

Evaluation Abstract

Social housing for low-income families in a Roma neighbourhood

In September 2000, the Administrative Council (AC) of the Council of Europe Development Bank (CEB) approved a loan of USD 3 000 000 to a municipality in CEB member state in south-eastern Europe to part-finance the construction of social dwellings and upgrading of social and technical infrastructure in a neighbourhood inhabited by a high proportion of Roma population. Estimated project cost at approval was USD 6 319 117 of which the CEB loan was expected to finance 47.5%. An interest-rate subsidy of USD 150 000 was approved through the Selective Trust Account (STA), equivalent to 62.5 basis points. The full amount of the CEB loan was disbursed; CEB contributed 44.6% of total project cost.

The overall objective of the project was to promote the social integration of the Roma population living in this neighbourhood. The CEB Loan Document described this project as an *"integrated scheme, trying to generate positive changes in the cultural and social attitudes towards [national] Roma through the provision of better housing conditions and the opportunities to earn income. [...] The design of individual housing units is meant in fact to enable Roma families to operate small businesses out of adjoining rooms to their houses"*. The initial plan was to construct 75 family homes that would house some 200 low-income Roma households and where workshops and small-scale activities could be developed. The project was presented in the CEB Loan Document as a pilot initiative that was expected to set the stage and provide

experience for the municipality's long term programme for the social integration of the Roma population.

The Borrower conceived this project as a social experiment where the construction of housing was integrated with the testing of innovative construction techniques and creation of employment opportunities, which should have been a key element of project strategy. To help tackle the high levels of Roma unemployment, the generation of work opportunities in the construction sector for beneficiaries was established by CEB as a *"condition for loan approval"*.

Immediately after approval of the CEB loan, the architectural design of project houses was altered: instead of 75 one-story semi-detached family houses, the project produced 132 dwellings in multi-apartment buildings. This modification took place for various reasons. First, the municipality could not access the required number of land parcels. Second, the assumption that 75 low-income Roma families could sustainably operate their own small business was considered over-optimistic. Third, the construction of multi-apartment buildings was regarded as a cheaper solution and more in line with the standards of the beneficiary population. This modification was endorsed by the representatives of the beneficiaries and reported by CEB in the 2002 Technical Monitoring Mission.

The project was implemented over seven years. This was significantly longer compared to the two years estimated by CEB during appraisal. The construction of social dwellings was organised in two phases. Phase I took place between 2001 and 2003. During this period, 105 dwellings were constructed and, on the ground floor of the buildings, 14 shop premises were included to be used as retail shops selling basic consumption goods. Phase II was implemented between 2004 and 2008 and it comprised one building with 27 apartments. In total, 132 dwellings were constructed which thus benefited 132 families, corresponding to 66% of the number of beneficiaries planned at loan approval (i.e. 200 families). The CEB loan was also used to finance the construction and rehabilitation of social and technical infrastructure in order to enhance living conditions in the neighbourhood. Analysis of project expenditure at completion showed that 53% of the project's total financial resources were used for social and technical infrastructure instead of the 38% planned at the time of loan approval. The share of housing construction expenditures at completion were, for their part, slightly lower than what was estimated at approval (37% instead of 42%).

The project's objectives and the activities covered by CEB financing were highly relevant. The project addressed a key gap in the national housing system which offered only limited affordable housing options to poor households. Targeting of the low-income Roma population underpinned the project's relevance but inevitably increased its complexity. Investment in infrastructure enhanced the quality of the dwellings and upgraded the social, health and education services of the neighbourhood. However, the project lacked a fully integrated approach that would combine housing and infrastructure with initiatives for social and employment support. After modification of the architectural housing design, the project was left without any measures for employment generation. Moreover, the initial intention of hiring local residents for the construction works did not, in fact, materialise. This was because the construction company already had enough staff capacity to undertake the works and no incentives were provided to promote inclusion

of the resident population in its labour force. In this respect, a fundamental element of the project's strategy was not duly implemented.

The choice of project location was consistent with the objective of undertaking a pilot initiative. The neighbourhood had a significant proportion of Roma population and was considered as a suitable institutional and economic environment for the project.

A key factor in explaining the project's relatively successful implementation, compared to other similar projects undertaken at about the same time, was the aligned interest and objectives between the representatives of the municipality and of the district to which the neighbourhood belonged. A local "Initiative Committee" was established to overcome information barriers and act as a credible institutional interface between the local population and the public administration. Moreover, said Initiative Committee played a significant role in the selection process of beneficiary families and the allocation of dwellings.

An important shortcoming of the project was the irregular and incomplete collection of performance data: the evaluation team found very limited information on the characteristics of beneficiaries, their housing conditions before the project, the length of stay in project apartments, etc. Given the fact that the project was presented as a pilot initiative, such data would have been required to prove and/or improve performance. Furthermore, the evaluation team was unable to access data on the full range of works – and their cost breakdown – covered under the budgetary items "technical and social infrastructure", thus indicating a more general inadequacy in project monitoring and reporting.

The strategy of the project was consistent with the objective of providing affordable (but not free) housing: the selection procedure implied (and continues to do so) that a very specific segment of the low-income population could benefit from social housing. In managing the allocation of project dwellings, the district applied the system adopted for all social

dwellings in the municipality. However, the dwellings constructed under the project financed by CEB were assigned under a separate waiting list on which only people residing in the specific neighbourhood were registered. This was in line with the spirit of the project, which explicitly targeted CEB funding to the low-income Roma population and, since the neighbourhood was mostly inhabited by Roma people, it allowed the project to reach the targeted population while at the same time respecting the municipal regulations for social housing allocation. The downside of this practice is that it reinforced the existing residential segregation pattern and did not create the conditions for social mix in social housing.

The project had an important effect on the housing conditions of beneficiary households. Housing provision does not automatically enhance chances for social integration but it represents a symbolic step for beneficiary families toward the objective of achieving a better life. The evaluation underlined the project's contribution to the district's capacity to pursue social inclusion goals through an increased housing stock and continued commitment by the district administration to use the dwellings for social purposes.

Nevertheless, project benefits are exposed to various risks that undermine their sustainability. First, without further support to the local district administration, and in the absence of coordinated initiatives for employment and social support, the low rent levels and weak enforcement of condominium regulations make it difficult to establish a sustainable housing management model wherein dwellings are allocated to vulnerable families (thus entailing low rent and high risk of default) while still ensuring adequate investment for their renovation and maintenance. The result of the current system is the rapid degradation of the housing stock. Second, even if project dwellings are rented out at highly subsidised rates (10% of market average), a very high percentage of project beneficiary households have rent payments in arrears (36% in 2015): the highly affordable value of rent has not precluded default. The evaluation also

highlighted the rapid rise in number of vacancies during the last three years, compared to other social housing projects in the district. From a technical point of view, both the housing and infrastructure investments made under the project show a status of decay that is attributable not only to lack of maintenance but also to the basic quality of initial construction and rehabilitation.

From an efficiency perspective, the project was characterised by a significant time overrun. It delivered less housing output than expected, at a higher unitary cost. Increase of unitary cost was justified on various grounds, including the fact that the project was implemented at a time when housing prices were booming. Applicable national regulations allowed the municipality to directly contract a municipal company to undertake all construction and rehabilitation works. However, some of the arguments used to justify direct procurement (i.e. testing of technical innovation protected by patents) were not actually followed through. Last but not least, for a significant share of expenditures related to technical and social infrastructure, the evaluation could only partially identify the cost breakdowns.

On the basis of the above findings and conclusions, the overall performance of the project is deemed "moderately unsatisfactory"¹, on account of low ratings for efficiency and sustainability and, to a lesser extent, impact. Nevertheless, the commitment of the municipality and of the district to ensure proper management of the housing stock needs to be explicitly acknowledged by also taking into account the difficult social context in which this project was implemented. Some of the challenges faced by this project extend beyond the direct responsibilities of the implementing partners and underline shortfalls in the organization and financing of the social housing system and condominium management in the country. The assessment of this project's results and the way it was managed should be contextualised against this backdrop and against the performance of other

¹ Rating 3 on a 6 point-scale, 6 corresponding to "highly satisfactory".

projects with similar objectives that were financed at the same time in the country.

Role of CEB

At the time when this loan was approved, CEB was seen by the country's government as a preferred interlocutor for financing projects targeting Roma and their housing needs. Financial conditions were attractive compared to the hypothetical scenario of project financing through national bonds. CEB actually contributed to this project before loan approval, and such early involvement allowed the Bank to better understand the context in which the project was implemented. However, the final value added of the two appraisal missions undertaken before loan approval remained limited. The project examined at appraisal and subsequently approved was substantially different from the one actually put in place. The modifications that took place indicated the low feasibility of the project described in the CEB Loan Document, an issue which should have been taken up in the CEB appraisal exercise.

CEB representatives were regarded by the Borrower as technical interlocutors for gathering experience and lessons learned. During project implementation, CEB provided recommendations to enhance the project's sustainability and impact but these were not adequately followed up. Interestingly, the CEB technical monitoring missions were the only occasions when public sector officials visited the project area and could directly verify the living conditions of the beneficiary population. Taking into consideration the pilot nature of the project, CEB should have impressed upon the Borrower the need to put in place a better system of data collection and reporting.

The relative distribution of resources between housing and technical/social infrastructure was never explicitly captured and analysed by CEB during the monitoring process. As clearly stated in the final "Letter of Conclusion" sent by CEB to the Borrower, very little information was provided on the use of project resources for technical and social infrastructure, and this scenario is hardly compatible with the

satisfactory ratings assigned by technical monitoring missions with regard to "cost justification". Likewise, procurement issues would have required a more thorough analysis.

The following recommendations are formulated for CEB:

- **Build on the capacity of CEB as a knowledge-provider.** CEB has a long history in co-financing housing projects targeting vulnerable population groups. This evaluation highlighted the important role of CEB technical monitoring missions as a source of technical knowledge for project implementers, as well as the missed opportunity of using this project as a source of reflection. CEB experience in the sector is an asset which the Bank could use to develop new functions as a knowledge provider and thereby increase its impact on policy development. In order to do so, depending on CEB interest in developing such potential, further investment in the Bank's technical knowledge and monitoring capacity is recommended.
- **Strengthen the evidence base behind monitoring ratings.** In CEB technical mission reports, the evidence base of the ratings should be presented in a more explicit way in order to provide both CEB and the Borrower with a clear understanding of the factors and criteria that were used to assign performance ratings.
- **Deepen documentation and analysis of modifications.** The evaluated project was significantly different in strategy and approach compared to the one approved by the AC. Even if modifications can be justified (for example on the basis of efficiency considerations), a system should be put in place wherein such modifications are clearly documented and their full implications are adequately analysed prior to official endorsement.
- **Strengthen procurement.** The evaluation has pointed out that for an important share of project expenditures, no justification for

direct procurement was provided. Reliance on applicable national regulations may not necessarily ensure that CEB resources are used in an efficient way and/or in line with international good practices. The approval of CEB Procurement Guidelines and their systematic inclusion in CEB Loan Agreements constitute an important guarantee in this respect for future projects. At the same time, it is recommended that continued effort and verification of procurement practices be made with the objective of promoting the adoption of transparent and efficient procedures.

The following recommendations are addressed to the Borrower:

- **Exploit the demonstration potential of this project.** This project contains a number of important lessons that can be taken into consideration for the design of future similar projects by the municipality and/or the national government. It is therefore recommended to make the best use of this evaluation and to create further opportunities for reflection and debate in order to effectively capitalise on the resources invested in this project.
- **Move to discontinue the practice of neighbourhood-based allocation of social dwellings.** The project clearly indicates how the current housing management model reinforces the existing pattern of segregation. The evaluation suggests that it would be appropriate to discontinue this practice and fully enforce the applicable municipal regulation in which eligible families can be assigned to any eligible dwelling in the district.
- **Plan for integrated and long-term Roma inclusion projects.** An integrated and long-term approach to Roma inclusion should be adopted in which human and family development initiatives (including strengthening of labour competences and education) are prioritised.
- **Reconsider the management model of municipal housing.** Without additional support, and given the low rents and weak enforcement of condominium regulations, it is difficult to establish a sustainable model geared to vulnerable households (hence entailing low rent and high risk of default) while ensuring, in parallel, adequate investment for renovation and maintenance of the housing stock. To improve this situation, two recommendations are tabled. First, the revenue stream from social rents should be reviewed, for example by setting social rents at levels that at least cover basic maintenance costs. Second, initiatives should be put in place to sustain the income of housing beneficiaries and strengthen the responsibilities of condominium associations.
- **Strengthen monitoring and reporting.** Systematic collection and reporting of data concerning expenditures, activities and results should be established for the proper implementation of pilot projects. This is a necessary condition for having a credible basis of evidence for assessing project performance. A solid system of monitoring and reporting also increases social acceptance, by reinforcing the principles of transparency and accountability of policy-makers and implementing stakeholders.