with UNHCR supported in particular the voluntary return and safe integration of the most vulnerable of the displaced persons, who would find it impossible to return without solutions tailored to their special needs.

**4.** On account of its mandate, the Bank is particularly concerned by the crisis that occurred during August 2008 in **Georgia**. The conflict has led to destruction and significant movements of internal and external populations on the territory of Georgia. The Bank provided assistance of € 1 million through UNHCR, UNDP and UNICEF for emergency relief to the people affected by the events. It helped rehabilitate collective centres (UNHCR), rebuild basic services and livelihoods (UNDP), and create a community reading centre (UNICEF).

### Box 4: Selective Trust Account

In addition to its loan instruments, the CEB can make use of the Selective Trust Account (STA). The purpose of the account is to grant interest rate subsidies on loans for projects with high social added value or to grant donations, in eligible countries, especially in Central and Eastern Europe.

These provisions are primarily aimed at priority target groups, namely refugees, displaced populations, migrants and populations affected by natural or ecological disasters. They also apply to vulnerable target groups such as populations living below the poverty threshold (less than 60% of the national average income), abandoned children and persons with disabilities or ethnic minorities. Set up in 1995, the account is funded from the Bank's profits and with voluntary contributions from member states.

Since its inception in 1995, STA has been used to provide around € 86 million of interest rate subsidies for € 1.6 billion of financing and € 13.5 million for grants in 15 countries in Central and Eastern Europe.

Additionally, a certain number of other housing projects in South Eastern Europe have been supported by the Bank's grant resources from trust funds opened with the CEB on behalf of a donor, such as the **Norway Trust Account (NTA)**, in co-operation with various international agencies (UN-Habitat, IOM, etc.) or experts in order to facilitate their preparation and implementation. Set up at the CEB in 2004 and endowed with € 3 million (as of December 2009) by Norway, the NTA's purpose is to finance various project activities that support economic and

social development in the Western Balkan countries. For example, a grant from NTA put CEB in a position to co-finance a regional study on "Trends and Progress in Housing Reforms in South Eastern Europe"[10]. More generally, these resources have also contributed to strengthening of the institutional framework and capacity for implementation of housing projects ("housing policy development assistance") in the region.

## 2.3. Development of housing-related and urban infrastructure

In the CEB's approach, the financing of housing has been considered a part of comprehensive urban renovation programmes since its creation. Historically, the financing of housing has been linked to the process of industrialisation and urbanisation of regions undergoing economic transition. Large scale operations have thus been financed by the Bank within the framework of projects for the development of industrial centres. This was mainly the case in Italy in the 1960s (a housing programme intended for the employees of the newly constructed Gela petrochemical complex in Sicily, financed in 1961).

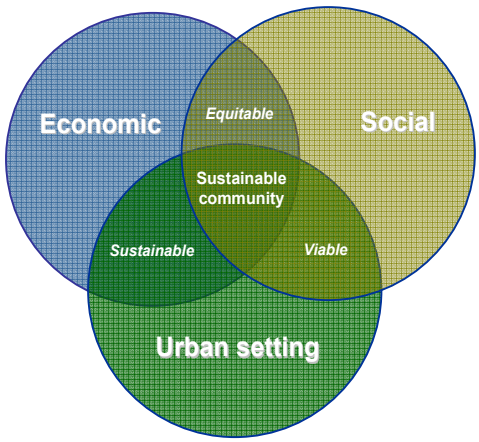
Today, the housing sector constitutes an efficient vector of sustainable urban development and support to the Bank's mission of strengthening social cohesion within its member states. The CEB has developed an integrated and multi-sector approach to urban actions which places housing in a broader perspective.

An integrated approach for sustainable urban development comprises a system of interlinked actions which seek to bring about a lasting improvement in the economic, physical, social and environmental conditions of an urban area.

The objective of the CEB is the establishment of sustainable communities in urban areas that would represent areas of solidarity and a balance between economic development, social equity and urban setting (see Figure 4). This calls for a multi-sector and integrated territorial activity.

The CEB hence provides support for urban renewal and regeneration strategies that include projects in housing and infrastructure rehabilitation while seeking to tackle economic, social and environmental challenges of urban areas.

**Figure 4: Establishing sustainable communities in urban areas[11]**




[10] CEB by S. Tsenkova, 2005. See bibliography and CEB's website (Publications/Brochures and Studies).
[11] CEB Annual Report of the Governor, 2005.

### a. Scope of the CEB support for urban renewal

In addition to the projects aimed at providing decent housing for socio-economically disadvantaged and socially or physically vulnerable groups, the CEB also finances housing-related and urban infrastructure. Support for urban renewal tends to integrate in one programme improvements in the housing situation with investments in public and social infrastructure. The objectives of the programmes that the CEB finances are to create better conditions for pursuing sustainable economic development and improving the living conditions of the targeted populations.

By facilitating access to credit for modernising local infrastructure, CEB projects, financed in conjunction with national or local authorities and/or transiting via the banking sector, can involve the construction or rehabilitation of:

- Economic infrastructure: urban transport, development of industrial zones, rehabilitation of industrial brown-field sites;
- Social infrastructure: basic educational and medical infrastructure, playgrounds, green areas;
- Utilities: water supply, wastewater treatment, electricity and gas provision.

The CEB finances projects in priority in run-down urban areas and neighbourhoods lacking in urban infrastructure and/or public amenities, in consistence with its primary mission of strengthening social cohesion.

### b. Project portfolio for housing-related and urban infrastructure

Several housing-related and urban infrastructure projects financed by the CEB are part of larger sector-based multi-project programmes, which can include other components designed to promote urban development, such as infrastructure related to health, education, environment, historical heritage, administrative and judicial public services.

Since 1995, the CEB has financed a cumulative amount of € 2.5 billion in loans for development of housing-related and urban infrastructure.

From a geographic perspective, the Bank has been particularly active in this sector in Spain, Finland, France, Germany, Italy, Portugal, Sweden and in several Central (Hungary, Poland, Czech and Slovak Republic, Slovenia) and South Eastern European countries (mostly in Albania, Bosnia and Herzegovina, Croatia, Romania, Serbia), as well as the Baltic States.

Considering the type of borrower, as in the case of housing projects, the project portfolio is quite diversified but some common features can be pointed out.

- Within multi-project programmes that require a large and global borrower, the CEB has mainly worked with the banking sector.
- The CEB has also developed co-operation with financial institutions from Western Europe for the benefit of the CEE banking sector, in order to finance social projects in the target countries[12]. A number of projects in target group countries are intermediated by on-lending banks from Austria, Germany, Italy and Sweden. These financial institutions are CEB's direct borrowers; they pass on the loan to a subsidiary or an associate local bank to fund projects in said target countries.

[12] Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Malta, Moldova, Montenegro, Poland, Romania, Serbia, Slovak Republic, Slovenia, "the former Yugoslav Republic of Macedonia", and Turkey.

- On the other hand, the Bank has also been committed to developing operations with national, local or regional government authorities, in CEE countries in recent years in particular.
- As far as possible, the CEB has strengthened its co-operation with the EU (see also boxes 5 and 8 on the JESSICA initiative and European co-operation) and has co-financed projects with the EU Structural or Pre-accession Funds and thus provided additional financing for projects implemented by Governments or by local and regional government authorities. Depending on the modalities of EU programmes, it has also implemented projects combining EU subsidies with its loans in the EU's pre-accession and neighbourhood countries.

### c. Examples of projects

The Bank has been involved in various urban projects located across Europe.

**1.** Among recent projects, reference can be made to the programme totalling € 105 million with three Basque savings banks (*Bilbao Bizkaia Kutxa*, *Gipuzkoa Donostia Kutxa* and *Caja Vital Kutxa*) approved in 2008 within the "Zorrozaurre Urban Regeneration Scheme" in Bilbao, **Spain**. The CEB partially finances the purchase and preparation of land for the VPP (Vivienda de Protección Pública) housing component of the Zorrozaurre Urban Regeneration Scheme. This is a long-term, complex urban regeneration project, where CEB finances housing *sensu largo*, i.e. all other related expenses in proportion to land area assigned for VPP housing.

**2.** During the period 2007-2009, the CEB contributed with a € 100 million loan to *InvestitionsBank des Landes Brandenburg* (**Germany**) to a multi-project programme for the benefit of local or regional authorities in the federal state of Brandenburg. This programme partially comprises the development of business-related and socio-cultural infrastructure, and utilities such as water mains, electricity and gas supplies, sewers, treatment of solid and liquid waste.

**3.** The CEB also takes part in social infrastructure investment programmes in **Finland**, in co-operation with *Municipality Finance* – a specialised financial institution – implemented by municipalities or municipally-controlled companies. A total amount of € 400 million has been financed since 1997 in favour of municipal infrastructure in the fields of education, health, environment, social housing and related infrastructure. In Northern Europe, the CEB also provides financing for municipal investments in **Iceland**, through *Municipality Credit Iceland*.

Furthermore, the CEB finances programmes aimed at urban and regional development in **Central and South Eastern Europe**, as well as in the **Baltic countries**. These programmes were/are financed with the Government, local or regional public authorities or with the participation of the banking sector.

**4.** In **Hungary**, the CEB provided some € 400 million for several social and environmental municipal infrastructure projects with the *Government*, *Magyar Fejlesztési Bank* (MFB – Hungarian Development Bank) and *Erste Bank Hungary*. Projects located in the North, the South Great Plains and the South Transdanubia regions are partially co-financed with EU Structural Funds. Investments include social rehabilitation of city neighbourhoods, development initiatives in smaller towns and municipal environmental infrastructure. As part of an integrated urban rehabilitation process, beneficiary municipalities may use funds for the renovation of administrative and judicial buildings and the construction and renovation of social housing.

**5.** Similarly, in **Poland**, the CEB contributed to projects totalling more than € 300 million with *Region of Malopolska*, *Region of Mazovia*, *City of Krakow* and *City of Warsaw* for the modernisation of public amenities mainly in the areas of health, education, urban transportation and environmental protection. Some of these investments provided the CEB with an opportunity to co-operate with the EU and/or the EIB.

**6.** Municipal infrastructure projects in the CEE region are also being financed within a tripartite CEB-EU-KfW Bankengruppe co-operation. Launched in 2002, the "European Union Municipal Finance Facility" programme is implemented in the **Czech Republic**, **Estonia**, **Latvia**, **Lithuania**, **Poland**, **Slovak Republic** (since 2002), **Bulgaria**, **Hungary**, **Romania**, **Slovenia** (since 2004), **Croatia** and **Turkey** (since 2005). This programme is aimed at inciting local banks to expand their lending in favour of municipalities for smaller projects for public and private social infrastructure construction and rehabilitation. The CEB participates in this programme with € 72.5 million spread over several types of urban infrastructure, including environmental protection, health and education.

**7.** Another programme was supported by the CEB in 2006-2008 with a € 100 million loan to *Skandinavian Enskilda Banken* (SEB). The beneficiaries have been SEB's subsidiaries in **Estonia**, **Latvia** and **Lithuania**, which have channelled loans to local authorities, municipal companies, public utilities, public-private partnerships or social housing providers in the countries, to the benefit of local populations. 40% of the loan has been devoted to social infrastructure within run-down urban areas.

**8.** The CEB has also developed a municipal project portfolio in South Eastern Europe (**Albania**, **Bosnia and Herzegovina**, **Bulgaria**, **Croatia**, **Romania**, **Serbia**, **Slovenia** and **Turkey**). These projects are implemented with the Government, municipalities and/or local banks (for instance, *Raiffeisen Bank BiH*; *Nova Ljubljanska Banka* and *Nova Kreditna Banka Maribor* in Slovenia; the local network of *Intesa Sanpaolo* in Croatia (Privredna Banka Zagreb) and Serbia (Delta Banka).

### Box 5: CEB's support to sustainable urban development: the JESSICA initiative

In order to further enhance its operations in urban development, the CEB signed in 2006 a tripartite Memorandum of Understanding (MoU) with the European Commission and the European Investment Bank (EIB), which defines a co-operation framework for the implementation of the European Union's integrated urban development policy for the period 2007-2013. Subsequently, the JESSICA initiative was launched by the European Commission with the support of the EIB, in collaboration with the CEB.

JESSICA stands for "Joint European Support for Sustainable Investment in City Areas". It is a new way of using EU funding to promote sustainable investments and development in urban areas. Under the new procedures, EU Member States are given the option of using some of their EU grant funding, originating from the Structural Funds, to make repayable investments in projects forming part of an integrated plan for sustainable urban development. This initiative aims to more strongly (i) mobilise private capital for investment in urban development, (ii) increase the efficiency of public funding and (iii) create long-term financing instruments based on integrated concepts.

The EU has thus created the possibility under this initiative of promoting and financing urban development projects using "revolving" instruments to make investments in the form of loans, equity and guarantees in lieu of one-time grants.

These investments are delivered to projects via Urban Development Funds (UDF) and, if required, Holding Funds (HF). The IFIs can financially participate in the JESSICA scheme via Urban Development or Holding Funds or directly in concrete projects through the provision of supplementary financing, i.e. lending. In this perspective, JESSICA is not a new source of funding for Member States, but a new way of using existing Structural Fund grant allocations to support urban development projects. It is up to Member States and Managing Authorities to decide how much of these Structural Funds should be channelled through JESSICA.

When considering which projects could make use of JESSICA funding, an integrated approach is necessary. JESSICA funds (UDFs), can invest in integrated projects such as: urban infrastructure, including transport, water/wastewater, energy etc.; heritage or cultural sites; redevelopment of brown-field sites; university buildings, including medical, biotech and other specialised facilities; residential housing and energy efficiency improvements.

The JESSICA Task Force, established in April 2007 within the EIB, is mandated to advise and assist national, regional or local authorities in implementing JESSICA. As the first step, it has to assist Member States in creating Holding Funds and Urban Development Funds for the implementation of the JESSICA initiative. Through its membership in the JESSICA Steering Committee, the CEB is actively participating in the implementation of the JESSICA Initiative in EU Member States and is contributing to staff resources. The CEB is also actively involved in a working group composed of the interested Member States, the EIB, the European Commission and the European Parliament, established to identify and resolve various issues regarding the implementation of JESSICA.

Among other matters, the JESSICA Task Force is looking at the value-added of revolving financing tools for urban regeneration, possible organisational structures and activities of urban development funds and general practical questions related to JESSICA implementation. Since a standardised approach to the JESSICA initiative is not relevant due the diversity of financial, legal, urban development constituencies, development of a generic implementation model is not applicable. For this reason, different strategies are developed by the JESSICA Task Force for each region. The actual financing of projects through investments of UDFs is expected to start after the establishment of JESSICA instruments.

## 2.4. "Green housing"

Controlling the environmental impact of housing is an important factor in any strategy for sustainable development in urban areas geared towards the objective of social cohesion. Reducing the environmental impact by improving the energy efficiency of buildings, and especially homes designed for people on lower incomes, is a means of:

- combating climate change by limiting greenhouse gas emissions. Buildings – both residential and of the service sector – are the source of 40% of the European Union's $CO_2$ emissions, i.e. more than the industrial or transport sectors;
- strengthening social cohesion and increasing purchasing power by reducing housing costs. Energy costs, in fact, represent an average in Europe of some 20% of housing-related expenditure. Significant savings could be made in this area[13].

For a number of years, the CEB has included an environmental dimension in its housing construction and rehabilitation projects. More recently, the CEB has been working on a future concept of "green housing". By virtue of its social mission, and as a signatory of the EPE (European Principles for the Environment), the CEB has been committed to promoting best practices regarding sustainable development. Thus, the Bank requires that housing projects comply with energy efficiency criteria and construction material use in accordance with European Directives[14] or national legislation for non-EU Member countries.

### a. What is "green housing"?

Although the term is not officially recognised, "green housing" can be defined as homes that meet the requirements of sustainable development and, more particularly, the challenges of climate change and the exhaustion of natural resources. More specifically, "green housing" is housing that consumes limited amounts of energy, has a small carbon footprint and is built from sustainable materials. In its ideal configuration, it is self-sufficient and consumes only energy from renewable sources. In addition to its contribution to preservation of the environment, "green housing" has advantages for occupants in terms of savings and comfort.

In the CEB's integrated approach towards sustainable urban development, the financing of "green housing" is considered in a larger "green building" framework. The financing of "green buildings" can cover both residential dwellings and non-residential buildings (such as education and health facilities, etc.) as well as different components of urban infrastructure. Also, in addition to housing projects, the Bank also finances initiatives in the areas of renewable energy production and collective urban heating. It is therefore well-positioned to intervene in projects combining energy retrofits in homes and, further upstream, renovation of urban heating networks.

[13] "Doing more with less: Green Paper on energy efficiency" published by the European Commission in June 2005, for example, indicates that a European household could save between € 200 and € 1,000 per year by improving its home's energy efficiency. Improving energy efficiency in the home would therefore be particularly positive for the least affluent segments of the population.

[14] EU Council Directive 89/106/EEC of 21 December 1988 on the Approximation of Laws, Regulations and Administrative Provisions of the Member States relating to Construction Products; Directive 2006/32/EC of the European Parliament and of the Council of 5 April 2006 on energy end-use efficiency and energy services and repealing Council Directive 93/76/EEC of 13 September 1993 to limit carbon dioxide emissions by improving energy efficiency.

### Box 6: Procurement issues

CEB considers that goods, services and works to be procured in the area of social housing are public service contracts. Therefore, public authorities should award contracts on the basis of an open and transparent tendering process, in accordance with the requirements and procedures envisaged in the European Directive on public procurement 2004/18/EC (with publication of tender notices in the EU Official Journal).

Thus, the Contracting Authority must provide the CEB with a detailed Procurement Plan clearly detailing the items that will be procured, the estimated cost of each item, and the procurement procedures.

It is essential that the Contracting Authority establish clear evaluation criteria, including benchmarking and key performance indicators in the tender documentation. In fact, by including effective "green" technical specifications as well as tendering and contractual arrangements, considerable efficiency gains may actually be achieved during the procurement operations.

As the need for energy savings must be combined with the need for best value for money, detailed designs should be completed before works are being tendered in order to reduce the uncertainty of the constructions costs.

## b. Project portfolio in the field of "green housing"

The Bank takes into consideration the environmental aspects of all the projects it finances. Indeed, the environment is both a sector of action in its own right and a cross-sectoral concern, permeating all projects in which the Bank intervenes. Thus, the Bank finances projects which specifically aim at the protection or improvement of the environment and also imposes the observance of environmental norms in all of its operations. A vast majority of rehabilitation or construction of housing units or urban infrastructure in Western Europe and in the Nordic countries have been designed in a way that promotes energy efficiency standards.

In the particular sector of "green housing", the CEB has intervened through **energy efficiency investments** in Central and South Eastern Europe and in the Baltic States. Indeed, the panel buildings built in the 1960s and 1970s are in a poor state and are consequently highly energy-consuming. The CEB mainly finances projects in these priority countries, where renovation or construction of housing units that are energy-efficient have a large impact. The projects chiefly concern thermal rehabilitation, namely thermal insulation of the exterior walls, roofs and superstructures; refitting with hardware that does not have thermal bridges and with thermo-insulating windows; modernisation of heating, sanitary hot water and ventilation; as well as replacement of old equipment by thriftier devices and installation of thermal adjustment systems.

The investments financed have positive effects on the environment in broad terms, both in terms of energy savings, improvement of the interior comfort and embellishment of the built environment. In general, the estimated reduction of energy consumption is between 30% and 50%. Consequently, the final beneficiaries enjoy a substantial reduction of their energy bills and carbon footprints, while the country reduces its energy dependency.

Also, energy intensity in Central and South Eastern European countries is significantly higher than in the EU-15 member states. In many of these countries, the industrial sector and the building sector are responsible for more than 75% of the total primary energy consumption because of outdated equipment constructed more than 20 years ago. CEB projects can also make financing available in thermal insulation, heating and cooling systems, lighting systems, and promotion of the concept of passive housing, geothermal or solar energy.

Since 1997, the Bank has devoted some **€ 525 million** to "green housing" in the framework of projects located in **Belgium, Hungary, Poland, Slovak Republic, Estonia, Latvia, Lithuania,** and within the EU's "Energy Efficiency Finance Facility" in **Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro, Romania, Serbia, "the former Yugoslav Republic of Macedonia"** and **Turkey**.

**1.** The first CEB's energy efficiency operation in the housing sector in the CEE region was implemented in **Romania** in 1997. The CEB contributed to the rehabilitation of the heating system network in Bucharest with a € 10 million loan to the Government in favour of the municipal operator of the Bucharest heating system distribution (RADET). This project allowed for the renovation of the heating system that was developed in the 1950s. The poor condition of old installations, lack of fuel and high network losses had been limiting the heat supply. A majority of the population living in the city sectors concerned had been suffering from this shortage and inefficiency, especially during the winter. The rehabilitation led to reduced energy losses, lower operating costs, higher energy efficiency and has largely increased the heat supply and its quality for 567,000 apartments and thus a vast majority of the population of Bucharest.

**Box V: "Green social housing projects" in Hungary**

Since 2002, the CEB has provided continued support for the Hungarian Government's investment programme in matters of "social housing" and energy efficiency through financing and technical expertise. In **Hungary**, the CEB has built up its **largest green housing portfolio** with three projects totalling almost **€ 300 million**.

**2.** Two large-scale projects within the Government's "Energy saving and energy efficiency improvement programme (2000-2010)" are implemented with the Government, municipalities, condominiums and housing co-operatives. The final beneficiaries are badly-housed and low-income households, and to a lesser extent, certain vulnerable populations such as the elderly and disabled. The total number of beneficiaries has been estimated at around 200,000 people.

Concretely, energy efficiency measures mainly in pre-fabricated panel buildings concern: (i) external thermo-insulation, replacement of single glazed doors/windows, retrofitting heating, hot water supply and electrical/lighting system; (ii) fitting individual (per flat) heat thermoregulatory and consumption measuring devices in buildings supplied by district heating; (iii) installation of solar, photovoltaic, biomass, geothermic or wind devices for heating and electricity generation purposes. In addition to the "environmental component", CEB financing was also aimed at increasing the number of municipal subsidised rental housing units ("social housing component").

**3.** Another project, approved in 2006 with *Magyar Fejlesztési Bank (MFB)*, provided € 20 million for financing the rehabilitation of "panel" housing in order to promote energy savings in terms of heating and insulation.

This long-term co-operation has led to the establishment of an institutional project management structure that has proved extremely effective.

**4.** In Central Europe, two small projects totalling € 10 million were implemented in **Poland** with *Bank Inicjatyw Społeczno-Ekonomicznych* and in the **Slovak Republic** in co-operation with *Slovak Guarantee and Development Bank (SZRB)* to partially finance energy efficiency measures within larger construction and rehabilitation housing programmes.

The CEB has included an environmental dimension in its housing construction or rehabilitation projects in the **Baltic States**. Panel-built buildings are in a poor state and are consequently highly energy-consuming, almost double the levels of Nordic countries. These projects finance renovations that considerably improve the energy efficiency of the buildings concerned and lead to a reduction in energy consumption.

**5.** A good example is a project in **Latvia** (2001-2004), in co-operation with *Mortgage and Land Bank of Latvia* and in partnership with the Nordic Investment Bank (NIB), with a CEB contribution amounting to € 16 million. As part of the National Housing Development Lending Programme, this project targeted in particular the improvement of Latvia's social housing stock and the integration of environmentally responsible measures into housing renovation investments aimed at reduction of energy consumption. Another project is under implementation (2008-2011) with *Hansabanka* with a € 33 million environmental component to finance energy saving investments in housing co-operatives.

**6.** A project approved in 2008 in **Estonia** also aims to finance energy efficiency investments in multiple-unit residential buildings. This operation (€ 29 million) is implemented with *KredEx*, the body responsible for managing the Estonian housing development plan for the period 2007-2013, and with technical assistance provided by KfW. KredEx will on-lend CEB funds, together with funds coming from the EU Structural Funds (€17 million), through selected Estonian commercial banks to the final beneficiaries, i.e. Estonian housing associations, co-operatives, communities of apartment owners.

**7.** The Bank has also contributed to the renovation of student housing in **Estonia** (almost € 10 million) and to energy savings in higher education and science establishments in **Lithuania** (some € 9 million).

**8.** In **South Eastern Europe,** the CEB is participating in programmes implemented within the tripartite EU/KfW Bankengruppe/CEB "Energy Efficiency Finance Facility (EEFF)" within the European Commission's Instrument for Pre-Accession Assistance (IPA). The first phase was launched in 2007, with a CEB participation of € 46 million to the benefit of **Bulgaria**, **Croatia**, **Romania** and **Turkey**. In 2008, the CEB approved an extension of € 15.4 million in favour of companies and municipalities located in **Albania**, **Bosnia and Herzegovina**, **Croatia**, **Montenegro**, **Serbia**, "**the former Yugoslav Republic of Macedonia**" and **Turkey**. This programme aims to enable the countries concerned to increase their investments in the energy-saving field and to improve energy efficiency in buildings (commercial, public or private) and in the industrial sector.

**9.** Most recently, the CEB approved, in 2009, a housing programme (€ 50 million) for energy efficiency purposes to be implemented in **Belgium**, with *the Brussels Centre Public d'Action Sociale (CPAS)*, over the period 2009-2012. The project focuses on the construction of energy efficient housing units and the renovation of the existing social housing stock. It also includes a "green" renovation of public rest homes and clinics for the elderly or the disabled (5% of the programme).

## Box 7: Ex Post Evaluation: Lessons from CEB's interventions

The CEB continually strives to enhance the quality of the projects and programmes it finances. Ex post evaluation seeks to enhance the transparency of operations, contribute to assessing the impact and sustainability of projects and programmes financed by the CEB, and appraise their performance and quality. It is aimed at providing accountability to the CEB's shareholders; improving planning, selection and design of future projects/programmes; and fostering organisational learning within the CEB through the dissemination of lessons and good practices, with a view to improving the CEB's assistance and services to borrowers.

Created in 2002, the Ex Post Evaluation Department (DEP) has defined guidelines in accordance with international best practice and DAC-OECD Guidelines. The Department is independent from the CEB's operational services and reports directly to the Governor; final evaluation reports are presented to the Administrative Council once a year. Evaluations are either conducted internally or performed by external consultants, depending on the capacity and competence required. In 2008 the DEP became an observer member of the Evaluation Cooperation Group, which harmonises evaluation work among multilateral development banks.

Each evaluation assesses the design, preparation and implementation of the project or programme under review. A rating system is applied, based on the evaluation criteria defined by DAC-OECD, the use of which is very widespread in evaluation:

- relevance (did objectives respond to needs, problems, challenges?),
- effectiveness (were objectives achieved?),
- efficiency (how optimally were financial, human and organisational resources used?),
- impact (what were positive or negative effects *beyond* the achievement of objectives?),
- sustainability (will positive effects last after project completion?).

Evaluations start with desk research and review of the relevant literature, and comprise a socio-economic assessment and often a technical one. Evaluations can draw on a variety of tools, e.g. interviews, surveys, focus groups.

**Ex Post Evaluation activities in the housing sector**

DEP's evaluation programme in the housing sector concerns 7 projects/programmes, implemented in 5 countries, corresponding to a total loan amount of nearly € 700 million and a project cost of about twice that amount. The evaluations identify the number of dwellings constructed or rehabilitated and assess, in particular, the profile of final beneficiaries, by using a combination of face-to-face interviews, door-to-door surveying and/or focus groups with tenants. The efficiency of programme implementation is analysed in terms of management structures, respect of time schedule, sub-project selection and resource use. Social, institutional, economic and environmental impacts and sustainability are also addressed.

Two evaluations were completed in 2006 and 2007 respectively, both yielding the highest possible rating ("highly satisfactory"). Three more evaluations are ongoing, and are expected to be finalised in early 2010. Although target groups vary between countries – and even within countries, since different projects/programmes may target specific categories of final beneficiaries – overall, the CEB-financed programmes constitute a substantial contribution within national (social) housing policies. Preliminary observations emphasise (i) the crucial role of an appropriate legal and institutional framework for effective implementation of housing policy in general and social housing programmes in particular; (ii) the importance of appropriate eligibility criteria for the project's/programme's final beneficiary group, which should be clearly-defined from the outset, so as to maximise social effects.

## 2.5. CEB's added value and lessons learned

In the light of past experience, this section attempts to summarise the main messages and lessons learned, and raises several issues related to the CEB's housing and urban sectors financing policy.

- **Value added**

Overall, the CEB lending is demand-oriented and based on the borrowers' needs. However, the value added by CEB activities goes further than providing long-term loans on favourable terms for the borrower ("financial added value"). As in other sectors of action, CEB projects have not only material added value by responding to the lack of housing but also a qualitative aspect and a strong "social impact" through improved living conditions and enhanced integration into society of the final beneficiary groups. The CEB also provides its sector expertise and delivers advice and support at all stages in the project cycle ("non-financial benefits").

The main purpose of CEB's housing projects is to facilitate access to decent housing by either alleviating the scarcity of decent housing (by constructing new dwellings or rehabilitating the existing stock) or facilitating access to related credit. They are targeted at economically and/or socially disadvantaged groups of the population and at particular socially or physically vulnerable groups with specific needs and/or lacking in special-purpose housing.

- **Integration within national sectoral policies**

An important feature to be stressed is that these projects are, to the extent possible, designed and implemented within national sectoral policies. The CEB's role is not to define national policies, but to help implement them. The CEB thus contributes to existing policies which in turn provide a coherent framework for its interventions. By channelling funds to eligible projects, the Bank makes possible the implementation of social policies. Experience shows that the socio-economic impact of the projects is closely determined by its integration into broader sector policies. Indeed, the existence of a sound legal and institutional sector framework and alignment of the CEB's interventions to national strategies are particularly important in order to achieve sustainable project results.

- **Vulnerable groups**

When targeting vulnerable groups, institutional arrangements and political commitment are crucial for the implementation of the projects on the one hand, and for the sustainable impact on beneficiaries' living conditions and their social integration or revalorisation, on the other. Indeed, these projects can be difficult to implement due to reasons as diverse as lack of motivation to borrow for these categories of projects, lack of political support, local authorities' lack of project experience, and high risk of such projects in terms of sustainability.

Furthermore, in specific cases, such as complex and high-risk projects, CEB financing can prove to be essential for the launching and/or implementation of these projects. Indeed, without CEB financing, certain projects would have been delayed or maybe even never financed. The CEB's involvement from the early stages of a project's development can improve project design and facilitate implementation later on.

In the particular case of a number of grant-funded activities for the most vulnerable groups, additionally to the main project objectives, the CEB has indirectly assisted the beneficiary countries in the stabilisation process and contributed to a lasting reinforcement of institutional capacity at national, regional and local levels.

- **Municipal investments**

When supporting municipal investments which often operate in decentralised contexts, the CEB provides support for a larger spectrum of infrastructure than housing, including other components designed to promote urban development, such as infrastructure related to health, education, environment, historical heritage, administrative and judicial public services. In some cases, the

broad scope of these projects can make it difficult to set them within the context of well-defined policies and to attain social objectives and targeted populations.

In the case of programmes implemented through commercial banks, the role of these intermediaries consists solely in selecting final borrowers, leaving implementation of investments within the responsibility of the final borrowers. Financial intermediaries focus on credit aspects and other creditworthiness-related considerations of the respective borrower, be it a private person or local authorities. In this case, it is essential to pay particular attention to the selection process of final beneficiaries so as to target the expected groups of population. Indeed, commercial banks are not necessarily the best intermediaries to incorporate the CEB's specific eligibility criteria related to final beneficiaries. In addition, in certain cases, commercial mortgage loans do not guarantee either home-owners' occupancy or the duration of the occupancy, two of the CEB's eligibility criteria. Last but not least, success of the projects is directly dependent on the quality of management by the entities in charge of carrying out projects.

- **Sustainability**

Finally, the sustainability, both financial and social, of the construction or renovation of housing and the associated infrastructure is a key indicator to be taken into account in project feasibility studies. The sustainability of housing projects may be at risk given that operational and maintenance costs are not always estimated and covered or are considered to be borne by the beneficiaries whose limited income implies that the work may not be carried out. The ancillary rental costs may not be high enough to ensure the maintenance of buildings and constitute a repair fund.

- **Capitalisation on experience**

Overall, the CEB continually strives to enhance the quality of the projects it finances. Monitoring and on-site visits are an important stage in the project cycle with regular evaluations of the projects' progress and social impact while highlighting the problems encountered in the course of their implementation. This "capitalisation on experience" is supplemented by ex post evaluation reinforcing organisational learning within the institution through the dissemination of lessons and good practices. Its main objective is to improve the Bank's assistance and services to clients on the one hand, and improve the selection, design and quality of future projects on the other.

# 3. HOUSING AND URBAN DEVELOPMENT IN EUROPE: NEEDS AND CHALLENGES AHEAD

In matters of housing, there are similarities and disparities throughout Europe, in terms of types of needs, in the financing channels, and in the organisation and regulation of the housing market. From a financing point of view, the sheer scope of the needs constitutes a real challenge to be taken up within a complex framework. The needs are today especially urgent in the CEB's target group countries, where the stock of housing is particularly old and dilapidated. The development of sustainable urban communities throughout Europe in the face of demographic, socioeconomic and environmental pressures also represents a major challenge that must be accurately evaluated in the European, national and regional contexts.

Issues to be addressed include:

- How are these trends reflected in the demand for housing in different CEB member countries?
- How do they impact on the actual supply of housing?
- How is housing to be integrated in the sustainable urban development agenda in view of changing needs in housing?
- What role can housing play in a broader social protection framework in view of the widening socio-spatial stratification in cities?
- Is there a need for adapting CEB's activities in the light of the past experience and future challenges?

Based on the current research, this chapter examines the key challenges for housing provision and urban renewal in Europe over the coming years. It puts into regional perspective housing and urban regeneration developments, given common trends increasingly affecting most of Europe, such as the ageing process, the financial and economic crisis, climate change and the challenges of energy-efficiency, and their impact on the housing sector and more specifically on housing affordability.

The main objectives of this chapter are to:

- look at the variety of social, economic, financial, political and environmental dimensions of the problem. These dynamic processes of change in demographics, society, the economy and policy are shaping the demand and affecting the potential future needs of housing (section 3.1.);
- identify regional and national similarities and specificities in the housing and urban sectors across the CEB member countries (section 3.2.);
- draw conclusions and potential implications for CEB activities, developed in chapter 4, in the housing sector and urban infrastructure, with particular attention to the sharing of expertise and enhancing co-operation with other financial and non-financial international institutions, specifically with the European Union.

The main findings are summarised in Table 1 at the end of the chapter.

## 3.1. Factors shaping growing demand

Notwithstanding the limited and imperfect character of any prospective exercise, it is possible to identify several common trends and issues across Europe which are set to modify populations' needs and thus the profile of the future demand for housing.

The challenges of demographic change, the current financial and economic crisis, the widening of income distribution and social inequalities, increasingly important environmental issues are projected to affect, to varying degrees, all CEB member countries, and hence impact on the demand for CEB financing. The objective of this section is to examine common trends and their implications in order to generate and discuss, in the next chapter, the most likely and most effective strategic areas for CEB action.

## a. Changing demographic, social and family patterns

Among the profound social and demographic transformations currently taking place in Europe, the key demographic dynamic is the ageing of populations. The phenomenon of a "greying" population will increase dramatically and have significant impact both on social and health policies and on the housing market.

### ▪ Ageing population

All CEB member countries will have to deal with the ageing challenge but not at the same time and not to the same degree.

In the European Union (EU-27)[15], the number of elderly people (aged over 65) is expected to significantly increase after 2010. Indeed, between 2010 and 2030, the number of people over 65 will increase by 35 million (+30%). It will almost double by 2060, rising from 85 million in 2008 to 151 million in 2060.

With life expectancy continuing to increase all the time, there is an ever-rising number of oldest-old (aged over 80), called "frail elderly" persons: +35% between 2010 and 2030. In absolute figures, this means nearly 35 million of people aged over 80 in 2030 against some 23 million in 2010. Between 2008 and 2060, the number of "frail elderly" is projected to almost triple from 22 million in 2008 to 61 million in 2060. The progressive ageing of the elderly population itself is a notable aspect of population ageing: the share of "frail elderly", as percentage of total elderly population, will increase from 25% in 2008 to over 40% in 2060.

At the same time, younger cohorts of the population will notably decrease. Between 2010 and 2030, children younger than 14 will decrease by 9% (-12% of young people (15-24) and -16% of young adults (25-39)). This trend is even greater when the total working age population (15-64 years) is considered: it is due to fall by 13 million between 2010 and 2030 and by further 39 million between 2030 and 2060. It will start in the EU in 2011, but will be delayed in the case of Ireland (2035), Turkey, Malta, Cyprus (around 2040-2045), Sweden and Luxembourg (2050).

As a result of these unprecedented demographic trends, the old-age dependency ratio, calculated as the ratio of people aged 65 or above relative to the working-age population aged 15-64, is projected to more than double in the EU from 25% to 53% over the period 2008-2060. The largest increase is expected to occur during the period 2015-2035. This means that the EU would move from having 4 persons of working-age for every person aged over 65 to a ratio of only 2 to 1. When adding the number of children to the calculation, the ratio of dependent to active is projected to rise by nearly 30 percentage points.

Due to this evolution in the age structure of the population, the needs in the future will have to focus increasingly on the most vulnerable groups, which consist of (i) elderly people living alone[16] and (ii) people aged over 80 who may be considered as a new category of vulnerable groups of populations. Translated into housing needs, this process will increase demand from a new segment, characterised by specific needs in terms of accessibility, design, infrastructure, technologies, etc. but also with regard to health conditions, culture and income level. The so-called "frail elderly" (above 80 years of age) will require new and adjusted housing solutions for their specific needs. Therefore, widening the range of dwellings specifically designed to suit their needs will become increasingly important. Specific dwellings for the elderly could include retirement homes, but also "sheltered" housing or "extra-care sheltered" housing.

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[15] European Commission, Confronting demographic change: a new solidarity between the generations, COM (2005) 94 final, March 2005; European Commission, 2009 Ageing Report: Economic and budgetary projections for the EU-27 Member States (2008-2060), 2009.

[16] In the European Union, it is predicted that in 2010 around one third of the EU-15 elderly population (aged 65 and over) will be living alone, with a larger proportion of women owing to female widowhood.

Indeed, several aspects are to be considered when dealing with increased demand for housing for the elderly. A growing number of elderly people does not necessarily imply more demand for "social housing" in the narrow sense[17]. Although elderly people have tended to be overrepresented in the "social housing" sector in the past, in future more people will enter old age as established home owners, and it seems probable that the majority will want to remain in their existing homes. Indeed, there is a trend towards greater residential independence amongst the elderly, particularly for those between 65 and 80 years of age. In countries where the tradition was for elderly people to go back to live with their children (e.g. Southern and Eastern Europe), this is now less and less the case; due to longer life expectancy and better health conditions, elderly people prefer to live on their own until a much later stage.

This situation poses a number of challenges for housing provision at large: on the one hand, it means that fewer dwellings become available to the market, thereby reducing the supply. On the other hand, there is the need to (i) adapt their homes and provide services at home and (ii) rethink the conditions of neighbourhoods where elderly people live isolated from their relatives. There is an increase in urban behaviour patterns, as elderly people who live on their own tend to stay in these areas where services, transport links and facilities are more available.

- **Young low- and middle-income persons/families**

At the other end of the demographic spectrum, there is another increasingly vulnerable group facing difficulties to access housing: the young and specifically the young low- and middle-income persons/families. Traditionally, Southern and Eastern European young people tend to leave home at a later age as compared to their Western European counterparts. For these countries, the tradition is to go straight into home-ownership when leaving their parents' home. Compared to young people in other European countries (e.g. France), they tend to avoid the rental phase. Today, the so-called "emancipation" age of the young has been delayed even further, particularly in the face of economic constraints, i.e. difficulties in finding the first job and in accessing the first home both because of the unaffordable private home-ownership and the shortage of housing for rent (both social and private). It is worth noting that this situation is replicated in large cities throughout Europe, where there is a great number of young people at the age of emancipation demanding individual housing. In big agglomerations, supply does not meet this type of demand, i.e. too few dwellings are being built for these groups.

- **Modification of households' structure**

Another general observation about demography is that trends show an important modification of households' structure, i.e. the decrease in household size and a large and increasing proportion of single person households. These evolutions do not affect the "social housing" sector only, but tend to modify the demand in the entire housing market. Firstly, it requires increasing the housing output and supply, for the number of households increases quite a lot. Secondly, it also requires adapting homes for a demand that has become much more diversified. Indeed, the classical familial household is disappearing and the dominant household model is changing. Trends show that households' patterns are rather changing towards a much larger proportion of single or divorced households; recomposed families; lone parents; and large or extended families of immigrants and ethnic minorities. This directly translates into a need for smaller dwellings and/or their increased supply on the market.

- **Immigrants**

Another group with higher difficulties to access the housing market is constituted by immigrants. Some countries face high immigration levels, especially in Western and Southern Europe, but also in some Central European countries (such as Hungary). This leads to an increase in housing demand, even if the quantified impact on demand is still uncertain. The migrant population, due to the fact that it is mainly constituted by people in working/reproductive age is projected to contribute to the increase in the number of households in the future. Nevertheless, economic migrants are not expected to seek, nor be offered, social renting. Furthermore, in countries such

[17] See chapter 2.1., section a. on the definition of "social housing".

as Spain and Italy, it is expected that housing demand from the native population will decrease and the relative weight of demand from immigrants will increase.

Leal and Mayeur (1998) have underlined the residential patterns among immigrants: immigrants tend to have a higher residential mobility; the average household tends to be larger; rental housing is generally preferred to ownership. This situation calls for local integration initiatives and social mix policies to prevent social exclusion which may be enhanced due to the presence of ethnic minorities in "social housing", often concentrated in deprived urban areas.

However, the dynamic of future migration flows represent the main factor of uncertainty as well as a key variable in the demographic challenge in the coming years.

In view of higher life expectancy and changing lifestyles across Europe, the housing cycle has become longer and subject to greater variability than before. Hence, housing needs are expected to change to a greater extent at different stages of the cycle. New social and population trends are shaping a new demand for housing in general, and for "social housing" in particular. Consequently, adequate housing provision should be aimed at diverse products for the benefit of a wider range of household types and needs, in terms of size of dwellings and tenure diversity, located in larger urban areas with affordable housing in short supply and/or including dwellings specifically designed to suit needs of the elderly in terms of physical accessibility, infrastructure and services.

### b. Impact of economic factors and market trends

A common feature about housing markets in the EU is the disequilibrium between demand and supply of housing, both at national and regional levels.

- **Structural diversity across countries and regions**

According to the European Social Housing Observatory[18], there are at least 14 countries with a particularly severe disequilibrium between supply and demand of housing: Belgium, Bulgaria, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxemburg, the Netherlands, Poland, Slovenia and Spain. In all these cases, housing demand greatly exceeds housing supply at national level. However, magnitudes vary greatly. In general, housing shortage is particularly acute in new EU member states. Countries that show a relative balance between housing supply and demand at national level are the Czech Republic, Finland and Romania. Nevertheless, the latter countries may face shortages at regional level, specifically in areas of strong economic activity.

Within countries, regional disparities translate into mismatches between jobs and housing, particularly in the economically prosperous areas (mainly large cities) in most EU member states, where affordable housing is in short supply. On the other hand, those regions where economic activity is slow or stagnant often show a depressed housing market, usually with very high vacancy rates and a process of degradation of the quality of the stock.

The generalised trend towards rent liberalisation and the rate of increase of housing prices above the rate of inflation in the recent years (especially in France, Spain and Ireland) are among the factors that explain the lack of affordable housing. This situation dramatically increases the number of households that appear economically vulnerable on the housing market, and puts pressure on the "social housing" organisations and agencies which have to face a growing number of demands for decent and affordable housing. Hence, the need for affordable housing does not only apply to the very low-income persons, but affects middle-income persons that may become vulnerable on the housing market. Acute shortages of (social) housing in these areas are hampering the chances of vulnerable households to access the labour market.

[18] Housing Europe 2007: Review of social, co-operative and public housing in the EU 27 Member States, October 2007.

This situation is even more problematic in countries where there is a small rental sector (both social and private; see Statistical Annex A), which limits workers' mobility. In order to tackle this gap in provision of rental housing, some countries, mainly in Eastern Europe, are developing policies and incentives to increase the supply of rental dwellings in general, and of social or affordable rental dwellings in particular. Indeed, in most EU Member States, home-ownership is the largest type of tenure (see Statistical Annex A for details). Until the 2008 crisis, this type of tenure has been encouraged by low interest rates coupled with an increasingly competitive mortgage market. This has brought about a parallel trend towards rising mortgage indebtedness, which in turn bears its own risks particularly for vulnerable households.

- **Spatial and social segregation**

Over the last couple of years, economic disparities have translated into widening income distribution, and hence, increasing social inequalities and worsening housing affordability for lower income persons. As a consequence, a widespread trend common to most European countries has been the spatial and social segregation and stigmatisation of urban areas with a high concentration of relatively poor households. Although this problem stretches beyond the domain of "social housing", in many cases it coincides with large concentrations of this type of tenure.

These segregated urban concentrations, homogeneous in terms of tenure and of architectural and household types, have often poor or no social and economic infrastructure, which hampers the effective access of these groups of the population to the labour market, with the associated social problems such as alienation, vandalism, and sometimes urban riots (e.g. in French suburbs in 2005). Over the last decades, a gradual social decline of these areas has taken place in Western Europe, with an exclusion of those households who are able to pay for better housing elsewhere. This process of "social homogenisation" of certain areas has been accentuated by discriminatory practices in the private rental sector, in particular against ethnic minorities and poor immigrant families. The stigmatisation de facto of these areas has only worsened the multiple exclusion affecting residents living there (exclusion from employment, education, urban life, alternative/positive role models, etc.).

Parallel to the transition process to democracy and market economy, similar spatial concentration of poverty has been taking place in Eastern Europe. Beyond the macroeconomic debate focused on the integration of housing markets within globalised economies and financial markets, we can observe a segmentation of housing markets linked to increasing income inequalities, worsening housing affordability, ethnic segregation, social exclusion, an increasing number of informal settlements, and the new "urban poverty" phenomenon in capital and larger cities.

The sharpening of socio-spatial stratification is likely to continue in the near future. More than ever, strengthening social cohesion depends on the development of sustainable urban communities which includes both affordable housing for socio-economically vulnerable households and renovation of urban infrastructure.

- **Financial and economic crisis**

At the time of writing, the world is undergoing the most severe economic crisis in over half a century. The current financial and economic crisis has to be taken into account when looking at economic factors influencing the future demand for housing and urban infrastructure.

Firstly, considering the time lag between the decision to build and the completion of work (i.e. adjustments on the market are not immediate at all concerning the provision of housing), the crisis leading to a decrease in overall demand has undoubtedly a certain impact on housing markets and policies.

Secondly, the current crisis caused a drastic reduction in the availability of financing. Given the difficulties in finding re-financing and the fall in the value of their assets, the private sector in general, and financial institutions in particular, have in effect dramatically reduced their financing. Also, the recession has revealed the weaknesses of a certain number of financial

institutions that specialise in the financing of public infrastructure. This is compounded by the abrupt reduction in the financing offered by the traditional banking sector ("credit crunch"). Additionally, high or growing public sector indebtedness is likely to reduce the "fiscal space" for public programmes and social investments despite the fact that needs are still important or will be even larger because of the crisis (still increasing unemployment) and long-term trends such as the ageing of the population. What is more, the full impact of the crisis on public finances is still, partly, to be faced.

Thirdly, by the end of 2010, according to the World Bank[19], the expected rise in unemployment resulting from the worldwide recession will push back into vulnerability and poverty around 35 million people in Europe and Central Asia, i.e. about one-third of the people who had escaped from this situation in this region over the last ten years. In this context, international financial institutions, such as the CEB, should see a rise in the demand for their financing.

- **Falling housing prices**

By the end of 2008, housing prices had fallen throughout Europe, due to the exaggeration of the previous asset prices boom, the economic slowdown and the credit crunch (especially the riskiness of mortgage finance for investors). The impact of the economic crisis on the housing market is substantial. As recession has hit Europe severely and almost simultaneously, the downward spiral of housing markets slowing economies and faltering economies further slowing housing markets has been pervasive. However, the intensity of this fall may vary a lot across countries: the higher the previous boom, the greater the downfall and readjustment. However, these evolutions on the housing market hence have social impacts, and may slow down the investment in housing projects. The current crisis may have immediate and medium term effects on deprived neighbourhoods, so that urban regeneration policies may also be affected. According to the 2009 report of the European Social Housing Observatory[20], "the global economic crisis and the concomitant reaction against under-regulated markets would be challenging some of the core assumptions about the strengths of the private mechanisms of housing provision vis-à-vis public ones".

Furthermore, the current crisis has called into question the emphasis that many European governments have put on encouraging owner-occupation, in particular for low-income households. This is indeed a factor in the large levels of personal debt and high number of housing foreclosures observed as a result of the crisis. Hence, a renewed interest in social and affordable housing investments might arise from this situation. There will probably be a growing demand for rental housing for socio-economically vulnerable groups and those severely affected by the crisis. There are reasons to believe that there will be a considerable impact on urban renewal projects, since private developers are putting projects on hold due to uncertain demand and low liquidity. It is possible that social housing providers are unlikely to "come to the rescue" by acting counter-cyclically, be it either due to similar liquidity problems as those encountered by private developers (availability of financial means is dominated by a market logic for everyone) or due to ethical reasons (i.e. they remain attached to their non-profit values). Since a large part of urban renewal projects involve a joint participation of private and public actors, risk aversion might dominate and developments might dwindle. This may represent a major challenge and an opportunity for public banks like the CEB to intervene in this sector.

In the face of growing economic and social disparities and the current economic crisis, it is essential not to abandon investment in social infrastructure, as it can provide the basis for economic recovery and social inclusion in most cases.

[19] World Bank, Global Crisis Pushing Almost 35 Million People Back Into Poverty And Vulnerability In Europe And Central Asia , Press Release No:2009/323/ECA (www.worldbank.org/eca).

[20] Urban regeneration in Europe: the place of social housing in integrated urban policies. Current perspectives, May 2009.

## c. Environmental challenges

In Europe, buildings are on average responsible for over a third of total final energy consumption, of which a large part goes to the residential sector which can represent 20% to 40% of total final energy consumption on average and 40% of $CO_2$ emissions[21]. From 80 to 90% of total energy used during the life of a building is consumed during its operation, while the rest in the construction and demolishing phase. Most energy consumption is used for space and water heating[22] (see graphs I-VI in Statistical Annex B for more detailed statistics).

As CEB member countries stretch geographically from Scandinavia to Malta, there is also a climatic variation in the structure of energy consumption and, as a consequence, different requirements and opportunities for improved energy efficiency. Southern countries have a smaller share of space heating and a larger share of cooling in their energy balances than their Northern counterparts.

On the one hand, demographic, economic and cultural changes will only increase the pressure of housing on energy consumption and will be accompanied by even higher levels of greenhouse gas emissions. On the other, it is the building sector and, particularly, the residential sector that could generate some of the greatest energy savings.

### ▪ Scope for improved energy saving

In the past years, investment in energy efficiency has been undertaken only on a limited scale due to barriers for investing: lack of individual incentives (often due to the diverging interests in rental buildings where tenants pay the energy bill but have no say on modernisation investments), low priority to energy issues, unstable energy prices, lack of information and awareness.

Energy efficiency in the housing sector hence requires a strong policy involvement from public and supranational authorities, so that it would be included in broader social and housing policies. Significant resources are to be mobilised: extending energy performance requirements would most likely allow for annual savings of € 25 billion by 2020 but would require investments of some € 8 billion each year. Human resources are also to be funded to provide expertise that public authorities are often lacking.

Throughout Europe, the general challenge to be addressed is the energy-efficient refurbishment and retrofitting of existing buildings. This mainly concerns thermal integrity of the building envelope, air condition system efficiency, mechanical ventilation, lighting systems, water heating and elevators. Retrofitting techniques usually concern roof, wall and floor insulation, multiple window glazing, draught sealing, central heating, lagging jackets or ventilation improvement.

According to the most recent UNECE study[23], it is estimated, that at present 25-40% of direct energy savings, depending on the countries, may be reached in the housing sector by applying existing cost-effective technology. The EU Directive on Energy Performance of Buildings aims at a reduction of 28% by 2020 in its Member States.

New energy-saving technologies are to be developed and taken into account for the future renovation and construction of housing. Regulatory frameworks and strategies are currently promoting these technologies, such as UN Framework Convention on Climate Change; the Kyoto Protocol[24]; EU Directive (2002/91/EC) on Energy Performance of Buildings (EPBD)[25] and other EU directives[26]; European Principles for the Environment and various national legislations.

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[21] UNECE, Committee on Housing and Land Management, Towards energy-efficient housing: prospects for UNECE Member States, March 2009.

[22] European Environment Agency (EEA), Sustainable consumption and production in South East Europe and Eastern Europe, Caucasus and Central Asia, October 2007.

[23] UNECE, Committee on Housing and Land Management, Towards energy-efficient housing: prospects for UNECE Member States, March 2009.

[24] The 1997 Kyoto Protocol expires 2012. The 2009 Copenhagen Accord endorses the continuation of the Kyoto Protocol; however, it is not legally binding.

- **More investment needed**

Although some progress has been made recently, the existing situation in CEB member countries leaves much room for improvement. Even those that are considered to have advanced building standards in place are far from fully realising the potential for the sector. Central and South Eastern European countries, the CEB's target countries, in particular lag behind and have the greatest untapped potential for energy efficient housing – their housing is characterised by low energy-efficiency standards, especially in panel-built housing of the period between the 1960s and 1980s.

A specific challenge for these countries relates to overcoming what can be called the "energy inefficiency trap", or a situation where precisely countries with lower energy efficiency are unable to change their respective status due to the lack of resources, investment capacities, experience, technology and motivation.

Although during the socialist era heating and hot water in larger cities was often administrated centrally via district heating systems, distribution systems were typically characterised by large amounts of energy losses, while residents had little control over space temperature other than by inefficient means such as opening windows.

Transition has brought many novel and specific challenges and opportunities for these countries, but was often accompanied by the downgrading of infrastructural quality, increased energy prices and "primitivisation" of the standards of living, leading to deprivational energy conservation (Buzar, 2007). Many of the transition countries have seen a growing "slumification" of their housing stock, as well as alarming trends towards informal settlements in South Eastern Europe with self-made, low-quality, low-energy-efficiently shelters (Tsenkova et al., 2009). High prices for centrally-distributed energy made many residents switch into alternative less efficient heating means, such as kerosene, electricity, coal or wood, increasing deprivation. If the problem takes a massive scale in any location, energy supply to that location and the operation of the necessary infrastructure becomes unfeasible, so that even those residents who are able and ready to pay may be penalised (the situation exists in the Balkan region, Moldova and Georgia). This has worsened the energy efficiency status of these countries.

At the same time, the legacy of central planning in many transition countries features a number of opportunities that may also arise in CEB countries. Indeed, the emergence of a new demand for financing the rehabilitation and replacement of the outdated existing housing stock may particularly be evident in countries with large-scale social housing estates such as France, the Netherlands, or Eastern Germany. Considerable funding is required to upgrade these estates, not just because of the long-expired lifecycles of these buildings in many cases, but also due to out-of-date insulation systems and poor maintenance over time resulting from lack of public and/or private resources.

- **Opportunities of economies of scale**

The large number of standard multi-apartment residential building blocks means that similar solutions for improved energy efficiency may be used, thus ensuring the opportunity of economies of scale. The strong tradition of centralised district heating in larger cities, while bringing a number of problems at present, represents an excellent institutional and technical foundation for efficient heating and cooling in the future.

After more than a decade of stagnant housing production in the CEE and SEE countries, recent years have seen a certain recovery in new housing programmes, with some larger cities, at least

[25] In November 2009, the European Parliament and the Council of the EU reached a political agreement on the EPBD Recast, which still has to be formally approved in 2010.

[26] Apart from the EPBD, there are a number of other EU Directives dealing with energy aspects in buildings, such as Eco-Design of Energy-Using Products Directive (2005/32/EC), Directive on the Promotion of Cogeneration (2004/8/EC), Energy End-Use Efficiency and Energy Services Directive (2006/32/EC), and Directive on the Promotion of the Use of Energy from Renewable Sources (2009/28/EC).

in the years preceding the most recent economic crisis, experiencing a construction boom. The increased levels of housing production represent further opportunities to improve the energy efficiency of the overall housing stock. This can only be achieved, however, if necessary measures are implemented by policy-makers.

- **Energy poverty**

"Energy poverty" has been a common trend in the CEE region, but it may also exist in other European countries. The increased cost of fuel, the liberalisation of energy markets and decreased levels of welfare provision in Western Europe since the 1970s and in the CEE countries since the 1990s led to an increasing number of low-income households who cannot afford the costs of heating. This phenomenon is known as "fuel poverty" or "energy poverty".

Poorer strata of the population and the most vulnerable groups are often those living in energy-deficient dwellings, they are those who cannot afford the adequate levels of energy consumption (usually for heating and hot water) either go into energy indebtedness and face the threat of disconnections from the utility provision or need to reduce their consumption. Either choice means hardship, exposure to health risks and the feelings of being alienated by society, which only deepens the vicious circles of social exclusion.

Housing conditions can be considered as one of the mechanisms through which social inequalities may translate into health inequalities (WHO, 2009). Less well-off households are more exposed to and affected by inadequate housing conditions and associated risk factors. Inadequate housing conditions have a significant impact on health outcomes. Additional effects on specific vulnerable population groups (such as e.g. children, elderly or disabled) may further enhance the inequalities associated with social determinants.

In this perspective, the issue of affordability of energy efficiency measures also needs to be addressed. The context of "social housing" may provide one of the most productive approaches here, since "social housing" is able to integrate both social welfare policy and energy efficiency measures. It is therefore vital to interlink policies seeking to improve energy efficiency in housing and social policies.

- **Positive externalities**

Energy efficiency can be regarded as an alternative source of energy with further environmental, economic, social and political benefits. Benefits from energy efficiency in housing are not limited to spatial scale, but involve local, regional, national and global impacts. In addition to direct energy cost savings, i.e. contributing to carbon reduction, and increased energy security, it is important to also take into account so-called co-benefits.

These positive externalities include environmental benefits, the creation of jobs and business opportunities, as well as poverty alleviation and reduced social inequality, better indoor and outdoor air quality, greater comfort, reduced mortality and enhanced health (Deda and Georgiadis, 2009). In this sense, energy efficiency has not only an economic impact but also a strong social dimension.

Finally, better energy efficiency for homes also makes the sector more resistant to extreme weather events which are predicted to increase in frequency with climate change. It can therefore be considered as contribution to adaptation measures to climate change and to limit the impact of potential natural disasters (Deda and Georgiadis, 2009).

- **Implications for the CEB**

Environmental concerns will undoubtedly constitute a challenge in the vast majority of the integrated urban regeneration programmes to be implemented in the years to come. As a unique social development bank in Europe, the mission of the CEB will hence be twofold: firstly, the Bank will be expected to include and promote environmental and energy efficiency standards in all its activities, alongside the opportunity to invest in "green housing" and sustainable urban development in particular. Secondly, the CEB will enhance its co-operation with other actors and

international partners so as to share, exchange and acquire knowledge and experience in this field. Such perspectives will be detailed in chapter 4.

From the Bank's point of view, the formulation and implementation of "green" projects will be confronted with constraints such as:

① Higher costs
Purchasing more efficient equipment implies higher costs estimated at 10-15%. It entails two types of costs: technology (including materials) and labour (additional knowledge and skills required). Even though this additional cost will be compensated in the long term thanks to the reduction of energy consumption, it is to be shared between parties involved. This additional cost can represent an important impediment, especially for low-income consumers with limited capital to invest.

Subject to specific possibilities existing nationally in CEB member countries, it is necessary to develop and maintain a sound financial infrastructure for all stakeholders to be able to raise capital for retrofitting and investing in energy efficiency and saving investments. This can include a system of subsidies, grants, loans, public investment programmes and leasing, as well as self-sustainable funding sources (e.g. revolving funds). Such instruments should be targeted at appropriate stakeholders, including owners, tenants, builders, technology producers and retailers.

② Diversity of objectives
On the one hand, energy efficiency is an issue that affects all the countries, but there are large differences across CEB member countries with respect to the levels of economic development (and the impact of the current crisis), legislative and organisational structures, the history of the residential sector, and climate conditions. Projects should therefore be sensitive to this diversity and be sufficiently embedded into local socio-economic, institutional and geographic context.

On the other hand, for development banks such as the CEB, it is vital to interlink energy efficiency in housing and social objectives. Projects should ensure affordable access to energy efficiency measures, mitigation of social inequality and improved social wellbeing. In this regard, the CEB is well-positioned to finance such projects since it already possesses expertise in the field of housing for lower income persons, "green housing" and renewable energy. It is also well placed to intervene in projects that combine energy efficiency purposes targeted at the most needy or vulnerable persons.

The operational measures which could cope with these constraints are developed in chapter 4.

## Box 8: European co-operation in housing and urban development

The CEB has developed a network of partnerships with other International Financial Institutions (IFIs), the European Union and with UN specialised agencies, and participates actively in regional initiatives. In line with the principles of the Paris Declaration on Aid Effectiveness (2005), these efforts aim at better coordination with other donor agencies. Thus, the partnerships respond to a threefold requirement: to widen the Bank's capacity for action, to share and enhance its expertise and to harness its specific role as a social development bank in Europe.

**Emphasis placed on a reinforced co-operation with the European Union**
In order to broaden the operational dimension of its actions in favour of housing and urban renewal, the CEB has continuously strengthened its partnership with the European Commission, within **EU Structural Funds**, particularly in the EU's new member states. In this context, in May 2006, the CEB signed a Memorandum of Understanding (MoU) with the European Commission and the European Investment Bank (EIB) defining a framework for co-operation under an integrated urban development policy over the period 2007-2013. The MoU also provides for co-ordinated action in developing the EU's **JESSICA initiative** (see box 5). New perspectives for co-operation with the European Regional Development Fund (ERDF) are additionally being developed to invest in energy efficiency in buildings (see box 9).

The Bank also takes part in several **coordination arrangements** that make it possible to jointly prepare and finance projects in the EU's pre-accession and neighbourhood countries (and simultaneously CEB member countries). This co-operation is performed under the Infrastructure Project Facility (IPF) and the Western Balkans Investment Framework (WBIF) for pre-accession countries, and under the Neighbourhood Investment Facility (NIF) for social projects in Georgia and Moldova.

Since 2000, the CEB has been working with the **European Commission** and with KfW to set up tripartite financing facilities, which combine loans from the CEB and KfW and grants from the Commission, in favour of the Bank's target group countries. Two of these facilities are directly targeted to housing and urban development: Municipal Finance Facility and Energy Efficiency Facility.

In addition, the Bank continues to develop complementary activities in the social housing sector. The CEB shares its experience by participating in events at European level. The CEB collaborates with the European Liaison Committee for Social Housing (CECODHAS) and is also an associate partner in the "Housing-Estates network" (Hous-Es), which is part of the URBACT Programme, whose aim is to share experience on the restructuring and management of large housing estates as well as identifying innovative financial instruments to address these problems.

**Supporting housing policies and reforms in South Eastern Europe**
In April 2003, the CEB organised, in collaboration with the World Bank, a Ministerial Conference in Paris for the promotion of socially sustainable housing policies in South Eastern Europe, in particular as regards refugees and vulnerable populations. As a follow-up to the conference, a sector report on "Social housing in South Eastern Europe – Solving a puzzle of challenges" was published in 2004 in co-operation with the World Bank. In 2005, a report study on "Trends and progress in social housing reforms in South Eastern Europe" was published in co-operation with the United Nations Economic Commission for Europe (UNECE) and the Council of Europe. Finally, the CEB financially contributed to a study "Housing policy reforms in post-socialist Europe: Lost in transition", published in 2009, which explores the impacts of housing reforms on housing system performance in post-socialist countries during their transition to democracy and market economy. These publications are listed in Bibliography.

## 3.2. Regional specificities of housing and urban development in CEB member countries

The intention of this section is to establish parallels between countries, while at the same time understanding key differences between them. Evolutions are indeed obviously not the same across different European regions and may also vary between countries of a same homogenous region. Besides, path dependency and national or regional specificities require to study regional perspectives of housing and urban development in CEB member countries. Indeed, housing markets are embedded in specific socio-economic and political situations. Moreover, diverse developments have called for different national policy responses, which have in return created housing and urban specificities.

This section describes the main housing and urban challenges for CEB member countries in a comparative perspective and identifies guidelines for the CEB to intervene in these countries. To a large extent, this section is based on research carried out by the CECODHAS European Social Housing Observatory and the European Network for Housing Research[27].

### a. Western Europe: an integrated approach

In Western Europe (Belgium, France, Germany, Ireland, the Netherlands), the main social and demographic trends affecting the housing market and urban projects have been similar, even though some slight differences may exist in diverse national contexts. Hence, these countries have implemented similar housing and urban policies to respond to the evolutions and the needs of the population targeted. These policies are designed within broader integrated social policies and vast programmes which may, in the future, require financing from the CEB.

These housing and urban policies have some common features:

- **Increase housing supply, both private and public, rental or ownership**, to respond to the shortage of supply and the increase of prices (even though the current crisis may moderate this trend) and to provide housing for the increasing number of households.
- **Develop "social housing" and housing for vulnerable groups**. "Social housing" may be developed since socio-economic inequalities persist and that other vulnerable groups (students, young adults, disabled persons) may also be at risk on the housing market. In addition, the general forecast for a pronounced ageing phenomenon requires adapting dwellings and social care centres.
- **Set up urban regeneration and sustainable urban communities' development**. Run-down urban areas and outdated large-scale social housing estates, in certain cases lacking urban infrastructure, require urban renewal. This renovation may be part either of social policies fighting social exclusion and spatial segregation, or be part of energy-efficiency promoting policies of the outdated housing stock.

In **France**, it is estimated that 400,000 housing units will need to be built annually to satisfy the increasing demand for housing due to the increase number of single persons or couples without children, and to the ageing population (it is forecast that people aged 65 or more will represent 19% by 2015 and 23% by 2030). France has one of the largest housing stocks in the EU when measured on a number per thousand basis (513 per 1,000 inhabitants, see Table I in the Statistical Annex A), but is simultaneously facing a housing crisis affecting particularly middle to low-income households and which concerns many regions and most urban centres. The crisis is due to an insufficient construction level throughout the last decade.

France has hence promoted legal measures to develop the housing stock (rental sector and home-ownership), while encouraging a diversified supply. Urban regeneration is promoted through a new

[27] A complete list of sources can be found in Bibliography. Figures are available in the Statistical Annex A or sources are indicated in footnotes.

urban renovation agency (*ANRU, Agence Nationale de Rénovation Urbaine*) which manages renewal programmes including in 2006 a programme speeded up to demolish and replace a quarter of a million of the worst social housing and to renovate another 400,000 units. It increased demolitions in many existing estates and aimed at creating a greater social mix in the associated renewal projects, since the 2005 urban riots have shed light on social segregation and spatial inequalities.

In **Germany**, the current demographic trend towards a decreasing growth rate of the population is having a strong impact on the housing sector. It is estimated that in 2050 Germany's population will have decreased by 7.5 million people, a figure which is equivalent to 9% of the current population. Nevertheless, the number of households will be growing and reach 39 millions in 2015, despite significant differences amongst the regions. A remarkably large share of German households, particularly in urban areas, consists today of only 1 or 2 persons (around 70%). As a result, the greatest demand is currently for single-family dwellings. This type of dwellings have constituted over two thirds of new dwelling output for some years, and generally they are in short supply in the economically strongest areas.

Furthermore, it is expected that in 2015 the share of the elderly (aged above 65) out of the total population will climb to 21%, and to 28% by 2030. Adaptation of the housing stock to the needs of the ageing population is therefore a major concern for housing providers.

Last but not least, large cities with their suburban areas will continue in the future to be the main target areas of regional and international migration. The immigration associated with this will concentrate principally on the economically more prosperous conurbations in Western Germany (Munich, Stuttgart, Frankfurt, Düsseldorf, Cologne, Hamburg, etc.). This will result in an increased demand for new housing construction in these areas.

In **Belgium**, the main demographic stimulus to the housing market is indeed the rising number of households, despite a limited overall population growth[28]. An ageing population is likely to have some impact on the housing market in the future, though not to the same extent as in a number of other EU countries. It is expected that by 2020 a 4% increase in those over 65 will be almost matched by a fall in the number of young people.

Difficulties in accessing adequate housing are increasing for certain households categories, namely single parents, households composed by only one person or with a single income, the elderly, low-income households and households living on a social subsidy. Other categories, in particular vulnerable social groups, and those whose revenue is unstable, also face great difficulties in accessing decent housing: young people, single mothers, and people with disabilities. Demand from elderly and disabled people for housing suitable to their specific needs is rising. Providers are trying to face this challenge by building dwellings designed for people with special needs, to help them live independently in spite of physical handicap. For instance, in the Flemmish region, social housing providers are delivering new, integrated services in partnership with other social and healthcare providers.

One of the most notable demographic factors of the past twenty years in the **Netherlands** has been a large increase in household numbers, but the household composition has been changing: households tend to be smaller (over a third of all households are single person ones) and older. This trend towards higher numbers of single households is expected to continue and to be the main source of rising household numbers in the coming years.

Also, like many Western European countries, the Netherlands has to deal with an increasingly greying population. An ageing population will have a significant effect on the demographic structure from 2010 onwards. The share of those aged 65 or over in the population is expected to rise from 15% (in 2008) to 24% by 2030. It will have implications for the future types of

[28] Between 1995 and 2010, for example, it is foreseen that the population of Flanders will rise only by 2%, whereas household number will grow by 14%.

housing required. The new housing construction is being adapted to this trend: in building new dwellings, there is increasing emphasis on the accessibility of housing for the elderly.

An important feature of the Dutch housing market concerns by far the largest share of "social housing" in the EU: social housing represents 35% of all dwellings; private renting houses only 11% of the population. Furthermore, most new properties are currently being built in the social housing sector. The housing system is characterised by a relatively low level of owner-occupation by Western European standards (54% of the occupied stock). This may help to understand an increasing trend towards urban regeneration in rundown social housing neighbourhoods with high levels of spatial segregation (of ethnic minority groups in particular) and social polarisation.

### b. Northern Europe: a decentralised, environmentally sustainable approach

Policies are similar in the Nordic countries (Denmark, Finland, Sweden, Norway, Iceland) and these countries promote integrated housing and urban policies which are designed to address the main demographic, social and economic trends that affect the housing market. Reflecting the general demographic trends that can be observed elsewhere in Western Europe, there are no particular differences with regard to ageing or to the increase of demand due to the decrease in the size of households.

Also, the Nordic countries have often been in advance in energy-efficiency investments (partly due to the climate) and the development of integrated sustainable urban communities. Indeed, environmental and energy concerns are recognised and strongly integrated into the housing and urban sectors. Considerable efforts are made to increase energy efficiency both in construction and in consumption.

Besides, a specificity of these countries is that the housing policy design (especially social housing policies) is decentralised and rather delegated to public housing companies of which the shares are owned by local authorities and municipalities. The most recent research[29] on housing policies in the Nordic countries has been focused on the ways in which housing policies influence morphology and social geography of urban areas. Important as background in this context has been the common Nordic understanding of the welfare state and sustainable development. In this sense, political choices lead to specificities on the housing market, that are not common with other Western European countries. Additionally, path dependencies and former legacies can impact on present developments, which, contrary to common beliefs, may differ between the Nordic countries.

For instance, in **Iceland**, the Act on housing affairs, No. 44/1998, which took effect on 1st January 1999, makes provisions for the administrative structure in the housing sphere, under the overall control of the Minister of Social Affairs. Under the Act, an independent state body, the Housing Financing Fund, handles the control and administration of housing issues on behalf of the minister. Each local authority is responsible for meeting the housing needs of those of its inhabitants who need assistance in securing housing, and is to take the initiative on doing so.

Besides, the Nordic countries have particular patterns, which may shed light on the fact that demographic, institutional, social and economic trends differ from one country to another within a relatively homogenous group of countries.

For example, one particular feature in **Finland** and **Denmark** concerns young people, who tend to move from their parents' home earlier than in other European countries (at the age of 20 on average). In **Denmark**, a high number of students are demanding small-size accommodation, so that the provision of housing for students and for young people in big cities with many educational institutions is a priority in the government agenda.

[29] "Urban Sustainability and Governance; Conclusions from a Nordic-Baltic Project of Housing Policies", Arild Holt-Jensen, ENHR conference, Prague, June 2009.

In **Sweden**, the main market trend during the last ten years has been a migration of people from rural to urban areas, which has created two main problems. The first problem is a high rate of vacant dwellings built for owner-occupation in rural areas and small towns, due to the significant migration towards the main cities and economically attractive areas. There are about 50,000 vacant dwellings in rural areas, and the cost to cover for these vacancies is becoming unsustainable. About 5,000 dwellings are demolished each year. On the other hand, there is a hard pressure on housing in the largest cities, which are experiencing housing shortage (in 2005 as many as 61% of the population lived in municipalities where there is a shortage of housing), causing house prices to rise substantially in these areas and thus becoming unaffordable for lower-income households. For these groups, this becomes an additional barrier to overcome their successful integration in the labour market as lack of housing within their means results in reduced access to those areas where the jobs are.

Similarly, in **Finland**, there has been a strong internal migration towards the main growth centres during the last ten years: as a result, although Finland has no overall housing shortage, regional differences in the adequacy of supply are considerable. There is an urgent need for new housing in large urban areas, particularly in the Helsinki metropolitan area.

### c. The economic crisis and the housing market in the Baltic States

A particular attention should be paid to the **Baltic States** (Estonia, Latvia, Lithuania), since they are severely affected by the current financial and economic crisis. Households, already highly indebted[30], have seen the access to credit fall down, while public authorities face a pronounced economic downturn, growing public deficits and exploding debt, which reduce the public resources available and is likely to weaken municipal and national subsidies. This statement is all the more true that these countries experienced no particularly good situation before the crisis. Hence, these countries may require external additional financing for housing investment not to fall and for weakened groups not to become more vulnerable than they were.

In **Estonia**, although the housing stock in 2004 was almost 11% bigger than the number of households, a large part of Estonian households are multi-generational households (i.e. different generations living under the same roof). Therefore, the size of the housing stock is below the level of actual demand and there is a hidden discrepancy between dwelling and household size, which is increasingly showing a structural housing deficit, likely to broaden with the crisis. Another challenge is posed by the regional distribution of dwellings: the number of dwellings is not comparable to the number of jobs in a given region. Furthermore, most of the existing housing stock is in very bad conditions and shows very poor energy performance.

In **Latvia**, vast programmes of public construction has been launched before the crisis to respond to the dwellings shortage, but are likely to slow down with the current economic context. Social housing used to be supported only by municipalities, but from 2006 new regulations have been applied and municipalities can receive support from the state covering 30% of construction or renovation expenditures to create new social flats. This public financing may be endangered given the economic recession.

In **Lithuania**, cities face inherited urban problems, such as the renovation of soviet time housing stock and living areas, a need for urban public infrastructure, including public transport, conversion of former industrial areas in city centres, etc. The buildings in Lithuania are responsible for 40-50% of energy consumption. Bearing in mind the current economic and real estate crisis, a need for a sustainable urban development in Lithuania is even more important. Attacking the recession requires defining a clear, integrated urban development policy and a priority-based use of common resources.

[30] In 2007, housing costs represented a heavy burden of almost 30% in the budget (see Table III, Statistical Annex A).

## d. Challenges of ageing and immigration in Southern Europe

The Southern European countries (Greece, Italy, Portugal, Spain) experience common social, economic and demographic trends with the Western and Northern European countries, that is to say the need for developing the housing market and the necessity to promote sustainable urban communities through integrated urban renovation. These countries also share two major demographic pressures: a significantly pronounced ageing process and a particularly high and relatively a new phenomenon of massive immigration.

The Southern European countries have today the oldest age structure in Europe, combines with low current fertility rates, and will have to face **an important ageing population** in the coming decades. Indeed, the expected proportion of persons aged 65 or more in 2015 (2030) is 20% (24%) in **Greece** and 22% (26%) in **Italy**, i.e. among the highest rates in European countries. To a lesser extent, **Portugal** is also experiencing the phenomenon of a greying population, even though the population number shows a discrete increase in the last decade. The share of people over 65 is expected to grow by 7 percentage points by 2030 (from 17% (2008) to 24% of the total population).

The importance of the migration phenomenon has put further pressure on the housing market, which is, as in other European countries, subject to other demographic, social and economic evolutions. Indeed, **Spain**, **Italy** and **Greece** are facing the demographic and social challenge of immigration. If other countries such as Belgium, France or the Netherlands also experience **immigration**, the phenomenon is rather new in Spain, Italy and Greece, and all the more relatively important (for instance, there is a much higher level of immigration in these countries than in Portugal) and constitutes a major challenge, especially for the housing sector. The dynamic of future migration flows represent the main factor of uncertainty as well as a key variable in the demographic situation in the coming years. The migrant population, due to the fact that it is mainly constituted by people in working and reproductive age will contribute significantly to the increase in the number of households in the future.

In **Spain**, there has been a sustained increase in immigration over the last years, and the trend is set to continue. The rate of immigration into Spain is by far the highest in Europe: net migration into Spain is almost half of the total of that into the EU as a whole. As a result, population in itself has experienced a considerable increase, which is mainly due to the immigration population. According to Eurostat, foreign citizens represented 6% of the population in 2003, more than 8% in 2007 and almost 12% in 2008. Even in the most moderate hypotheses in demographic terms, the foreign population is expected to continue growing, though at a slower pace than in the previous years, due to the current economic downturn. After the recent housing boom[31], the housing market is adjusting to changing market conditions with a strong decline in the new housing-construction; however, the threat of continued high vacancies among the newly built is high. On the other hand, there are still acute housing shortages in certain areas, despite the housing boom, because of previous low housing standards and demographic pressures.

In **Italy**, the main socio-demographic changes are related to increased mobility and immigration. There were more than 3 million immigrants in Italy in 2005 (5% of the total population), and the number is growing (UNDP projects 4.5 million immigrants in 2010). The net migration of total population was 13% in 2007. These changes in the composition of the population are reflected in the strong housing demand from immigrants and students.

To a lesser extent, **Greece** shows a high level of legal and illegal immigration in recent years. Overall, between 800,000 and 1 million immigrants have been added to the population since the late 1980s, which is around 10% of the population. As these immigrants are generally very poor, their housing circumstances are precarious, which may create significant social problems in the future.

[31] In 2006, the number of housing completions per 1,000 persons was almost 15, which is 4 to 5 times the figure in most advanced European economies (Source: RICS, European Housing Review, 2009).

In addition, tensions, discrimination and social unrest resulting from segregation, inadequate housing and social exclusion of immigrants in European cities have made clear the fact that fighting segregation must go through integrated urban policies. Multi-sectoral projects could be implemented within integration policies, including schooling integration for the children (that is to say fighting against schooling segregation), promoting employment enhancement policies, constructing and renovating dwellings that remain affordable and adapted to the immigrants' needs and encouraging the development of urban infrastructure that would take part to large sustainable urban communities.

Immigration and ageing represent additional challenges, while these countries also face the needs for urban regeneration and ambitious improvements of energy efficiency.

### e. Central and South Eastern Europe: from transition to new challenges

The early 1990s marked a period of housing transformation in all of the Central and South Eastern European countries, which focused on the radical decentralisation of state responsibility for housing provision, privatisation of the housing stock, restructuring of housing supply, development of new housing finance systems and reform of the rental sector. This was not necessarily a linear progression and the scale of these processes differed from one country to another.

The process of privatisation was accompanied by an almost total withdrawal of public subsidies and many well-developed services such as multi-family housing, urban transport or water-sewage services, started to deteriorate. Indeed, the withdrawal of the state from management and maintenance of the housing stock, in particular the multi-unit stock, has led to a continuous deterioration of this stock, due to lack of investment in refurbishing or upgrading. Basic repair has been neglected over time, and many buildings lack adequate insulation, resulting in high heating costs and energy consumption. Renovation and upgrading are part of the major housing and urban challenges.

Furthermore, the mass privatisation of formerly public housing has generated a lack of new built and affordable rental housing. In the majority of countries, the largest tenure is home-ownership (see also Table III, Statistical Annex A), which has been widely promoted for economic, but also for cultural and ideological reasons. It caused affordable rental housing to become less available and put many vulnerable, including low and middle-income persons, at risk on the housing market. The rental sector is therefore to be developed in the years to come.

From another perspective, these countries experience a growing proportion of vulnerable persons on the housing market – either due to the boom of prices on the property and rental market or to the "poor home-owner" phenomenon leading to a degradation of the existing housing stocks. In fact, policies largely biased towards home-ownership have turned many of them into "countries of poor home-owners", giving rise to a variety of related social problems.

Several examples can illustrate significant needs in the housing sector in the region.

- The housing market in **Poland** is characterised by the relatively poor standards of the existing stock (urban multi-family housing, post-war prefabricated buildings). 70% of the stock is in need of significant repair and major renovation. The housing stock in Poland, compared to its population, is one the smallest in Europe: 314 dwellings per 1,000 inhabitants (see Statistical Annex A). There is a shortage of dwellings in urban areas, estimated at some 1.5 million[32], but excess of low quality housing and high vacancy rates in rural areas (14% in the North). The process of urbanisation is putting significant pressure on major cities: the population of Warsaw increased by 33% in 2006. In addition, the population has a relatively young age profile, so household numbers will continue to rise over the next few years, adding further to demand pressures.

[32] RICS, European Housing Review, 2009.

- One of the main features of the housing market in **Hungary** is the very low rate of rental units (6% in 2006). As a result of the privatisation process, the public rental sector ("social rental housing") decreased from 20% of the housing stock to 4% between 1989 and 2003. The private rental sector represents even less (2%) and is hardly affordable especially for young married couples, single parents and people on low-income. Prefabricated panel buildings represent about 30% of the rental stock. There is a shortage of "social housing" in Hungary: according to estimates, potential demand for rental housing is around 750,000 units of which 500,000 units need "social support". Moreover, it is estimated that some 60% of the co-operative housing stock will need to be renovated within the next 10-15 years.
- Unlike the other Central and South Eastern European countries, the sector of owner occupied housing in the **Czech Republic** is relatively low, at 66% of the total housing stock, and the rental sector, accounting for around 33% of the stock, is well developed (with 20% of social rental dwellings and 13% of private rental sector). However, the diversification of the housing market by type of tenure, already visible, is set to continue in the years to come, with owner occupation developing at a more dynamic rate than other types of tenure.
- A large share of the housing stock in South Eastern Europe lack basic infrastructure and services. For instance, **Albania** and **Romania** stand out with only around 60% of households living in dwellings with piped water supply. Furthermore, there is a huge difference in quality standards in rural and urban areas: while the majority of urban housing (80-98%) has piped water, two-thirds of the dwellings in rural areas in **Moldova** and **Albania** lack modern water and sewerage facility.
- In **Romania**, in 2001, it was estimated that about 80% of the dwellings would come to the end of their life within 20 years, unless serious measures were taken with regard to renewal and maintenance (UNECE, 2001). Taking into account the life expectancy of multi-family panel blocks of about 50 years, a significant portion of the stock no longer complies with technical standards. In addition, the region of South Eastern Europe is exposed to earthquake risk, so the physical condition of panel housing raises concerns over its capacity to withstand natural disasters.

### f. Informal settlements and displaced persons in South Eastern Europe

Additional to the renovation of outdated housing estates and the development of the rental sector, several South Eastern European countries (Albania, "the former Yugoslav Republic of Macedonia", Croatia, Montenegro and Serbia) must face the challenge of informal and illegal settlements.

Informal housing may have the following characteristics (Tsenkova, 2009)[33]: lack of secure tenure and basic services; illegality (as concerns ownership, standards, subdivision of settlements); inadequate access to public services; poverty and social exclusion; unhealthy living conditions and hazardous location. Informal settlements can refer to very different situations (from slums to luxurious residences). The more worrying type of informal housing concerns settlements often overcrowded and deprived from basic services, which can be situated both in cities and in periurban areas. All these characteristics enhance the weakness and vulnerability of people living in such settlements.

Due to the rapid migration and changes in urban areas, squatter settlements now contain in **Albania** up to a quarter of the population in major cities and 40% of the built up area. In "**the former Yugoslav Republic of Macedonia**", they are home of 11% of the population in the 14 largest cities. In Belgrade, informal settlements take up to 40% of the residential areas. Overall, this may be more than 4 million[34] persons that are concerned in the South Eastern European

[33] Tsenkova S., Housing Policy Reforms in Post-Socialist Europe. Lost in transition, Physica-Verlag, 2009.

[34] In addition, informal settlements also concern Turkey: in Istanbul, 70% of the population lives in so-called *gecekondu* (informal settlements) and close to 10 million out of 44 million urban residents in Turkey lived in 2005 in informal settlements (UNECE, 2006).

region (Tsenkova, 2009). In some urban areas experiencing rapid growth of population, the share of inadequately housed low-income and socially disadvantaged persons is increasing.

Hernando DeSoto (2000) pointed out the economic costs and challenges linked with informal economy, especially informal housing: public loss, less access to credit, no mortgage possible, dead capital. More generally, informal settlement leads to many economic, social and environmental challenges. Sasha Tsenkova (2009)[35] promotes three possible policy solutions to this issue, which may require the intervention and financing of external institutions:

- **Legalisation**, already partly implemented in Croatia, Montenegro, Bulgaria or Albania with its Legalisation Law adopted in 2007.
- **Regularisation, upgrading and building infrastructure**. This solution implies a more comprehensive intervention and an integrated approach of sustainable urban communities.
- **Resettlement and reallocation**: this policy is costly and thus can only be fairly limited. It can be useful if it targets the most vulnerable groups (Roma, refugees, internally displaced persons) but requires a decent and developed "social housing" stock. The CEB has already intervened in re-housing of the most vulnerable groups in the region.

Informal settlements also concern much of the Roma population, refugees and displaced populations in Central and South Eastern Europe, in Georgia and Moldova.

According to UNHCR (2009)[36], South Eastern Europe, especially countries of the former Yugoslavia, are still concerned with the issue of having many **refugees**. By 1995, the region witnessed the displacement of more than 2 million people, making for unique housing challenges. At end-2008, there were still almost 100,000 refugees in Serbia, 25,000 in Montenegro, and some 10,000 in the other former Yugoslav countries. Serbia still hosts the largest number of refuges and displaced persons in Europe, including some 226,000 **internally displaced** persons from Kosovo.

Recently developed informal settlements by refugees and internally displaced persons across the region are often similar to poor informal settlements, but they might have been established with the permission of the State or the municipality as a temporary, rapid response to a major crisis, such as the war-related conflicts in Cyprus and in the Balkans. These settlements, although newer, often present extremely poor living conditions. Often, residents expected to stay only a short time, but the solution turned out to be more permanent, attracting more people to the original group. These temporary settlements are generally found in the urban periphery, in pockets of marginal land or close to collective centres for refugees.

- **Internally displaced persons in Georgia and Moldova**

In Georgia and Moldova, political developments have led to a recent wave of refugees and to important movements of internally displaced persons (IDPs) which may require international intervention/assistance for re-housing, and more generally social integration, of these groups of persons.

In **Georgia**, large-scale displacement was caused in August 2008 by the conflict between the country and the Russian Federation. According to the Internal Displacement Monitoring Centre[37] some 37,000 ethnic Georgians who fled from South Ossetia have not been able to return by mid-2009.

In addition to the people displaced in 2008, some 220,000 to 247,000 people from Abkhazia and South Ossetia are still waiting for a solution to their displacement following conflicts which broke out in the early 1990s. The majority of them lives in the region bordering Abkhazia and in the Georgian capital Tbilisi, faces difficult conditions in former hotels and public buildings, and

[35] Tsenkova S., Housing Policy Reforms in Post-Socialist Europe. Lost in transition, Physica-Verlag, 2009.
[36] UNHCR, 2008 Global Trends 2008: Refugees, Asylum-seekers, Returnees, Internally Displaced and Stateless Persons, Country Data Sheets, 16 June 2009.
[37] "IDPs in Georgia still need attention", Internal Displacement Monitoring Centre, Geneva, 9 July 2009.

depends on meagre state benefits. Close to half of the displaced population lives in collective centres in former hotels, schools, kindergartens, factories and hospitals. As of May 2009, some 12,500 people internally displaced in 2008 were also residing in collective centres or temporary private accommodation (Council of Europe, 12 May 2009).

Public authorities (government, local authorities and Ministry of Health, Labour and Social Affairs) have implemented a social response to these refugees and displaced persons following the 2008 conflict. Yet, re-housing is still in process and many displaced persons are still not reintegrated. The Georgian government hosted in February 2009 a donor meeting to present progress and to look for solutions for the provision of durable housing, which may require further external intervention and financing from institutions such as the UNHCR or the CEB that have already been active in this sector and provided grants in the aftermath of the conflict (section 2.2.e).

As a result of the conflict in the Transdniestria region that began in the early days of the independence of the Republic of Moldova in 1990, some 56,000 persons fled to Ukraine and 51,000 became displaced within **Moldova**. Since a cease-fire was declared in 1992, most displaced persons have returned to their pre-war homes in areas not controlled by the Government but several thousands of internally displaced persons have not been able to return, while others have been victims of forced displacement from the Transdniestrian region since the conflict ended. Return has also been hampered by the occupation or deprivation of properties or occupancy rights by the Transdniestrian authorities, who have reallocated "abandoned" properties or apartments to newly arrived Russian citizens. According to governmental sources, there are still some 25,000 displaced people, including people who left the Transdniestrian region for political reasons and families whose houses have been destroyed.

- **Roma communities and the issue of housing**

Particular attention should be paid to the Roma communities in South Eastern European countries. By most estimates (World Bank, 2005), the share of Roma has grown to between 6 and 9% of the population in Bulgaria, "the former Yugoslav Republic of Macedonia", Romania and the Slovak Republic. These shares are likely to increase in the near future because of a high population growth among Roma and decreasing fertility among the populations. Romania has the highest absolute number of Roma in Europe, with between 1 million and 2 million. Large Roma populations of between 400,000 and 1 million also live in Bulgaria, Hungary, Serbia, the Slovak Republic and Turkey.

The housing situation of Roma is often worse than the national average[38]. The Roma often live in unsafe and impoverished areas and occupy substandard or extremely substandard housing, slum ghettos or site locations. They build housing by themselves using non-durable materials or employing unused old railway cars, buses, etc. The majority of their housing units are in fact huts, shacks or so-called "tent settlements". In a number of these settlements, connections to water tend to be illegal; there is no waste collection, no sewerage systems and no indoor plumbing. In Serbia, about 70% of Roma households reportedly live in dwellings with no water connection, over 80% with no sewerage and 65% in illegally built settlements. In Montenegro, 32% of the Roma live in collective centres and 48% in barracks, while 45% lack plumbing and tap water at home (World Bank, 2005). Furthermore, spatial and social exclusion and segregation strengthen the vulnerability of Roma living in such settlements.

[38] In Bulgaria, for instance, in 2000, only 4% of Roma households had access to central or gas heating while the national average was 16%; 65% of non-Roma households had indoor toilets while only 15% of Roma households are given access to this basic need (Source: Roma in an expanding Europe: breaking the poverty cycle, World Bank, 2005).

**Table 1: Main findings of chapter 3**

| | Issues | Challenges | Examples of countries |
|---|---|---|---|
| Demographic / Social | Ageing population | Adapting homes for special needs<br>Providing services at home | Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Portugal, Slovak Republic, Spain, Sweden, the Baltic countries |
| | Decrease in household size<br>Increase in number of households | Increasing housing output<br>Tenure diversity | Belgium, Czech Republic, Finland, France, Germany, Hungary, the Netherlands, Poland, Portugal, Spain, Ireland, Luxembourg |
| | Large and increasing proportion of single households | Adapting size of dwellings | France, Germany, Hungary, the Netherlands, Spain |
| | Lower income young people / families | Access to first housing<br>Increasing (affordable) rental sector | Bulgaria, Finland, France, Hungary, Italy, Poland, Romania, Spain, Western Balkans, Georgia, Moldova |
| | Sub-urbanisation<br><br>"New urban poverty" | Integrated urban renewal programmes combining housing and urban infrastructure | Denmark, Finland, France, Germany, Greece, Ireland, Italy, Portugal, Spain, Sweden,<br>Central and South Eastern Europe |
| | Students | Increasing student housing | Denmark, France, Italy |
| Migration / minorities | High immigration levels | Housing & Integration programmes | France, Greece, Ireland, Italy, Luxembourg, Spain |
| | Rural-urban migration<br>Regional mismatches | Increasing housing supply in urban areas | Albania, Finland, Hungary, Poland, Spain, Sweden |
| | Strong presence of ethnic minorities in "social housing" | Housing<br>Integration programmes | France, the Netherlands, Portugal<br>Bulgaria, Hungary, Romania, Slovak Republic, Western Balkans |
| | Internally displaced persons and refugees | Re-housing | Western Balkans<br>Georgia, Moldova |
| | Informal settlements | Legalisation, upgrading or re-housing | South Eastern Europe (Albania, Bulgaria, Croatia, Montenegro, "the former Yugoslav Republic of Macedonia", Serbia); Georgia, Turkey |

| | Issues | Challenges | Examples of countries |
|---|---|---|---|
| Outdated existing stock | Old and dilapidated panel buildings / multi-family blocks | Retrofitting, renovation, rehabilitation of the existing stock | Central and South Eastern Europe |
| | Old large-scale "social housing" estates | | Germany, France, the Netherlands, Belgium |
| | Outdated or lacking urban infrastructure | Urban renewal programmes involving renovation, rehabilitation and upgrading of urban infrastructure | Belgium, Czech Republic, Finland, France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Spain South Eastern Europe |
| Environmental | Energy-deficient housing | Promoting and applying energy efficiency standards in the rehabilitation and construction<br>Promoting the use of renewable energy in housing and urban infrastructure | Central and South Eastern Europe<br>EU-15 |
| | Affordability of energy efficiency measures (energy inefficiency trap & energy poverty) | Special support schemes for low-income households (subsidised loans, revolving grants, micro-loans…) | Central and South Eastern Europe |

# 4. POTENTIAL IMPLICATIONS FOR THE CEB

The CEB has acquired over the years considerable experience in the housing sector and urban development in different regional contexts. Demographic, social, economic and environmental trends, described in chapter 3, will have, in the coming years, an impact on housing and urban development in terms of diversified demand with significant investment opportunities. In the current context of reduced available public and private resources, international financial institutions, such as the CEB, should see a rise in a demand for their financing.

Taking into account the main trends and challenges summarised in table 1 (section 3.2.), this chapter focuses on potential implications for the CEB and the most likely areas for its action. As a general rule and in response to the challenges outlined in the previous chapter, the CEB will continue to support public and private investments, while targeting beneficiaries according to their specific needs, therefore, along with the main trends affecting the housing market (section 4.1.).

In order to better respond to the financing needs of its borrowers, CEB's financing instruments need to be diversified and adapted to the operational framework. Also, further opportunities may arise from institutional co-operation initiatives. Indeed, co-operation with the European institutions mobilise synergies and ensure more efficiency, complementarities and allow for mutual learning (section 4.2.).

## 4.1. Priority sectors of intervention

The challenge for the CEB is to adapt its activities to demographic, socioeconomic and environmental trends. In order to best meet the significant needs in housing and urban development, the Bank could develop its activities along three main lines:

a. provide decent, affordable and adapted dwellings for those whose needs are not met by the general housing market;
b. develop cross-sector operations;
c. promote energy-efficient housing and sustainable urban communities.

### a. Providing decent and affordable housing: building, rehabilitating or adapting

The core mission of the CEB in the housing sector will remain the same: its priority will be to provide decent and affordable dwellings for economically and/or socially disadvantaged groups of populations and for persons defined as vulnerable.

First, this mission implies to develop projects in the housing sector for lower income persons and in the more specific segment of "social housing".

In a demand-driven approach, this may concern the financing of projects for:

- construction, i.e. to increase the stock, of new housing in countries where the market is not saturated and thus to reduce this shortfall;
- renovation or refurbishing of the existing housing stock;
- conversion of buildings for housing purposes.

The objective concretely translates into increasing housing supply in larger urban areas, while adapting size of dwellings and/or encouraging tenure diversity by fostering the rental sector in general and the "social rental" sector in particular.

**Fostering the rental sector** in many CEB member countries will be needed for several reasons. Residential mobility is often suggested as one possible solution in order to better match needs and changes in household cycles and labour markets, thus making more efficient use of the housing stock. However, mobility is hampered by a generalised aspiration to home-ownership. In some countries, especially in Central and South Eastern Europe, housing policies have been biased towards home-ownership during the transition period. It is necessary to maintain a significant proportion of "social rental" housing for both a variety of income groups and a diversity of other social categories, such as young people or young families, for which (social) rental housing may facilitate access to their first housing. In South Eastern Europe, the development of "social housing" may strengthen the formal market which may become more attractive than informal settlements. Social rental housing may also be a solution for relocating people from illegal settlements.

All these reasons lead to a situation where the CEB may be solicited to finance a large number of rental housing projects. This could go beyond "social housing" projects, and include rental dwellings in economically dynamic centres and a diversity of housing stock guaranteeing that dwellings match the needs of the targeted population.

Second, when considering its role to provide adapted and decent dwellings for **vulnerable people**, the CEB will continue its support in providing housing for the benefit of vulnerable groups of beneficiaries eligible for CEB financing, such as victims of natural or ecological disasters, refugees, displaced persons or migrants, abandoned children, children in vulnerable situations, the elderly or persons with disabilities. In the particular case of vulnerable beneficiaries, CEB can also intervene beyond the simple provision of dwellings, i.e. through cross-sector operations, developed later in this section (4.1.b.).

In this regard, the CEB should particularly take into consideration the phenomenon of ageing population which will affect all its member countries more or less quickly. Elderly people represent one of the most vulnerable populations as regards to the housing issue, for they represent an economically and socially disadvantaged group on the market which is likely to be subject to discrimination and because it is probable that there will be a shortage in the number of adapted dwellings. All this is particularly true for the "frail elderly" (people aged over 80). Hence, providing housing and accommodation designed to suit the needs of the **elderly** is a mission that requires a specific orientation for it implies the construction of adapted dwellings for elderly people and for the elderly who wish to remain independent (i.e. so-called "sheltered" housing[39]); the construction and rehabilitation of retirement homes or social-services centres.

Furthermore, the CEB could also respond to the housing needs of **displaced persons and refugees** in South Eastern Europe. The Bank's statutory priorities are to provide assistance to these vulnerable categories of population. In South Eastern Europe, the issue of refugees and displaced persons has not been solved yet so that the CEB could continue its action in this sector of action, either with loans or, in exceptional cases, with grants, in co-operation with other international institutions. In Moldova and Georgia, displaced persons still live by a majority in collective centres that are not adapted to their needs nor provide sufficient access to water and sanitation: the CEB has proven in the past to have specific know-how in re-housing displaced persons and refugees and could make use of this experience to respond to this further challenge.

[39] "Sheltered" housing is a term covering a wide range of rented housing for the elderly and/or disabled or other vulnerable people. Most commonly it refers to grouped housing such as a block or "scheme" of flats or bungalows with a scheme manager. "Sheltered" housing accommodation is self-contained, ranging from a simple bedsit to a large flat or small house. Such schemes are distinct from a nursing home or care home in that the tenants are usually able to look after themselves, are active and are afforded a degree of independence; equally, sheltered housing differs from retirement housing which is generally leasehold.

### b. Developing cross-sector operations

The experience has shown that housing projects in favour of economically or socially vulnerable groups have a positive impact on beneficiaries' living conditions but do not address the causes of the disadvantages and thus the source of social or economic vulnerability. In order to improve project effectiveness, housing provision could also be accompanied by measures related to other CEB's sectors of action. The CEB could take up this challenge by developing cross-sector operations in order to intervene more upstream when dealing with issues linked to the housing provision for economically or socially vulnerable people.

New cross-sector programmes comprising different but concurrent sectoral components, involving job creation and preservation, education and vocational training, health or environment, could be developed. These would include targeted and sustained support through comprehensive programmes and thus put CEB in a position to address more complex social issues.

Depending on the specific issues to be addressed by the project, the CEB could provide financing for a whole range of investments and activities within broader social programmes in favour of:

- **The most vulnerable populations**: through the financing of projects combining housing and health components (elderly/disabled); housing and education (children in vulnerable situations);

  For instance, projects could include "extra care sheltered" housing (also known as "very sheltered" or "assisted living") schemes provide a greater level of access and mobility for "frail elderly" or disabled people, with a domiciliary care service and personal care element. Another example of cross-sectoral projects combining housing, health care and/or educational services could be the construction or renovation of residential schools for children/students with special educational needs, who may or may not be disabled.

- **Migrants and ethnic minorities**: via projects involving affordable access to housing, employment or income generating activities, educational and other social services. Activities in this field are focused not only on social infrastructure investments but also on actions and measures that promote social inclusion.

  Similarly, the issue of integration of migrants and ethnic minorities requires not only an integrated approach designed to respond to the special needs of such households in terms of housing (the size and composition of households may vary), but also plans to cope with social and spatial segregation and discrimination.

- **Fighting urban poverty and social exclusion in run-down and disadvantaged areas** through programmes geographically concentrated but sectorally diversified aimed at upgrading of existing infrastructure and provision of new urban infrastructure capacity, including housing, basic educational and medical amenities, environmental services (such as water, electricity and gas supplies, sewers, the treatment of solid and liquid waste), and socio-cultural centres.

  To a lesser extent, the process of suburbanisation affecting lower income groups, described in the previous chapter (section 3.1.b), is similar to what is happening in run-down urban areas. The high prices of economically dynamic inner cities are generating a phenomenon of spatial segregation where the spatial distribution of land available for affordable housing may tend to support social exclusion. The role of the CEB in this sector is to intervene in a way to improve the well-being of dwellers in suburban areas and to prevent lower and middle-income groups to become socially vulnerable: affordable housing construction should hence be combined with infrastructure and social measures to be defined with the borrower.

  All this would be part of cross-sector operations for it should not only involve dwellings per se but programmes of social inclusion. The CEB has acquired expertise in financing and developing such projects, so that its main challenge would be to identify projects that represent a priority.

### c. Enhancing energy efficiency and use of renewable energy in housing and urban infrastructure

While simultaneously pursuing social objectives, the third major line for the CEB could be to respond to environmental requirements for promoting "green buildings and infrastructure". This would include energy-efficient housing and environmentally friendly urban infrastructure projects.

CEB financing can cover energy-saving and efficiency investments in both the rehabilitation of existing buildings and the construction of new buildings.

- **An eco-efficient refurbishment**

Throughout Europe, the general challenge to be addressed is the energy-efficient refurbishment and retrofitting, the so-called "greening" of existing buildings. The emphasis on the existing stock is essential since new buildings account for a very limited share of the total housing stock (e.g. on average 1% of EU housing stock).

The eco-efficient refurbishment in Europe mainly concerns thermal insulation of the building envelope, air condition system efficiency, mechanical ventilation, lighting systems, water heating and elevators. Retrofitting techniques usually concern roof, wall and floor insulation, multiple window glazing, draught sealing, central heating, lagging jackets or ventilation improvement.

In this perspective, the CEB can intervene in the residential building sector and partially finance a large spectrum of energy-saving and efficiency investments, including thermal rehabilitation, heating systems, water supply and electrical/lighting system, installation of solar, photovoltaic, biomass, geothermic or wind devices for heating and electricity generation purposes.

Furthermore, the large number of standard multi-apartment residential building blocks in Central and South Eastern Europe, but also in several countries in Western Europe, means that similar solutions for improved energy efficiency may be used, thus ensuring the CEB the opportunity of economies of scale.

- **New green building construction**

From an economic point of view, investing in the construction of new green buildings can prove to be more cost effective than to retrofit buildings at a later time. Additionally, even though the new green construction may cost more upfront, the energy savings it provides over a building's lifetime are significantly higher than initial higher investments. Indeed, increased investment in the design and construction phase, aimed at energy savings in the use phase, can give strong and economic and environmental benefits over a building's existence. Conversely, a lack of consideration and awareness at the design and construction stage can lead to a building which is predisposed to high energy consumption, regardless of the behaviour of its occupants.

More precisely, 80-90% of total energy used during the lifespan of a building is consumed during the use phase. In order to reduce energy consumption of buildings during the use phase, it is essential to impose energy efficiency requirements to buildings from the early stage of design and to introduce energy efficient technologies, renewable energy sources and environmentally friendly construction materials during the construction phase.

Sustainable building design includes high levels of thermal insulation of walls, roofs and windows, efficient heating and cooling systems, use of passive lighting and active shading, solar water heating, energy efficient appliances and lighting, use of recycled, reused, or low-energy building materials. Concretely, the CEB can support these investments in the residential building sector.

- **Energy efficiency in a broader urban context**

However, it is not only the technological attributes of buildings and their interior that contribute to the reduction of energy use, but also the very spatial and density attributes of communities and cities at large. Most energy consumption occurs in urban areas. In the case of higher residential density in urban areas, good public transport provision and integrated district heat-electricity systems are all important considerations for energy efficiency and reduced greenhouse gas emissions, since such measures typically reduce vehicle use, bring more efficiency to energy consumption, and reduce municipal infrastructure requirements.

In the CEB's multi-sector and integrated approach towards sustainable urban development, the financing of housing projects is considered a part of comprehensive urban programmes. The CEB is ready to continue its support for urban renewal programmes that involve energy-efficient measures in the construction or rehabilitation not only in housing but also other urban infrastructure. Energy-saving and efficient investments could therefore concern:

- social and cultural infrastructure (schools, universities, hospitals, museums, libraries, theatres, etc.);
- urban transport, the residential environment, public spaces;
- utilities such as water supply, waste treatment or electricity and gas provision.

CEB's projects are thus implemented in an environmentally sustainable way in a broader urban context while taking into consideration a number of global challenges in their ecological, social and economic dimensions. Especially as part of an integrated, cross-sector approach, energy-saving and efficiency interventions in housing, as well as other urban infrastructure, can contribute to sustainable urban development, improving the quality of life of citizens and combating energy poverty and exclusion.

### Box 9: EU financing opportunities for energy efficiency in buildings

New perspectives for co-operation between the CEB and the European Union (EU) may arise from EU enhanced commitment towards greener investments. Concretely, the CEB could take the opportunity of co-financing "green housing" projects with available EU Structural Funds which can also be used, since 2009, to realise energy-saving measures in buildings. This funding, extended under the European Regional Development Fund (ERDF), to all EU members and regions for the purpose of energy efficiency refurbishment and the use of renewable energy in existing residential buildings is part of the European Economic Recovery Plan of November 2008. The financial envelope that can be allocated is up to € 8 billion or 4% of the total ERDF allocation (2007-2013) to all EU Member States.

Moreover, for the EU-12 countries (new members since 2004 and 2007), this new measure means a further opportunity to invest up to 4% of total ERDF allocation on energy efficiency and renewable energy in existing housing along with the already existing possibilities that were granted from 2007 on to invest up to 2% of total ERDF allocation per country in the field of housing (refurbishment of the common parts of the building, transformation of buildings owned by non-for profit or public bodies into affordable housing).

A lending scheme linking ERDF green resources with CEB loans is being implemented in Estonia. In this case (see also section 2.4.), a central revolving loan fund consisting of grant funds from the ERDF and loans from the CEB has been combined with funds from the Credit and Export Guarantee Fund KredEx (national guarantee fund) to provide long-term (up to 20 years) low-interest loans through local commercial banks to multiple-unit residential buildings built before 1993. A 15% contribution should be brought by the home owners. This lending scheme, which was set up by KredEx with the help of technical assistance provided by KfW, targets such energy efficiency investments that have been defined as priority measures in an energy audit. The objective is to reach minimum 20-30% savings in the building's energy consumption.

A great challenge comes with this new measure, since the capacity of Member States to spend and absorb the available funding is the key issue. So far the facility has been underutilised. When one looks at how much has been spent so far in Eastern Europe, where housing was already eligible to ERDF, the available data show that the housing allocation under the ERDF does not exceed € 803 million which represents about 0.23% of the total Funds' allocation and 0.77% of the ERDF allocation for EU-12.

In order to mobilise funding available under the new ERDF measure, national and regional authorities will play a key role in selecting eligible types of housing. It is up to authorities to discuss with local stakeholders (including social and cooperative housing providers) so as to identify the needs in terms of energy efficiency and renewable energy as well as the potential in terms of $CO_2$ emissions, job creation and reduction of energy poverty.

Since this measure should be implemented in the view to support social cohesion, "social housing" could be a priority field of intervention. Social and cooperative housing providers should be one of the main beneficiaries. However, some countries might decide to further support energy improvements in some parts of the private housing market. From a European perspective, it seems absolutely necessary to use this opportunity to impact, through economies, on their ecological performance but also on the fight against energy poverty that hits too many households in Europe.

## 4.2. Partners and means of action

Taking into account the priority sectors when dealing with sustainable housing and urban development issues, this section describes the envisaged channels for CEB financing and the main financing and technical instruments of CEB intervention. Particular emphasis is placed on co-operation mechanisms with other international institutions and donor States in order to support ambitious objectives and increase CEB's efficiency and added value.

### a. Diversifying borrowers and involving all relevant stakeholders

Current trends and implications for the CEB open the way for more ambitious programmes which are likely to involve diverse borrowers and partners.

The CEB will continue its **co-operation with national, local or regional government authorities.** Recognising that a growing share of public services and infrastructure has been transferred from the central to regional and local levels, and that significant investments are necessary to meet population expectations and European convergence criteria, the CEB will further extend direct financing to its Member States' local and regional authorities. Over the medium term, co-financing of investments carried out at local and regional levels through direct loans to regional authorities, cities and municipal companies would represent one of the main channels of financing projects in housing and urban development.

In addition, continued co-operation with central or local government authorities provides a basis for potential co-financing opportunities with the EU Funds. New possibilities could also arise from the JESSICA initiative. Besides, the CEB will explore the co-operation with its Member states outside EU-supported programmes.

In the particular field of "social housing", national and local projects are generally embedded in national policies and projects are often managed by "**social housing**" **agencies**. For instance, the CEB could extend long-term loans to public bodies which the State has entrusted with responsibilities in the field of housing, which would then themselves grant small loans to individual beneficiaries for housing projects.

Furthermore, broadened collaboration with **financial institutions** will ensure the financing of housing and municipal infrastructure projects. Financial intermediaries allow CEB to reach final beneficiaries that could not otherwise benefit from its funding (small municipalities and agencies, other local beneficiaries for instance), mainly due to the size and such beneficiaries and CEB's limited resources for extending a large volume of small loans. Moreover, the CEB benefits from the lending expertise and local network of its partner intermediary institutions and from a better counterparty risk profile than lending directly to final beneficiaries while, at the same time, fostering the development of the local banking sector.

The implementation of vast housing or multi-sector programmes for the benefit of urban areas may thus require a large and global borrower from the **banking sector**. This type of borrowers if already developed, but its role may increase in the future years due to the general budgetary deficits of public authorities which are also developing their co-operation with banks and private investors. In particular, co-operation with investment banks acting as arrangers of structured schemes for the financing of public infrastructure is likely to be developed as an effective approach for the CEB for supporting municipal investments.

All these programmes will involve diverse actors, from national to local levels including local community (business, households, local administration), industry and financial institutions. Good coordination has to be established from the very beginning of the project identification/appraisal phase and should continue during the implementation period. This implies paying special attention to the needs of the final beneficiaries which can only be strengthened through a continuous dialogue and coordination with all relevant stakeholders.

## b. Adapting the financing and technical instruments of intervention

Traditional lending instruments will generally remain the main tool for CEB's intervention. The CEB support will primarily be channelled through the provision of flexible long-term loans at favourable interest rates.

In view of growing demand for CEB financing in the housing and urban sectors, one of the key challenges for improving the quality and the successful implementation of CEB's projects will be to increase financial resources for:

- **technical assistance** for the identification, preparation and/or implementation of projects

The Bank pays particular attention to the quality of its projects in order to optimise their social impact. In this context, technical assistance constitutes an essential component of the Bank's added value. This support provided as a complement to financing has proven to be an essential element in the success of a project, and all the more so according to the degree of complexity of the project. It can be used to support project preparation (through studies), to improve project design, implementation or operation (through project level technical assistance) or to improve the (often essential) institutional framework (through upstream capacity building and technical assistance).

Indeed, assistance and monitoring throughout the whole project cycle is a principle of effectiveness that is to be extended. For trust accounts opened with the CEB on behalf of a donor, the scope of application and the provisions for action are established on an ad hoc basis. Technical assistance and experts can also be provided together within the European framework which can grant resources for the implementation and the monitoring of the project via various channels (EU Structural Funds, different grant facilities, JESSICA).

- **subsidies and grants** extended in specific cases

In order to stimulate a certain type of investments in the housing and urban sectors (for instance, energy efficiency and renewable energy), the CEB could provide its traditional financing instruments, flexible long-term loans, with even more advantageous financing conditions, via **subsidised loans**, which could be complementary to the substantial technical assistance needed in parallel to mobilising resources for these interventions. This preferential financing would be granted on the basis of specific eligibility criteria.

This type of financing instruments could be used in the particular case of economically and/or socially vulnerable persons. For instance, limited financial resources represent one of the most important constraints to energy-efficient investments. In order to address the issue of affordability of energy efficiency measures, CEB could develop **special schemes of support for low-income and vulnerable persons** who too often suffer from a vicious circle of energy poverty and associated social and health problems. Apart from subsidised loans, these schemes could also comprise "**green social housing**", i.e. the "social housing" sector in energy efficiency programmes. The sector of "social housing" may provide one of the most effective approaches here, since it is able to integrate both social welfare policies and energy efficiency measures.

Moreover, subsidies are likely to suit rental housing projects better than home-ownership development programmes. Indeed, loans are tying borrowers and beneficiaries up and are to be preferred in a way to ensure that the resources mobilised will respond to the needs of the beneficiary. Subsidised access to ownership may have inadvisable effects for it is not certain that those beneficiating from the resources will not later rent the dwelling.

When it comes to grant financing in very specific cases, it will remain limited to the needs of the most vulnerable beneficiaries likely to lack resources to access the formal housing market. Grant financing will be extended on a case-by-case basis in favour of projects with a high social impact. Last but not least, a specific use of grant resources, in the form of **revolving capital** via housing micro-loans, could be encouraged in certain cases, such as vulnerable persons.

## c. Strengthening co-operation with the European Union and donor States

Efforts to intensify co-operation with other financial and non-financial international institutions, either in the form of joint operations or through the exchange of expertise and best practices, should enable the CEB to increase the added value of its actions, especially for the benefit of vulnerable groups of population.

In particular, the CEB is increasingly seeking to:

- **develop co-financing opportunities with the European Union** through EU Structural Funds in EU-27 countries; EU grant facilities for pre-accession, candidate, potential candidate and neighbourhood countries; JESSICA initiative, as well as further opportunities of co-operation under the aegis of the EU, with the other IFIs active in its countries of operation;

- **strengthen co-operation with individual donor countries**, and thereby to increase external sources of financing for technical assistance.

The CEB has already co-financed various projects with the EU Structural and Pre-accession Funds (see box 8) and thus mobilised additional financing for projects implemented by governments or by local and regional public authorities. Additionally, CEB could take the opportunity of co-financing "green housing" projects with available EU Structural Funds which can also be used to realise energy-saving measures in housing (see box 9).

Depending on the modalities of EU programmes, the CEB has also implemented projects combining EU grants with its loans in EU's pre-accession and neighbourhood countries. Combining CEB financing with EU grants allows the CEB (i) to offer more advantageous financial conditions, when EU grants are used to subsidise interest rates on CEB loans and (ii) to increase the added value of its actions, when EU grants are used to improve the quality of projects financed through the provision of technical assistance. These resources will thus be complementary to CEB financing of programmes that require important levels of investments.

As co-operation with the European Union will be strengthened over the foreseeable future, the space for projects combining CEB loans with EU financial resources will widen.

# 5. CONCLUDING REMARKS

Many aspects of housing and urban issues are related to the broad concept of sustainability, which can be addressed from various angles. Sustainable urban communities are based on an approach that links economic, social and environmental issues and solutions together. They are designed to be socially and economically viable, environmentally sustainable and equitable places where urban dwellers can have access to appropriate and decent dwellings, and be guaranteed to live in communities where social realisation is possible.

This challenging framework requires taking into consideration not only the needs of people facing difficulties to find decent and affordable dwellings on the general housing market, but also environmental requirements, demand for spatial integration through urban infrastructure and social measures so as to reduce existing inequalities and thus strengthen social cohesion. The CEB's multi-sector and integrated approach combines, therefore, housing components with broader social perspectives.

The new social reality calls for thinking of housing provision as part of a wider social framework. Demographic, social, economic and environmental trends, described in this study, will have, in the coming years, an impact on housing and urban development in terms of diversified demand with significant investment opportunities. In this respect, ambitious housing and cross-sector programmes in an environmentally-responsible perspective are to be implemented in urban areas. This implies a reinforced role for international financial institutions, such as the CEB, in supporting considerable investments needed in the housing sector and urban development.

The CEB, as the social development bank in Europe, will remain committed to its social mandate and will be part of the necessary international support designed to improve living conditions of urban dwellers throughout its member countries. Finally, sustainable housing and urban development may be an efficient means of achieving its mandate of strengthening social cohesion in Europe within an integrated approach.

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# STATISTICAL ANNEX A

## TABLE I: DEMOGRAPHIC TRENDS

- Population (total number, 2008) and population projections (2015, 2030, 2050);
- Population by age (aged 0-15 years, 15-64 years, above 65 years) as of 2008 and projections (2015, 2030);
- Old age dependency ratio (ratio of the population aged above 65 years over the population aged 15-64) as of 2008, and projections as of 2020, 2030;
- Population density (population / sq. km)* ;
- Current (2005) and projected (2015) urban population (in %);
- Net migration as of 2000-2005 (total number of immigrants less the total number of emigrants, including both citizens and non-citizens, over the period).

## TABLE II: ECONOMIC DISPARITIES

- GDP per capita, PPP, in EUR as of 2008: absolute and relative to EU-27=100 base;
- Interquintile income ratio as of 2008 (ratio of the total income or expenditures of the highest 20% of the population over the total income or expenditures of the lowest 20% of the population);
- Unemployment rate (ILO or national definitions), as a percentage of total labour force, as of 2008;
- At-risk-of-poverty before and after social transfers as of 2008 (Eurostat definition: households or people whose equivalised income is below 60% of the median equivalised income of the reference group).

## TABLE III: HOUSING AVAILABILITY AND AFFORDABILITY*

- Housing stock (total number and per 1,000 inhabitants);
- Average household size;
- Occupation by type of tenure: part of home-ownership and rental occupation;
- Housing-consumption expenditures as a share of total household budget;
- Social rental housing stock (number of dwellings per 1,000 habitants; as a percentage of total housing stock).

## TABLE IV: QUALITY OF THE HOUSING STOCK*

- Average useful floor area per person ($m^2$/capita);
- Average number of rooms per dwelling;
- Infrastructure endowments (bath/shower, hot running water, central heating).

## TABLE V: APPROXIMATE AMOUNTS AVAILABLE FOR ENERGY EFFICIENCY INVESTMENTS IN THE EUROPEAN REGIONAL DEVELOMENT FUND (2007-2013)

- Allocations per Member State (EU-27) for the new ERDF measure available since 2009

**SOURCES:** Eurostat; UN-Stats, World Bank (World Development Indicators); UNDP (Human Development Report); UN-Stats; WiiW Current Analyses and Forecasts; UN-Habitat; UNECE Human and Land Management; CECODHAS; national statistical offices.

* For these indicators, the year of the data is computed from the latest available data, between 2001 and 2007, and may differ from one country to another (national surveys and censuses or various sources).

## Table I: Demographic trends

| | Population (millions) | | | | Proportion of individuals (% of total population) | | | | | | | | | Old age dependency ratio | | | Population density (pop/km²) | Urban population (% of total population) | | Net migration (thousands) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | aged <15 | | | aged 15-64 | | | aged >65 | | | | | | | | | | |
| | 2008 | 2015 | 2030 | 2050 | 2008 | 2015 | 2030 | 2008 | 2015 | 2030 | 2008 | 2015 | 2030 | 2008 | 2020 | 2030 | 2007 | 2005 | 2015 | 2000-05 | 2015 |
| **Albania** | 3.1 | 3.3 | n/a | n/a | 26 | 22 | n/a | 65 | 67 | n/a | 9 | 11 | n/a | 14 | 16 | n/a | 116 | 46 | 53 | -110 | n/a |
| **Belgium** | 10.7 | 11.1 | 11.7 | 12.2 | 17 | 16 | 16 | 66 | 65 | 61 | 17 | 19 | 23 | 26 | 31 | 38 | 351 | 97 | 98 | 180 | 41 |
| **Bosnia and Herzegovina** | 3.9 | 3.7 | n/a | n/a | 17 | 14 | n/a | 69 | 70 | n/a | 14 | 16 | n/a | 21 | n/a | n/a | 74 | 47 | 52 | 115 | n/a |
| **Bulgaria** | 7.7 | 7.4 | 6.8 | 5.9 | 15 | 14 | 13 | 69 | 67 | 64 | 16 | 19 | 23 | 25 | 31 | 36 | 71 | 71 | 73 | -43 | 2 |
| **Croatia** | 4.5 | 4.4 | n/a | n/a | 16 | 14 | n/a | 67 | 67 | n/a | 17 | 19 | n/a | 26 | n/a | n/a | 79 | 57 | 60 | 100 | n/a |
| **Cyprus** | 0.8 | 0.9 | 1.1 | 1.3 | 20 | 17 | 16 | 68 | 69 | 66 | 12 | 14 | 18 | 18 | 22 | 27 | 92 | 70 | 72 | 58 | 9 |
| **Czech Republic** | 10.3 | 10.5 | 10.4 | 9.9 | 15 | 14 | 13 | 70 | 68 | 64 | 15 | 18 | 23 | 20 | 31 | 36 | 134 | 73 | 74 | 67 | 28 |
| **Denmark** | 5.4 | 5.6 | 5.8 | 5.9 | 18 | 17 | 17 | 66 | 64 | 60 | 16 | 19 | 23 | 24 | 35 | 38 | 129 | 86 | 87 | 46 | 9 |
| **Estonia** | 1.3 | 1.3 | 1.3 | 1.2 | 15 | 16 | 15 | 68 | 67 | 62 | 17 | 17 | 23 | 24 | 29 | 34 | 32 | 69 | 70 | 1 | 0 |
| **Finland** | 5.3 | 5.4 | 5.6 | 5.5 | 17 | 17 | 16 | 67 | 63 | 58 | 16 | 20 | 26 | 24 | 37 | 44 | 17 | 61 | 63 | 33 | 10 |
| **France** | 62.0 | 64.2 | 68.0 | 71.0 | 19 | 18 | 17 | 65 | 63 | 60 | 16 | 19 | 23 | 25 | 33 | 39 | 112 | 77 | 79 | 722 | 97 |
| **Georgia** | 4.4 | 4.2 | 3.9 | n/a | 19 | 16 | n/a | 67 | 70 | n/a | 14 | 14 | n/a | 21 | n/a | n/a | 63 | 53 | 54 | -248 | n/a |
| **Germany** | 82.2 | 81.9 | 80.2 | 74.5 | 14 | 13 | 12 | 66 | 66 | 60 | 20 | 21 | 28 | 30 | 35 | 46 | 236 | 74 | 76 | 1,000 | 166 |
| **Greece** | 11.2 | 11.5 | 11.6 | 11.4 | 14 | 14 | 13 | 67 | 66 | 63 | 19 | 20 | 24 | 28 | 33 | 39 | 87 | 60 | 61 | 154 | 40 |
| **Hungary** | 10.1 | 9.9 | 9.7 | 9.1 | 15 | 14 | 14 | 69 | 69 | 64 | 16 | 17 | 22 | 22 | 30 | 34 | 112 | 67 | 70 | 65 | 22 |
| **Iceland** | 0.31 | 0.33 | 0.37 | 0.41 | 22 | 20 | 19 | 66 | 66 | 62 | 12 | 14 | 19 | 18 | 22 | 30 | 3 | 93 | 94 | n/a | n/a |
| **Ireland** | 4.4 | 5.1 | 5.9 | 6.5 | 21 | 21 | 19 | 68 | 67 | 65 | 11 | 12 | 16 | 16 | 20 | 25 | 63 | 61 | 64 | 188 | 35 |
| **Italy** | 60.0 | 60.9 | 61.9 | 61.2 | 14 | 14 | 12 | 66 | 64 | 62 | 20 | 22 | 26 | 30 | 36 | 43 | 202 | 68 | 70 | 1,125 | 249 |
| **Latvia** | 2.2 | 2.2 | 2.0 | 1.8 | 14 | 13 | 13 | 69 | 69 | 65 | 17 | 18 | 22 | 25 | 28 | 35 | 37 | 68 | 69 | -20 | -0.3 |
| **Lithuania** | 3.3 | 3.3 | 3.1 | 2.7 | 16 | 14 | 14 | 68 | 69 | 63 | 16 | 17 | 23 | 23 | 26 | 35 | 54 | 67 | 67 | -30 | -0.7 |
| **Luxembourg** | 0.5 | 0.52 | 0.6 | 0.7 | 19 | 17 | 17 | 67 | 68 | 64 | 14 | 15 | 19 | 21 | 24 | 31 | 185 | 83 | 83 | 16 | 4 |
| **"the former Yugoslav Republic of Macedonia"** | 2.1 | 2.0 | n/a | n/a | 20 | 16 | n/a | 69 | 71 | n/a | 11 | 13 | n/a | 16 | n/a | n/a | 80 | 66 | 75 | -10 | n/a |
| **Malta** | 0.4 | 0.42 | 0.43 | 0.42 | 17 | 15 | 14 | 69 | 67 | 62 | 14 | 18 | 24 | 20 | 31 | 39 | 1,279 | 96 | 97 | 25 | 1 |
| **Moldova** | 4.0 | 3.7 | n/a | n/a | 20 | 17 | n/a | 69 | 71 | n/a | 11 | 12 | n/a | 16 | n/a | n/a | 116 | 42 | 50 | -250 | n/a |
| **Montenegro** | 0.6 | 0.6 | n/a | n/a | 20 | n/a | n/a | 67 | n/a | n/a | 13 | n/a | n/a | 19 | n/a | n/a | 43 | 52 | 60 | n/a | n/a |
| **Netherlands** | 16.4 | 16.7 | 17.2 | 16.9 | 18 | 17 | 16 | 67 | 65 | 60 | 15 | 18 | 24 | 22 | 31 | 40 | 484 | 81 | 85 | 110 | 8 |
| **Norway** | 4.7 | 5.0 | 5.5 | 5.9 | 20 | 18 | 18 | 66 | 65 | 61 | 14 | 17 | 21 | 22 | 28 | 34 | 15 | 77 | 78 | 84 | 18 |
| **Poland** | 38.1 | 38.1 | 37.0 | 33.3 | 16 | 14 | 13 | 70 | 70 | 64 | 14 | 16 | 23 | 19 | 27 | 36 | 124 | 61 | 64 | -200 | 9 |
| **Portugal** | 10.6 | 10.9 | 11.3 | 11.4 | 16 | 15 | 13 | 67 | 66 | 64 | 17 | 19 | 23 | 25 | 31 | 37 | 116 | 59 | 64 | 276 | 50 |
| **Romania** | 21.7 | 21.1 | 20.0 | 18.1 | 16 | 15 | 13 | 69 | 70 | 67 | 15 | 15 | 20 | 21 | 26 | 30 | 94 | 54 | 56 | -270 | 4 |
| **Serbia** | 7.4 | 7.3 | n/a | n/a | 18 | n/a | n/a | 67 | n/a | n/a | 15 | n/a | n/a | 22 | n/a | n/a | 95 | 52 | 53 | -339 | n/a |
| **Slovak Republic** | 5.4 | 5.4 | 5.3 | 4.9 | 17 | 15 | 13 | 71 | 72 | 61 | 12 | 13 | 26 | 16 | 24 | 32 | 112 | 56 | 58 | 3 | 5 |
| **Slovenia** | 2.0 | 2.1 | 2.0 | 1.9 | 14 | 13 | 13 | 70 | 68 | 63 | 16 | 19 | 24 | 23 | 31 | 41 | 100 | 49 | 53 | 22 | 5 |
| **Spain** | 45 | 49.3 | 52.7 | 53.2 | 15 | 15 | 13 | 68 | 66 | 64 | 17 | 19 | 23 | 25 | 27 | 36 | 90 | 77 | 78 | 2,846 | 376 |
| **Sweden** | 9.1 | 9.6 | 10.3 | 10.7 | 17 | 16 | 17 | 66 | 64 | 60 | 17 | 20 | 23 | 27 | 34 | 37 | 22 | 84 | 85 | 152 | 33 |
| **Switzerland** | 7.6 | 7.9 | 8.6 | 9.1 | 17 | 14 | 15 | 68 | 67 | 62 | 15 | 19 | 23 | 24 | 30 | 38 | 189 | 73 | 79 | 100 | n/a |
| **Turkey** | 73 | 81 | 86 | n/a | 28 | 24 | 22 | 66 | 69 | 68 | 6 | 7 | 10 | 9 | 12 | 15 | 96 | 68 | 72 | -30 | n/a |

## Table II: Economic disparities

| | GDP per capita in EUR at PPP (2008) | GDP per capita in EUR at PPP EU-27 (2008) =100 | Interquintile income ratio (2008) | Unemployment rate (%, 2008) | At-risk-of-poverty rate (2008) | |
|---|---|---|---|---|---|---|
| | | | | | Before social transfers | After social transfers |
| **Albania** | 6,400 | 25.0 | 4.8 | 12.8 | n/a | n/a |
| **Belgium** | 28,800 | 114.6 | 3.9 | 7.0 | 28 | 15 |
| **Bosnia and Herzegovina** | 6,700 | 27.0 | 5.4 | 23.4 | n/a | n/a |
| **Bulgaria** | 10,100 | 39.0 | 3.7 | 5.6 | 17 | 14 |
| **Croatia** | 15,600 | 62.0 | 4.8 | 8.4 | 31 | 18 |
| **Cyprus** | 23,800 | 94.6 | 4.5 | 3.7 | 21 | 16 |
| **Czech Republic** | 19,600 | 81.0 | 3.5 | 4.4 | 20 | 10 |
| **Denmark** | 29,700 | 118.3 | 3.7 | 3.3 | 27 | 12 |
| **Estonia** | 14,500 | 65.0 | 5.5 | 5.5 | 25 | 19 |
| **Finland** | 28,900 | 115.0 | 3.7 | 6.4 | 29 | 13 |
| **France** | 26,900 | 107.3 | 3.8 | 7.8 | 26 | 13 |
| **Georgia** | 4,300 | 17.0 | 8.4 | 13.3 | n/a | n/a |
| **Germany** | 29,100 | 115.8 | 5.0 | 7.3 | 25 | 15 |
| **Greece** | 23,900 | 95.3 | 6.0 | 7.7 | 24 | 20 |
| **Hungary** | 15,800 | 63.0 | 3.7 | 7.8 | 29 | 12 |
| **Iceland** | 29,800 | 118.7 | 3.9 | 3.0 | 18 | 10 |
| **Ireland** | 35,000 | 139.4 | 4.8 | 6.0 | 24 | 18 |
| **Italy** | 25,200 | 100.5 | 5.5 | 6.8 | 24 | 20 |
| **Latvia** | 13,800 | 55.0 | 6.3 | 7.5 | 27 | 21 |
| **Lithuania** | 15,200 | 61.0 | 5.9 | 5.8 | 26 | 14 |
| **Luxembourg** | 42,300 | 252.8 | 4.0 | 4.9 | 23 | 14 |
| **"the former Yugoslav Republic of Macedonia"** | 8,200 | 33.0 | 7.5 | 33.8 | n/a | n/a |
| **Malta** | 14,400 | 76.4 | 3.8 | 6.0 | 22 | 14 |
| **Moldova** | 2,600 | 10.0 | 5.3 | 5.1 | n/a | n/a |
| **Montenegro** | 11,100 | 44.0 | n/a | 17.2 | n/a | n/a |
| **Netherlands** | 23,300 | 134.6 | 4.0 | 2.8 | 21 | 10 |
| **Norway** | 47,700 | 190.0 | 3.7 | 2.5 | 28 | 12 |
| **Poland** | 14,100 | 56.0 | 5.3 | 7.1 | 27 | 17 |
| **Portugal** | 18,900 | 75.3 | 6.5 | 7.7 | 24 | 18 |
| **Romania** | 11,300 | 45.0 | 7.8 | 5.8 | 31 | 25 |
| **Serbia** | 9,100 | 36.0 | 4.6 | 14.0 | n/a | n/a |
| **Slovak Republic** | 17,700 | 71.0 | 3.5 | 9.5 | 18 | 11 |
| **Slovenia** | 22,800 | 91.0 | 3.3 | 4.4 | 23 | 12 |
| **Spain** | 26,100 | 103.9 | 5.3 | 11.3 | 24 | 20 |
| **Sweden** | 30,500 | 121.4 | 3.4 | 6.2 | 28 | 11 |
| **Switzerland** | 35,500 | 141.3 | 5.5 | 3.6 | n/a | n/a |
| **Turkey** | 7,000 | 28.0 | 9.3 | 10.6 | 31 | 26 |

## Table III: Housing availability and affordability

| Latest available year (2001-2007) | Housing stock | | Average household size | Occupation by type of tenure (in %) | | Housing-consumption expenditure as a share of total household budget (in %) | Social rental housing stock | |
|---|---|---|---|---|---|---|---|---|
| | Total (thousands) | per 1,000 inhabitants | | Home-ownership | Rental | | % of total housing stock | Number of dwellings per 1,000 inhabitants |
| **Albania** | 785 | 278 | 4.2 | 95 | 5 | n/a | n/a | n/a |
| **Belgium** | 4,820 | 461 | 2.6 | 68 | 30 | 26 | 7 | 26 |
| **Bosnia and Herzegovina** | 1,208 | 302 | 3.6 | 78 | 10 | n/a | 9 | n/a |
| **Bulgaria** | 3,697 | 474 | 2.7 | 95 | 5 | 33 | 6 | 28 |
| **Croatia** | 1,851 | 462 | 3.0 | 84 | 7 | 27 | 2.8 | n/a |
| **Cyprus** | 293 | 391 | 3.6 | 79 | 21 | 18 | 3 | 9 |
| **Czech Republic** | 4,336 | 438 | 2.4 | 66 | 33 | 23 | 20 | 85 |
| **Denmark** | 2,634 | 456 | 2.2 | 53 | 46 | 30 | 20 | 102 |
| **Estonia** | 624 | 463 | 2.4 | 84 | 16 | 28 | 7 | 18 |
| **Finland** | 2,574 | 503 | 2.2 | 63 | 34 | 25 | 18 | 74 |
| **France** | 30,000 | 513 | 2.5 | 56 | 44 | 24 | 19 | 71 |
| **Georgia** | 98 | 311 | 3.5 | 95 | 5 | 4 | n/a | n/a |
| **Germany** | 39,000 | 477 | 2.3 | 43 | 57 | 25 | 6 | 28 |
| **Greece** | 5,465 | 500 | 3.0 | 74 | 20 | 15 | 0 | 0 |
| **Hungary** | 4,134 | 423 | 2.7 | 94 | 6 | 19 | 4 | 16 |
| **Iceland** | 129 | 416 | 2.5 | 82 | 10 | n/a | n/a | n/a |
| **Ireland** | 1,554 | 400 | 3.0 | 79 | 21 | 21 | 8.5 | 29 |
| **Italy** | 26,526 | 479 | 2.8 | 73 | 19 | 26 | 5 | 18 |
| **Latvia** | 967 | 403 | 3.0 | 79 | 21 | 29 | 1 | 5 |
| **Lithuania** | 1,292 | 375 | 2.6 | 91 | 7 | 27 | 2.3 | 8 |
| **Luxembourg** | 176 | 391 | 2.5 | 70 | 27 | 21 | 2 | 5 |
| **"the former Yugoslav Republic of Macedonia"** | 698 | 349 | 3.6 | 86 | 3 | n/a | 0.6 | n/a |
| **Malta** | 127 | 315 | 3.0 | 74 | 26 | 9 | 6 | 22 |
| **Moldova** | 1,291 | 353 | 2.5 | 95 | 5 | n/a | 5 | n/a |
| **Montenegro** | 253 | 410 | 3.2 | 94 | 6 | n/a | n/a | n/a |
| **Netherlands** | 6,811 | 422 | 2.4 | 54 | 46 | 23 | 35 | 147 |
| **Norway** | 2,028 | 441 | 2.7 | 77 | 23 | n/a | 4 | 17 |
| **Poland** | 12,683 | 314 | 3.2 | 75 | 25 | 28 | 12 | 39 |
| **Portugal** | 5,318 | 505 | 2.8 | 75 | 21 | 14 | 3 | 15 |
| **Romania** | 8,107 | 374 | 3.1 | 95 | 4 | 16 | 2 | 8 |
| **Serbia** | 2,959 | 394 | 2.9 | 96 | 4 | n/a | 2 | n/a |
| **Slovak Republic** | 1,711 | 349 | 3.0 | 95 | 5 | 23 | 4 | 14 |
| **Slovenia** | 798 | 408 | 3.1 | 93 | 7 | 19 | 4 | 14 |
| **Spain** | 20,947 | 486 | 3.3 | 82 | 11 | 28 | 1 | 3 |
| **Sweden** | 4,351 | 486 | 2.0 | 54 | 43 | 28 | 21 | 95 |
| **Switzerland** | 3,638 | 499 | 2.4 | 31 | 62 | n/a | n/a | n/a |
| **Turkey** | 16,236 | 239 | 5.0 | 70 | 24 | n/a | n/a | n/a |

## Table IV: Quality of the housing stock

| Latest available year (2001-2007) | Average useful floor area per person (m²/capita) | Average number of rooms per dwelling | Infrastructure (% of total dwelling stock) | | |
|---|---|---|---|---|---|
| | | | Bath/shower | Hot running water | Central heating |
| **Albania** | 8 | 2.2 | 45 | n/a | 2 |
| **Belgium** | n/a | 4.7 | 96 | n/a | 73 |
| **Bosnia and Herzegovina** | n/a | n/a | n/a | n/a | 4 |
| **Bulgaria** | 17 | 2.8 | 71 | 86 | 16 |
| **Croatia** | n/a | n/a | 85 | n/a | 35 |
| **Cyprus** | n/a | 5.4 | 99 | n/a | 27 |
| **Czech Republic** | 28.7 | 3.8 | 96 | 95 | 82 |
| **Denmark** | 52.4 | 3.8 | 95 | 98 | 99 |
| **Estonia** | 27.7 | 3.0 | 68 | 82 | 59 |
| **Finland** | 36.3 | 4.0 | 99 | 100 | 92 |
| **France** | 37.5 | 4.0 | 98 | n/a | 96 |
| **Georgia** | n/a | n/a | 71 | 8 | 0.3 |
| **Germany** | 40.1 | 4.4 | n/a | n/a | 91 |
| **Greece** | 30.6 | 3.0 | 98 | 88 | 62 |
| **Hungary** | 28.0 | 4.0 | 87 | n/a | 53 |
| **Iceland** | n/a | n/a | n/a | n/a | n/a |
| **Ireland** | 35.0 | 5.6 | 94 | n/a | 59 |
| **Italy** | 36.5 | 4.2 | 99 | 100 | 95 |
| **Latvia** | 29.3 | 2.4 | 67 | 75 | 65 |
| **Lithuania** | 23.0 | 3.2 | 70 | 58 | 72 |
| **Luxembourg** | 49.0 | 5.5 | 100 | 100 | 92 |
| **Malta** | 34.3 | n/a | 100 | 93 | 3.3 |
| **Moldova** | 22.4 | 3.1 | 29 | 31 | 32 |
| **Montenegro** | n/a | n/a | n/a | n/a | 36 |
| **Netherlands** | 41.0 | 3.5 | 100 | n/a | 90 |
| **Norway** | n/a | 4.2 | n/a | n/a | n/a |
| **Poland** | 22.9 | 4.5 | 87 | 83 | 78 |
| **Portugal** | n/a | 4.9 | 66 | n/a | 4 |
| **Romania** | n/a | 4.3 | n/a | n/a | 26 |
| **Serbia** | n/a | 3.4 | 67 | n/a | 8 |
| **Slovak Republic** | 26.0 | 3.6 | 93 | 91 | 76 |
| **Slovenia** | 30.9 | 2.8 | 92 | n/a | 79 |
| **Spain** | 31.3 | 4.5 | 99 | 40 | 53 |
| **Sweden** | 44.5 | 4.4 | 100 | 100 | 100 |
| **Switzerland** | n/a | 4.2 | n/a | n/a | n/a |
| **"the former Yugoslav Republic of Macedonia"** | n/a | 2.8 | 70 | n/a | 8 |
| **Turkey** | 24.5 | 4.0 | 95 | n/a | n/a |

**Table V:**
**Approximate amounts available for energy efficiency investments in the European Regional Development Fund (ERDF) for the period 2007-2013**

*in € millions*

| Country (EU-27) | Total ERDF allocation (2007-2013) | 4% of ERDF allocation (for new article 7.1a of ERDF regulation) |
|---|---|---|
| Austria | 936 | 37 |
| Belgium | 1,185 | 47 |
| Bulgaria | 3,385 | 135 |
| Cyprus | 306 | 12 |
| Czech Republic | 13,708 | 548 |
| Denmark | 359 | 14 |
| Germany | 17,000 | 680 |
| Estonia | 1,861 | 74 |
| Finland | 1,097 | 44 |
| France | 8,924 | 357 |
| Greece | 12,359 | 494 |
| Hungary | 13,035 | 521 |
| Ireland | 375 | 15 |
| Italy | 21,873 | 875 |
| Latvia | 2,530 | 10 |
| Lithuania | 3,551 | 142 |
| Luxembourg | 40 | 2 |
| Malta | 459 | 18 |
| Netherlands | 1,077 | 43 |
| Poland | 34,000 | 1,360 |
| Portugal | 11,938 | 478 |
| Romania | 9,431 | 377 |
| Slovak Republic | 6,189 | 248 |
| Slovenia | 2,038 | 82 |
| Sweden | 1,199 | 48 |
| Spain | 23,617 | 944 |
| United Kingdom | 6,138 | 243 |
| **TOTAL** | **195,000** | **7,800** |

Source: CECODHAS calculations on the basis of EC figures for ERDF allocation (http://ec.europa.eu/regional_policy/sources/docgener/informat/info_en.htm). Figures and totals are rounded.

# STATISTICAL ANNEX B

**Graph I:** **Residential energy consumption as % of total final energy consumption in selected CEB member countries (2005)**

**Graph II:** **Residential energy consumption as % of total final energy consumption in selected Eastern European countries (2004)**

**Graph III:** **Residential final energy consumption per capita in selected CEB member countries (2005)**

**Graph IV:** **Energy consumption by end use per dwelling in selected countries (2005)**

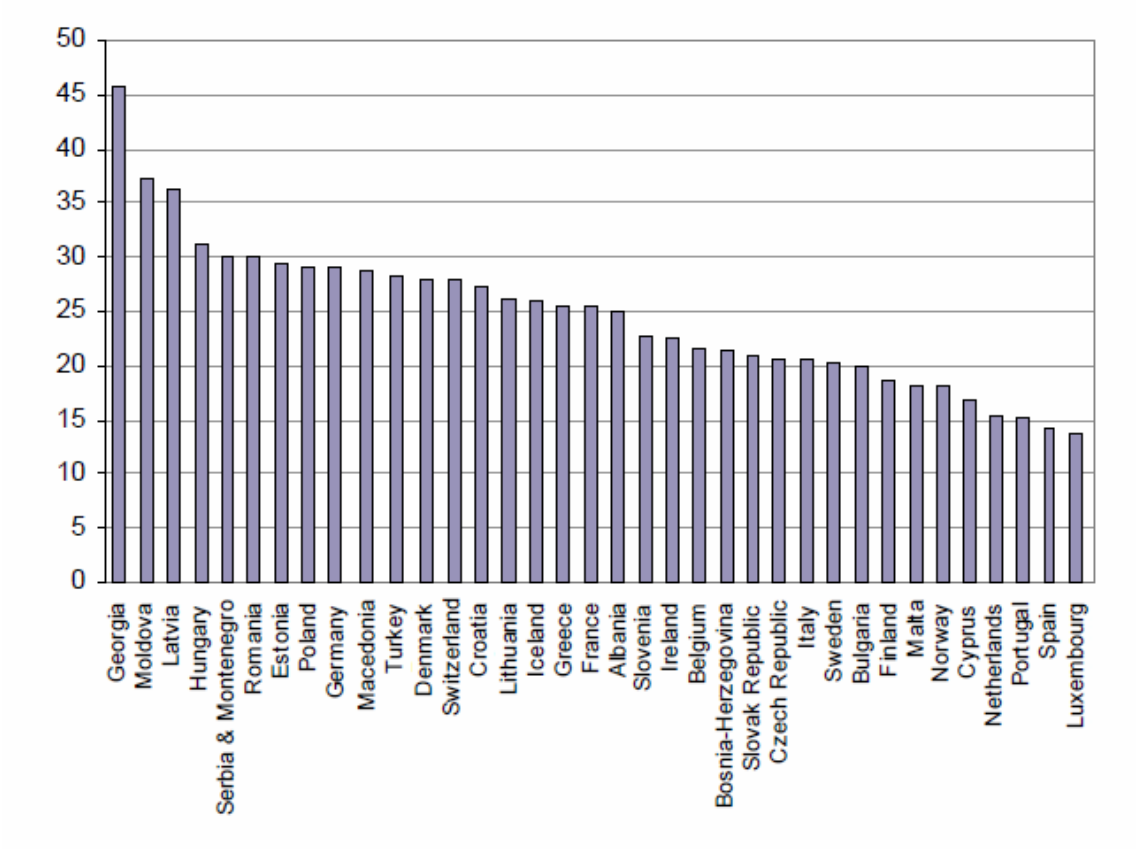
**Graph V:** **Household $CO_2$ emissions per dwelling, climate corrected, in the EU-15 and EU-27, (1990-2005)**

**Graph VI:** **Household energy consumption, space heating per $m^2$, climate corrected, in selected CEB member countries (1990-2005)**

## SOURCES:

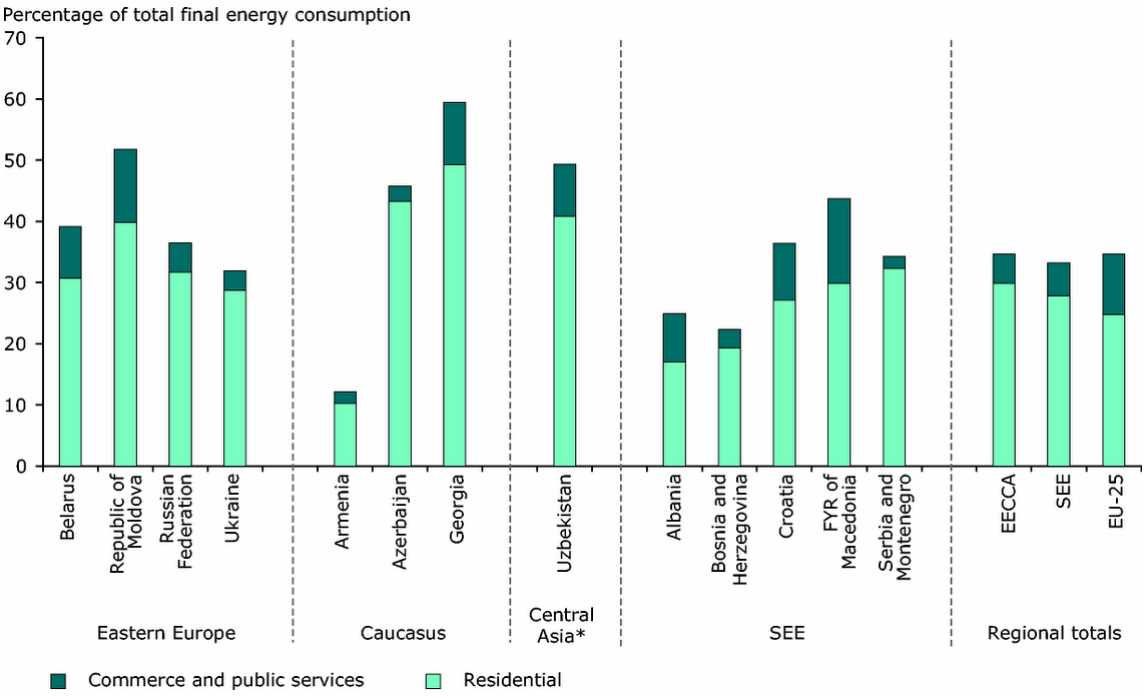
UNECE Human and Land Management, European Environment Agency
http://dataservice.eea.europa.eu/atlas/default.asp

**Graph I: Residential energy consumption as % of total final energy consumption in selected CEB member countries (2005)**



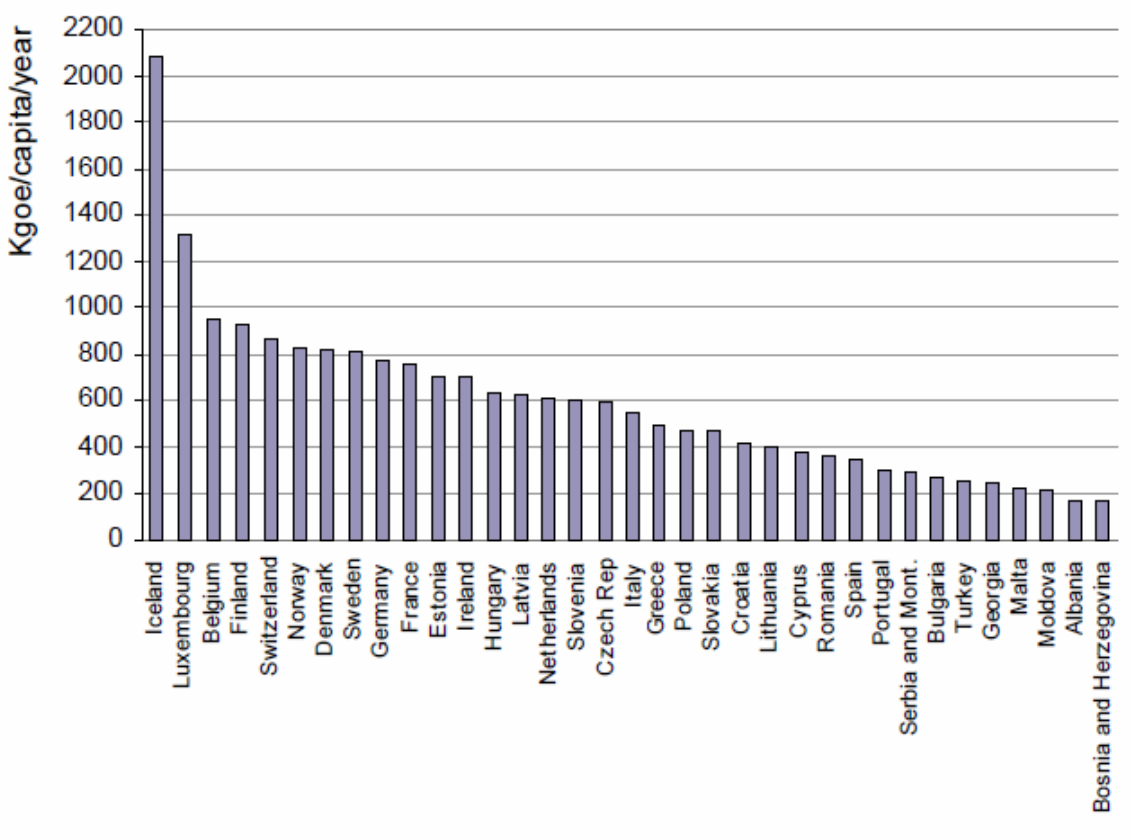

*Source: UNECE*

**Graph II: Residential energy consumption as % of total final energy consumption in selected Eastern European countries (2004)**



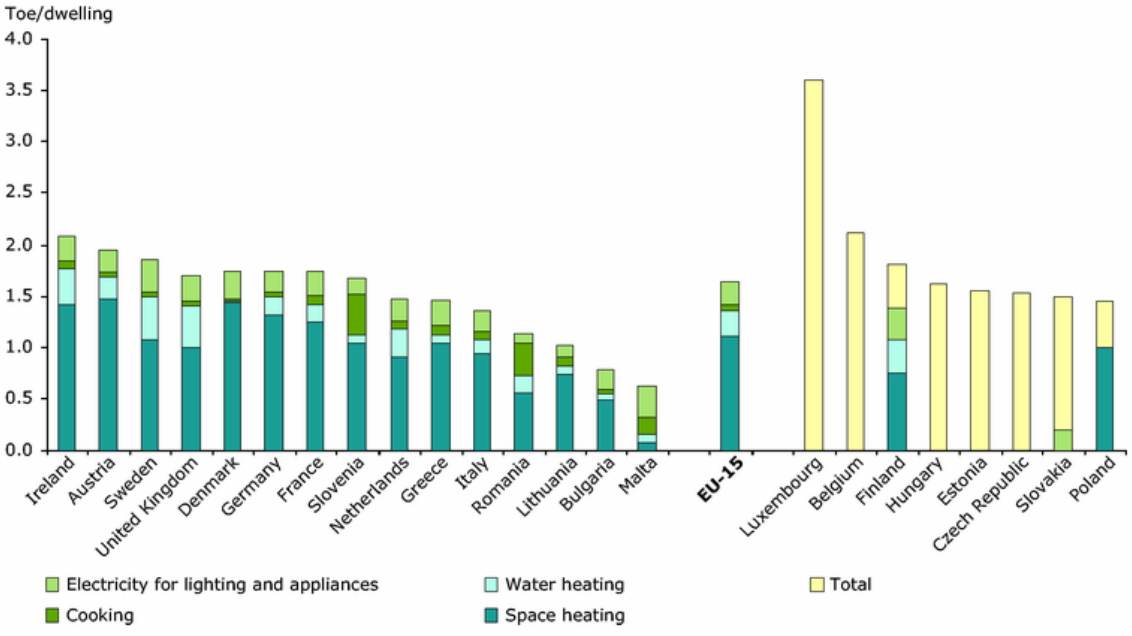

*EECCA: Eastern Europe, Caucasus and Central Asia / Source: http://dataservice.eea.europa.eu/atlas/default.asp*

**Graph III: Residential final energy consumption per capita in selected CEB member countries (2005)**



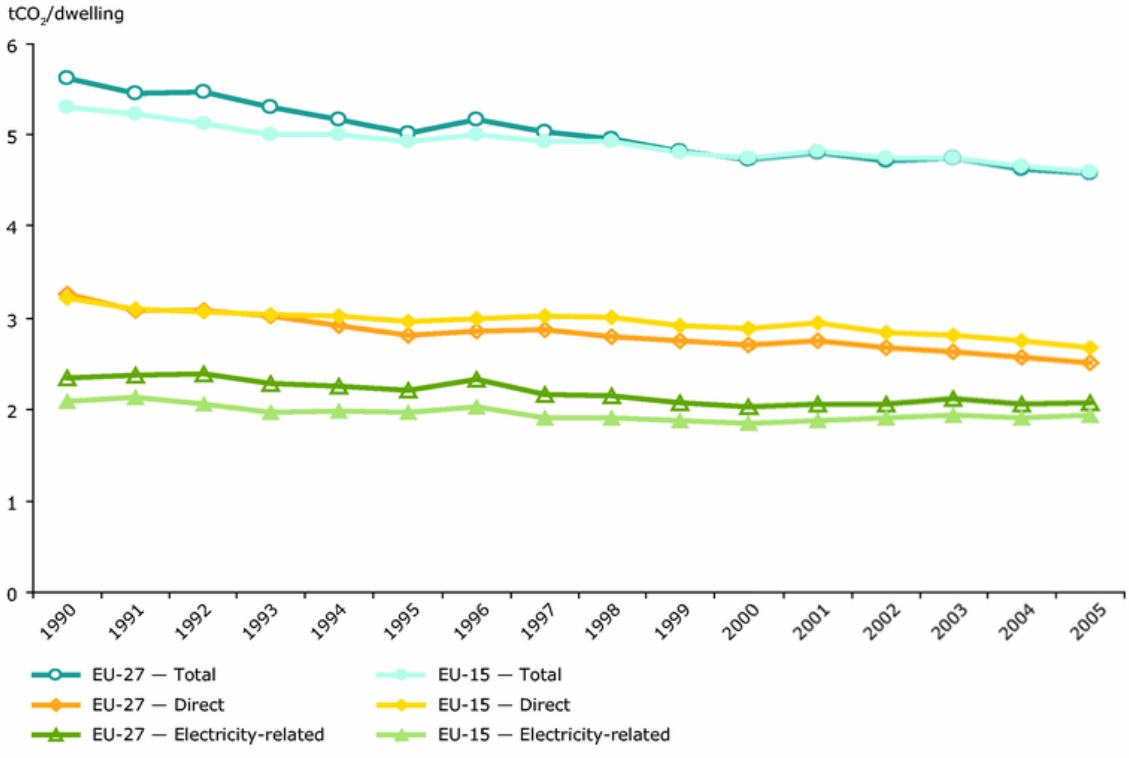

*Source: UNECE*

**Graph IV: Energy consumption by end use per dwelling in selected countries (2005)**



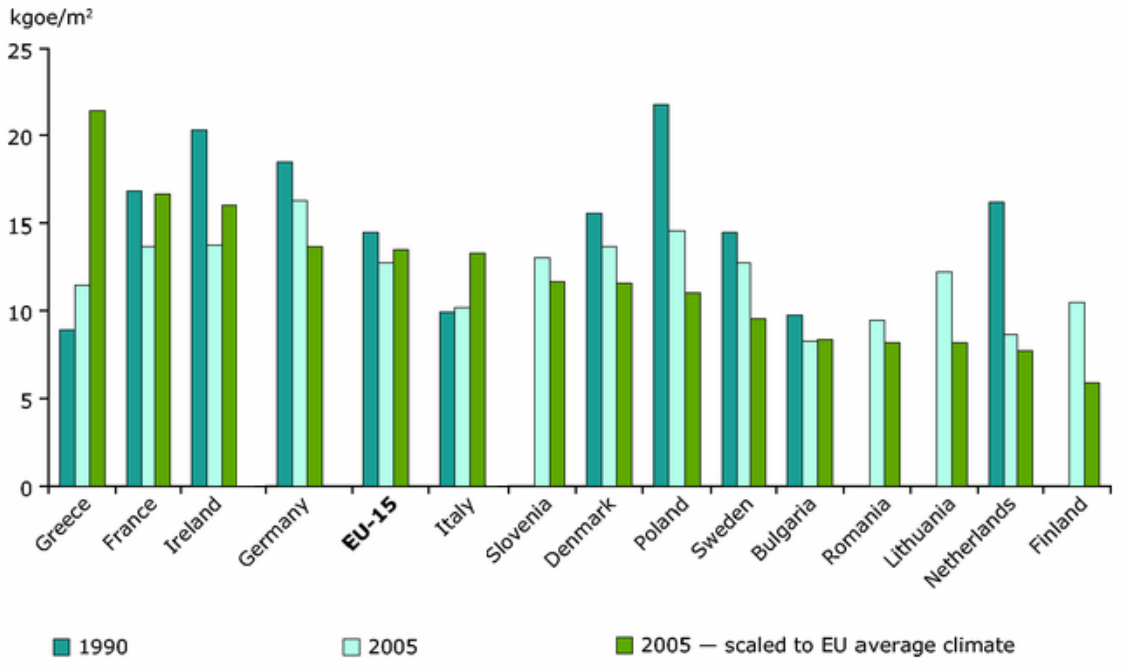

*Source: http://dataservice.eea.europa.eu/atlas/default.asp*

**Graph V: Household $CO_2$ emissions per dwelling, climate corrected, in the EU-15 and EU-27, (1990-2005)**




*Source: http://dataservice.eea.europa.eu/atlas/default.asp*

**Graph VI: Household energy consumption, space heating per m², climate corrected, in selected CEB member countries (1990-2005)**




*Source: http://dataservice.eea.europa.eu/atlas/default.asp*



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