This report provides an analysis of how housing and social infrastructure investments from the state budget can complement investments made from EU funds. The recommendations included in the report provide a set of specific action steps that could be undertaken by the Romanian Government to better coordinate funds, streamline programming in the housing sector, and establish the proposed National Housing Fund.

Two other reports are also included in the overall package:

- “Towards a National Housing Strategy”, which includes a detailed assessment of Romania’s housing sector, and recommendations to inform the country’s forthcoming National Housing Strategy; and
- “Prioritization of Housing Programs and Projects”, which provides a detailed review of all housing related programs in Romania, and proposes new programs, together with prioritization mechanisms and actions required to make this happen.
## Contents

Abbreviations and Acronyms........................................................................................................................................... ii

I. INTRODUCTION .......................................................................................................................................................... 1

II. FUNDING FOR HOUSING IN ROMANIA – SITUATION ANALYSIS................................................................. 2

2.1 Government Funds for Housing .......................................................................................................................... 2

2.2 EU Funds for Housing ....................................................................................................................................... 4

2.3 Other Funding Sources ....................................................................................................................................... 4

III. PROPOSAL TO ESTABLISH A NATIONAL HOUSING FUND ................................................................. 5

3.1 Main Features and Advantages of a National Housing Fund (NHF) ............................................................ 5

3.2 Examples of Housing Funds in Other Countries ............................................................................................ 6

3.3 Organization and Administration of the NHF ............................................................................................... 7

3.4 Conditions for Proper Functioning of the NHF ....................................................................................... 14

3.5 Action plan for the NHF .................................................................................................................................. 16

IV. SPECIFIC PROPOSALS FOR REALLOCATION OF FUNDS ............................................................... 17

4.1 NHA Youth Housing ........................................................................................................................................ 17

4.2 EU funds for Energy Efficiency ..................................................................................................................... 17

4.3 BauSpar subsidy ............................................................................................................................................ 21

4.4 VAT subsidy .................................................................................................................................................. 21
I. INTRODUCTION

The Government of Romania (GOR) has asked the World Bank to support its efforts to harmonize public investments financed by the European Union and from the State budget. The objectives of this work are to encourage synergies, deliver stronger impact, and promote Romania's drive towards sustainable and inclusive development. This engagement is a follow-up to the World Bank's Regional Development Program in Romania implemented between November 2012 and March 2014, and is based on the January 2012 Memorandum of Understanding on Partnership and Support in the Implementation of EU Structural and Cohesion Funds in Romania and Modernization of Public Administration. It includes the following four components:

i. Alignment and coordination of strategies and processes for public investments monitored and/or implemented by the Ministry of Regional Development and Public Administration (MRDPA) and other relevant public stakeholders;

ii. Improvement of the assessment methodology for the portfolio of projects managed by the General Directorate for Regional Development for optimal prioritization and preparation of potential EU-funded investments for the 2014-2020 period;

iii. Dissemination of more cost effective project designs through innovative technologies; and

iv. Support for defining a comprehensive strategy in the housing sector.

The current work is part of the fourth aforementioned component, support for defining a comprehensive strategy in the housing sector. As part of this component, a detailed housing sector assessment has being carried out at a national scale.

This report complements the main housing sector assessment by providing an analysis concerning the way in which the development of housing and social infrastructure from the state budget can complement investments made from EU funds (Output 19, per the Terms of Reference). The first part of this report consists of a brief overview on how public and EU funds have been used in the housing sector. The second part outlines an improved framework for the coordination of funds though the establishment of a National Housing Fund (NHF). The recommendations included in the report provide a set of specific action steps that could be undertaken by GOR to better coordinate funds, streamline programming in the housing sector, and establish the proposed National Housing Fund. The list of action steps included therein is not exhaustive and does not constitute a detailed implementation program.

Two other reports are also included in the overall package:

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II. FUNDING FOR HOUSING IN ROMANIA – SITUATION ANALYSIS

The principles and mechanisms for investments in the housing sector in Romania have not kept pace with administrative and financial decentralization over the past 25 years. The review of housing programs undertaken as part of this World Bank assessment highlights that public interventions in the sector have been largely ad hoc, directed mostly from the central government level, and managed by ministries or national government agencies. While local authorities are required to contribute resources to the construction of social housing, and to provide serviced land for youth housing projects, they do not have enough resources or incentives to do so, which is evident from the gap between the demand and supply of public housing in Romania.

The analysis of housing legislation and funding programs reveals that although there are legal provisions imposing financial obligations for local public authorities,\(^1\) enforcement of these laws is weak. Moreover, local authorities lack the technical ability or the instruments to implement housing projects, or track the scale and effectiveness of such public expenditures. There are no audits on the effectiveness of the housing legislation, or reviews of ongoing or implemented investments.

The administrative roles and responsibilities among the various public stakeholders for programs in the housing sector is another challenge. With multiple agencies implementing various housing programs, the impact is fragmented, and leaves little room for coordination across programs or among the implementing agencies.\(^2\)

2.1 Government Funds for Housing

2.1.1 Central government

Currently, there are several ministries that manage housing programs, either directly or through subordinate or decentralized agencies. While the MRDPA plays a principle policy and financing role, there are also four other ministries involved in financing housing initiatives.

The MRDPA manages housing programs either directly, indirectly through the National Housing Agency (NHA), or in cooperation with National Credit Guarantee Fund for Small and Medium Enterprises (FNGCIMM). Several distinct departments within the MRDPA finance housing programs: there are programs on thermal insulation, seismic retrofitting, and social housing, each managed by a different team.

The Ministry of Finance manages subsidies for mortgage financing (Prima Casa); the Ministry of Labor allocates heating subsidies through county agencies; and the Ministry of Environment supports the Green House program through the National Environmental Agency and their county offices. The Ministry of Agriculture and Rural Development finances renovation and infrastructure works in rural communities.

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1 Such as the duty of the County Council to cover expenses for access to property of individuals as per the provisions of the Law 116/2002, for preventing and combating marginalization.
2 For instance, the Youth Housing program and the Social Housing program, which both produce housing products for ‘vulnerable’ groups.
areas through the National Rural Development Fund, and also supervises the application of the law to allocate land plots for the youth in rural areas.\(^3\)

The attribution of responsibilities across the various ministries, each with its own budget and mandate, makes it difficult to coordinate housing programs at both the central and local levels, and this is likely exacerbated by the lack of political will to effectively decentralize housing as a thematic program area.

### 2.1.2 County Councils

The county councils retain budgeting roles and specialized tasks with regard to housing based on a range of different laws. The primary budgetary mandate of the county councils in regard to housing stems from Law 116/2002 for preventing and combating marginalization, based on which the county councils support advance payments for housing purchase or cover rental costs for vulnerable groups. Another piece of social assistance legislation mandates county councils to finance and manage protected housing and assisted housing. However, there is no monitoring of this role, and no data is available on either the budgets allocated or the impact of such disbursements.

The county councils also provide coordination and technical support to local authorities to implement public investment programs such as thermal rehabilitation, social housing, etc. They are responsible for prioritizing public investments in the municipalities within their respective counties.

It is worth noting, however, that county councils use little of their own financing in delivering their housing mandate; most financing comes from the state budget.

### 2.1.3 Local Councils

In accordance with Law 114/1996, responsibility for the housing sector is split between the national government and the local authorities (city halls/ local councils). Local authorities have the duty to provide social housing as well as serviced land for other government-funded housing projects.

Social housing in Romania is funded primarily from municipal budgets; some additional financing may be provided from the state budget, but that is rare. There is clearly a need to increase the existing public/social housing stock, which has not kept pace with growing local demand, and this is the situation across the country. However, the resources available to local authorities to deliver this function are scarce at best, in terms of the technical skills, monetary resources, as well as the availability of vacant land for new housing development or public buildings for adaptive reuse.

There are also several administrative challenges in the operation of social housing. Key among them is the inability to maintain these buildings, as the rents are insufficient to cover maintenance costs. In other words, not only is social housing expensive to build, it is also a net drain on local government budgets. In the absence of enabling legal and financial mechanisms, local authorities have limited capacity to develop and manage social housing for vulnerable groups in an economically efficient and socially responsible manner.

Existing reporting mechanisms on municipal budgets do not track investments made by local authorities in housing. It is, therefore, impossible to assess the actual allocations being made for social housing at the national scale, or even to assess the shortfall local authorities face in delivering their housing function.

\(^3\)Law 646/2002 for state support offered to youth in rural areas.


2.2 EU Funds for Housing

The use of EU funding in the housing sector has been fairly limited in scope to date. Most EU funds have been targeted to energy efficiency improvements, either as thermal insulation projects through the Regional Operational Program (ROP), or as modernization of heating plants in cities through the Sectoral Operational Program on Environment. This is, in part, a result of programmatic decisions by GOR on the prioritization of funds, but also reflects the overarching EU-wide objectives and focus areas. There are also other EU funds not linked to housing that have been allocated to improving infrastructure, such as the expansion of utilities, roads, public facilities, etc.

For the next programming period (2014-2020), two types of housing investments are eligible under the ROP: Social Housing under Axis 9, and construction and rehabilitation of protected and assisted housing under Axis 8. These are in addition to investments in thermal rehabilitation of housing that will continue from the previous programming period.

2.3 Other Funding Sources

The existing legislation provides two specific instruments for generating funds for housing: A 2% share from the privatization fund4 (as provided for by Art. 44 of Law no. 10/2001) and the fiscal overtax for housing units, other than those of domicile home (as per the Fiscal Code and the provisions of Art. 13 of Law 116/2002).

The accelerated restitution of nationalized housing resulting from the application of Law no. 112/1995 (for regulating the legal status of residential properties owned by the state) increased the pressure on public authorities to provide housing for families facing eviction. Accordingly, a Fund for Social Housing was established, funded by 2% of the proceeds from privatization. The Fund was to provide the financing to build social housing for evicted families, with priority given to households earning less than the national average income, as well as disabled and retired persons. However, despite consistent revenues from privatization since the beginning of the 2000s, this provision was not applied until 2007.5 A parliamentary commission investigating the implementation of Law no. 112/1995 reported that the Law’s provisions had not been applied due to incoherence and contradictions among different normative acts, as well as lack of requests for budget support from local authorities. There is currently no official data on the amounts allocated for social housing from the application of this law.

The annual over-tax established by Law no. 116/2002, levied on owners of multiple housing units, also has a number of limitations. First, the provision is discriminatory as it only applies to private individuals and not to legal entities. Second, there is no specific mechanism to implement this provision of the law. According to the Fiscal Code (Art. 252), individuals owning two or more buildings bear an over-tax of 65% for the first building, except their primary residence, an over-tax of 150% for the second building, and 300% for the third or any additional buildings. However, there is no precise mechanism to ensure that funds collected from this over-tax are earmarked for investment in housing, as per the obligations arising from Law no. 116/2002.

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4 This fund was established from the privatization of state-owned companies.
5 Notes of the Parliamentary Commission of inquiry for investigating and clarifying the expenditure of the Fund for Social Housing, constituted based on 2% of the proceeds of privatization, as per the Parliamentary Decision no 52/2007.
III. PROPOSAL TO ESTABLISH A NATIONAL HOUSING FUND

3.1 Main Features and Advantages of a National Housing Fund (NHF)

As outlined in the previous section, the housing sector in Romania faces several challenges with respect to the role of the public sector: Lack of coordination between and fragmentation of roles and responsibilities across government agencies; inconsistencies in budget allocations; and lack of impact evaluation and program monitoring. A National Housing Fund (NHF) is proposed to serve as a centralized source of government support for housing through targeted financial support coordinated with the objectives of Romania’s forthcoming National Housing Strategy. It would be a financing agency: responsibility for making policy would remain with the MRDPA. The Fund would pool state, EU, other donor funds, and possibly private sector funds and would consist of several financing windows accessible by both the private and public sectors. The overall objective would be to increase the availability of decent quality, safe, energy efficient, affordable housing. This could be for housing for rent or purchase, or for improvement of residential buildings or neighborhoods.

The NHF would centrally harmonize housing initiatives with other projects (e.g. infrastructure improvements, social measures, etc.), help coordinate the current range of disparate and fragmented housing programs (e.g. social housing construction, improvement of deteriorated buildings), and allow for funds to be properly allocated to housing-related programs spanning the full spectrum – from purely public to PPPs to purely private housing interventions.

The NHF would have two primary features:

- **Integrated revenue streams**: These could include dedicated revenues such as an automatic allocation of either real estate taxes, a share of property transfer taxes, an income specific income tax, or a dedicated tax on goods (such as cement). In addition, it would act as a basket for funds from annual budget allocations from central government, EU funds (under the ROP), other donor funds, and potentially some local government contributions. Other revenue streams could also be considered to provide a solid platform to enable long term investing into housing.6

- **A single and autonomous administrative platform** to provide co-financing, guarantees, and grants, as needed, through a variety of dedicated funding windows to cover the wide-ranging needs within the housing sector. Based on the housing sector assessment conducted under this study, these could include:
  - Co-financing for local authorities/ NHA to undertake seismic retrofitting
  - Co-financing to local authorities, HOAs and individuals for improvement of old and/or historic houses and neighborhoods
  - Co-financing for HOAs and individuals for building/ home improvement
  - Co-financing for local authorities to construct/ improve public housing (social, necessity)
  - Co-financing for local authorities and district heating providers to improve energy efficiency in district heating systems as well as housing
  - Loan guarantees/ partial grants for lower income home-buyers and renters
  - Tax credits/ exemptions construction loans from private banks to developers building affordable housing
  - Grants/ subsidies for the poorest 20% for home improvement, construction or rental.

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6 Funding sources would need to be secured and tested during the pilot phase.
The NHF could be phased, for example, to start with one or two ‘pilot’ windows that are priority areas (for example, co-financing to HOAs for seismic retrofitting and building improvements), and then expand to include the other windows over time.

Advantages of the NHF would include the following:

- **Efficient administration** – The Fund would be a point of central focus on housing bringing together inter-disciplinary housing inputs (finance, infrastructure, land, transport), and unified administration creating a single point of contact for working with local authorities.

- **Sustained involvement in the housing sector** – The Fund would provide long-term investment through a stable vehicle.

- **Channel for coordination across levels of government** – The Fund would provide a clear linkage across local authorities, county councils, and central government for the delivery of affordable housing to meet the objectives of the (forthcoming) National Housing Strategy.

- **Leveraging multiple channels of funding** – The Fund could leverage financing from the full range of stakeholders into a single platform, from purely public sector to purely private sector.

- **Expand affordable housing, including rental housing (both public and private)** – The renovation of vacant units, construction of new public housing units, and renovation of occupied but deteriorated units would put a new focus on affordable rental housing which, for many low-income families, may be the most economically viable solution to meeting their housing needs.

- **Common platform for interventions** – The Fund would provide a common platform for investments in heritage housing, energy efficiency, and other focus areas which otherwise require coordination among multiple ministries in charge of culture, environment, finance, etc.

- **Leveraging pooled funds from different sources** – Gathering budgetary sources from different line ministries as well as other entities will allow for larger and higher-impact investments.

- **Stronger monitoring and evaluation** – The centralization of all housing-related funding under one administrative and financial framework, if designed adequately, could allow for better data collection and monitoring to inform policy decisions to increase impact.

- **Centralization of specialized expertise on program budgeting and design** – The NHF would be a repository of expertise on specific housing investments, including working knowledge of different line ministries and local authorities.

- **Implementation of the National Housing Strategy** – The NHF would be instrumental in leveraging, mobilizing, and directing funds towards the objectives outlined under the (forthcoming) National Housing Strategy.

### 3.2 Examples of Housing Funds in Other Countries

#### 3.2.1 United States – Housing Trust Funds

There are two levels of Housing Trust Funds in the United States; a National Housing Trust Fund which was established under the Housing and Economic Recovery Act of 2008, but which has yet to get fully off the ground, and smaller State level or even County level Housing Trust Funds that receive ongoing dedicated sources of public funding to support the preservation and production of affordable housing and increase opportunities for families and individuals to access decent, affordable homes. The State and County level Housing Trust Funds systemically shift funding for affordable housing from annual budget allocations to the commitment of dedicated public revenue. While Housing Trust Funds can also be a repository for private donations, they are not public-private partnerships, nor are they endowed funds that garner interest and other earnings.
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- (for example, co-financing to HOAs for seismic retrofitting and building improvements), and then

Implementation of the National Housing Strategy

- Centralization of specialized expertise on program budgeting and design
- Stronger monitoring and evaluation
- Common platform for interventions
- Leveraging multiple channels of funding
- Sustained involvement in the housing sector
- Efficient administration

Examples of Housing Funds in Other Countries

- The Fund would be a point of central focus on housing bringing together Housing Trust Funds –
- The centralization of all housing-related funding under one Line ministries as well as other entities will allow for larger and higher-impact investments.
- The Fund could leverage financing from the full range of stakeholders into a single platform, from purely public sector to purely private sector.

The National Housing Trust Fund is a permanent program with a dedicated source of funding not subject to annual appropriation processes. The Fund focuses heavily on rental housing; at least 90 percent of the funds must be used for the production, preservation, rehabilitation, or operation of rental housing. The Fund is targeted toward extremely low-income households such that at least 75 percent of the funds for rental housing must benefit extremely low-income households, while all other funds must benefit very low-income households. Up to 10 percent of the funds can be used for home ownership activities of first-time homebuyers, including production, preservation, and rehabilitation; down payment assistance; closing cost assistance; and assistance for interest rate buy-downs.

3.2.2 Australia – Housing Affordability Fund

The Housing Affordability Fund is a five-year investment by the Australian Government of over USD 400 million that helps to reduce the cost of new home purchase.

The Fund addresses two significant barriers to increasing the supply of affordable housing:
- The 'holding' costs incurred by developers as a result of long planning and approval times.
- Infrastructure costs, such as the laying of water pipes, sewerage, transport and the creation of parks.

The Fund provides grants to state, territory, and local governments to work in conjunction with the private sector in order to reduce housing-related infrastructure and planning costs, and to pass savings on to end-users.

3.3 Organization and Administration of the NHF

3.3.1 Structure and Governance

Placing the NHF under the office of the Prime Minister may better position the Fund to guide and coordinate inter-ministerial work. However, the NHF will need to draw from the technical expertise and capacity of the MRDPA. While the Fund would be managed at the national level, it is envisaged as having a strong regional presence to interface with local authorities that are currently the main delivery point for social housing.

Under a future Housing Strategy, the role of National Housing Agency would change in several respects and would be focused primarily on the renovation of buildings at seismic risk, and supporting local
councils in meeting the housing needs of marginalized communities. With respect to the Fund, the NHA would provide technical support to local authorities for structuring deals and transactions with the private sector stakeholders. The Fund would then provide the financing, as necessary. The Fund itself would not be involved in PPP transactions as such. If the Prima Casa scheme continues, it could work in parallel with some of the initiatives under this Fund.

Financing provided to local authorities from the NHF can be co-financed. The percentage of co-financing may be determined by the urgency of the housing intervention as well as co-financing capacity – for example, higher contributions from higher income municipalities.

### 3.3.2 Proposed Windows under NHF

As illustrated in Figure 1, the proposed Fund would consist of nine funding windows, each targeting one type of investment need and thematic area of intervention. This is a conceptual illustration: Two or more windows might be combined, or the number of windows expanded; the specific design of the Fund would be determined by a detailed feasibility study prior to operationalization. The feasibility study would also determine phasing; for example, the NHF may start with a few demonstration projects under the different windows, or even just a few “pilot” windows, in the priority areas for the first few years and then, based on experience, scale up and add additional windows over time.

(1) Windows 1, 2 and 3 in Figure 1 provide financing support through national level programs implemented, and include guarantees, co-financing, and tax incentives for construction and purchase of affordable housing, as well as the seismic retrofitting of unsafe residential buildings.

**Window 1:** Support to developers of affordable housing through tax incentives (VAT exemptions etc.). This could include all private sector developers of low income or affordable housing, including housing cooperatives, for the construction of affordable housing for sale or rent (both market-priced and social housing for rent or sale).

**Window 2:** Support to buyers of affordable housing. This buyer-targeted assistance could channel housing finance subsidies in the form of guarantees through existing instruments such as Prima Casa program.

**Window 3:** Seismic retrofitting. This assistance would be offered in the form of co-financing to the NHA or local authorities to fund the retrofitting of seismically risky structures identified as part of the proposed Seismic Risk Mitigation Strategy. Given the high cost of retrofitting works, the bulk of the cost (80-90%) is expected to be co-financed by the Fund, especially in the Class I seismic risk buildings. The projects can be implemented by either the NHA or the local authorities.
Housing in Romania:
Coordination of State and EU funds

councils in meeting the housing needs of marginalized communities. With respect to the Fund, the NHA would provide technical support to local authorities for structuring deals and transactions with private sector stakeholders. The Fund would then provide the financing, as necessary. The Fund itself would not be involved in PPP transactions as such. If the Prima Casa scheme continues, it could work in parallel with some of the initiatives under this Fund.

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Window 1: Support to developers of affordable housing

Window 2: Support to buyers of affordable housing

Window 3: Seismic retrofitting of unsafe residential buildings

Figure 1 Proposed National Housing Fund
Owner contributions would constitute 10-20% of the total retrofitting cost, and the cost burden split proportionately across all homeowners. However, very importantly, care should be taken to ensure that this does not impose a disproportionate housing burden on poor households living in these buildings. To this effect, contribution amounts from resident households should be supplemented with grants for those earning below the median income: for example for households in the 0-30 income percentile, the contribution amount should not exceed 10% of household income, and any money owed in excess of this amount should be supplemented with a grant from the Housing Fund (under window 9). Similarly, for those in the 30-50th income percentiles, the contribution should not exceed 15% of HH income; anything above and beyond should be supplemented through a grant. Households earning above the median income might be expected to pay their fair share in full, without any further subsidy element on their share of the contributions. This type of progressive subsidy will ensure that all owners contribute their share of the cost of retrofitting, and at the same time, target special financial assistance who need it most.

The resident household’s contribution could take the form of an interest-free loan (as is the case under the current seismic retrofitting program). For properties with commercial or other monetary potential, the private sector might be encouraged to participate through incentives such as tax breaks etc.

Seismic retrofitting will first and foremost require transitional shelter, in the form of necessity housing, or alternative mechanisms such as rental vouchers. These vouchers are discussed in more detail under Window 7. However, it is important to distinguish here the vouchers for people being temporarily relocated for seismic rehabilitation from those being offered to people for social housing or other purposes. In the case of seismic retrofitting, the voucher (or necessity housing) should ideally be offered to all residents – this will be a major incentive for them to move. However, it can be designed to be a progressive subsidy -- for example, those earning below the median income could get a voucher equivalent to 100% of the standardized market rent; those in the 50-75 income percentile could get a voucher equivalent to 50% of the standardized market rent; and those in the top 25 income percentile could get a voucher equivalent to 25% of standardized market rent.

Table 3.1 Proposed (illustrative) Subsidy scheme for seismic retrofitting

<table>
<thead>
<tr>
<th>Income percentiles</th>
<th>Cost of retrofitting</th>
<th>Cost of temporary resettlement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Owner contribution</td>
<td>Grant component</td>
</tr>
<tr>
<td>0-30</td>
<td>10% of HHI</td>
<td>‘X’ = 10%(HHI)</td>
</tr>
<tr>
<td>31-50</td>
<td>15% of HHI</td>
<td>‘X’ = 15%(HHI)</td>
</tr>
<tr>
<td>51-75</td>
<td>‘X’</td>
<td>0</td>
</tr>
<tr>
<td>76-100</td>
<td>‘X’</td>
<td>0</td>
</tr>
</tbody>
</table>

Notes:
- “X” denotes the portion of retrofitting costs for each individual unit. It is a share of the total amount of retrofitting cost of the building not co-financed by the public budget. It is calculated by dividing that amount by the percentage share of housing area owned by each household.
- SMR: Standardized Market Rent
- HHI: Household Income

These are illustrative numbers to present a general idea. The calculation of the subsidy may be further refined using a linear progression calculation rather than ‘blocks’.
(2) The second group of funding windows (windows 4-6) consists of housing support for lower-middle income beneficiaries through programs administered by local authorities. These include support in the form of co-financing and loan guarantees for thermal insulation programs and the improvement of old buildings and neighborhoods.

**Window 4: Energy efficiency upgrades in residential buildings.** Since EU funds (ROP and SOP Environment) currently cover EE in residential buildings, this window could channel additional funds for areas not covered adequately by EU funds – for instance, insulation for individual housing, heritage buildings (which require more sophisticated works), etc. In the longer term, this window could centralize all funding for energy efficiency and thermal insulation works, with both EU and governmental funds pooled together to facilitate better coordination and monitoring of such works.

**Windows 5: Rehabilitation of old buildings (including heritage buildings).** Rehabilitation works could encompass common areas and structural repairs of old multi-storey apartment blocks dating from the communist era or heritage buildings requiring more complex interventions. It is important to link repairs in public spaces to thermal insulation works. Repairs should precede thermal insulation; EU funds could be conditioned based on prior consolidation works. Currently there is lack of awareness regarding the law that requires HOAs to maintain the common areas of their buildings. The new law on condominium associations that is in public debate is stronger in re-asserting that maintenance, repairs, rehabilitation and modernization of common spaces is the responsibility of the HOA. This law needs to be disseminated more widely and enforced so that owners can jointly take responsibility for common areas.

This window under the Fund could include co-financing to HOAs and Housing Cooperatives for the rehabilitation of old residential buildings. For instance, co-financing covering 50-80% of the cost of repairs may be given to HOAs that meet certain eligibility criteria. The contribution of the HOA (20-50% of cost of repairs) may come from cash reserves of the HOA, if available, or through a loan from a commercial bank guaranteed by the NHF. Additional grants may be given to the poorest households – for example, those earning below the median income, to ensure that their cost burden for housing, utilities and the monthly contribution for rehabilitation does not exceed 30-40% of the monthly income. (This is similar to the co-financing, loan guarantee, and grant scheme recommended above for HOAs conducting seismic retrofitting.)

Heritage buildings have received little public funding support to-date. The Ministry of Culture provides funding support for the rehabilitation of public historic buildings; however, there is currently no financing support for privately owned historic buildings. Many such historic buildings in Romania are derelict due to lack of maintenance. In some cases, the buildings have been abandoned for years, and the owners cannot be found; in others, buildings are simply neglected because the cost of repairs is unaffordable to the owner. There are sometimes reports of vandalism on historic, dilapidated buildings so that the underlying land value can be capitalized through the construction of new modern blocks. Similar to funding support for old communist era blocks, NHF support for the rehabilitation of private historic residential buildings could take the form of co-financing together with grants for the poorest in order to keep the cost burden down. The NHF could also provide technical assistance to owners of these structures on the design and implementation aspects.

**Window 6: Rehabilitation of neighborhoods.** In the case of historic neighborhoods, local authorities can take charge of coordinating and implementing improvements at a neighborhood scale – for example, street paving, installation of street lighting, and façade restoration. This is particularly relevant for historic neighborhoods. This window under the NHF would offer local authorities co-financing to carry out these improvements.
(3) The third group of funding windows from targets the lowest income groups and deals with investments in public housing (social and necessity housing), upgrading of underserviced areas, and grants and allowances to poor households for housing.

Window 7: Construction of public housing (social) and rental vouchers. There is a great potential for local authorities or the NHA to upgrade and refurbish existing public buildings through PPPs and Development Agreements (DAs) for use as public housing. This process can start with the creation of a comprehensive inventory of relevant public assets followed by an Asset Management Strategy that identifies which public buildings are most suited to be converted into social housing. This window under the NHF then can provide local authorities with co-financing to support the restoration or conversion of these public assets into public housing.

In addition, this window can provide co-financing to local authorities or the NHA to award rental vouchers to eligible beneficiaries. Rental vouchers might be particularly relevant in cases where construction of new public housing (social or necessity housing) is not feasible for logistical or financial reasons. As discussed under Window 3, the rental voucher program could be an ideal instrument to temporarily re-settle households living in seismically risky buildings. The illustrative subsidy amounts for the voucher program for seismic retrofitting (discussed under Window 3) is slightly different from the one for access social housing. In the case of social housing, the amount of rent covered by a voucher could be a progressive subsidy that targets those most in need - for example, 100% of established standardized market rent for households in the 0-30\textsuperscript{th} income percentiles; and 80-90% for households in the 30-50\textsuperscript{th} income percentiles. Households earning higher than the median income should be ineligible.

Table 3.2 Proposed (illustrative) subsidy scheme for rental vouchers

<table>
<thead>
<tr>
<th>Income percentiles</th>
<th>Owner contribution</th>
<th>Grant component (voucher value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-30</td>
<td>0% of HHI</td>
<td>1(SMR)</td>
</tr>
<tr>
<td>31-50</td>
<td>10-20% of HHI</td>
<td>SMR – 10-20%(HHI)</td>
</tr>
<tr>
<td>51-100</td>
<td>Not applicable</td>
<td>Ineligible</td>
</tr>
</tbody>
</table>

Notes:
- SMR: Standardized Market Rent
- HHI: Household Income

These are illustrative numbers to present a general idea. The calculation of the subsidy may be further refined using a linear progression calculation rather than ‘blocks’.

Window 8: Infrastructure upgrading in underserviced areas (urban and rural). Funding from this window would address upgrading projects at the neighbourhood level in poor communities. Currently, there is a complementary axis under ROP with a similar focus (Axis 9, based on the Community Led Local Development, or CLLD). However, this axis covers upgrading in only certain types of settlements. However, informal settlements generally do not receive EU funds because beneficiaries typically do not possess legal documents, and therefore cannot be formally tracked. Upgrading such informal settlements requires a more flexible and customized implementation mechanism, which can be employed under Window 8 in the form of co-financing to local authorities.

Window 9: Individual housing construction or upgrading. Disbursements from this window may consist of small housing grants or allowances for poor households who spend more than a certain

\[\text{3 No asset inventory or database currently exists to indicate the number of such public buildings. It was reported that a National Register that documents all built structures (public and private) is being set up, but details on this are unavailable.}\]
percentage of their income on housing. This could include grants or allowances for poor households living in multifamily buildings that are being seismically retrofitted, or otherwise upgraded in terms of energy efficiency and other general improvements. As discussed earlier, the grant/allowance amount should cover all housing costs beyond 10-15% of household income for households in the 0-30 income percentile.

This window could also cover financing for the design/authorization and technical assistance in the building processes, including support for purchasing construction materials. Low income beneficiaries might build better, more sustainably, and legally with such financial support—for example, with the technical assistance, they might be guided to better address seismic risk or land/topographical specificities and choose more sustainable materials.

### 3.3.3 Funding for the NHF

The National Housing Fund will have a social function and, as such, will require public funds. However, if it is to successfully develop a multi-year long-term investment strategy for housing, it needs independence from the political process and stable funding sources. Annual budget allocations might not be conducive for long-term investments, given their annual fluctuations.

The types of revenue streams that could be considered include:

- Direct Budget allocation
- Funding from international bodies (e.g. EU, World Bank)
- A proportion of property transfer taxes and local real estate taxes\(^8\)
- Bond issuance by the fund based on guaranteed income stream from rental properties
- Revenues from public assets (e.g. rents on publicly owned property)
- Guarantee fees
- Dedicated tax on goods such as cement or other construction materials where any negative impact from higher prices would be offset by increased business volumes.

With respect to channeling EU funds for housing-related efforts through the NHF, several issues need to be considered:

- **Complementarity between State and EU funds**: Given that the Regional Operational Program for the current programming period has been finalized, new allocations would require revision. In terms of thematic areas, potentially four of the nine proposed windows under the NHF could be eligible for EU funding (energy efficiency under window 4, and assistance to marginalized communities under windows 7, 8, and 9). In the short term (until 2020), therefore, it might be advisable to channel State funds to the other windows, and to specific activities under these four windows that are not covered by the EU funds—for example, the seismic retrofitting program, and the construction of new public housing. In other words, it will be important to ensure that state funds complement EU funds rather than duplicating them.

- **Accounting and reporting requirements**. The difference in accountability and reporting mechanisms between State and EU funds is a challenge in terms of the design and architecture of the Fund. One option is to clearly separate out activities financed by EU funds, and have distinct reporting requirements for each, but this might be difficult to administer. The alternative is to develop a new set of reporting requirements which is a blend of the two, but this might be too

\(^8\) Currently local real estate taxes are low and not well-collected. This may remain as a potential future source of funds for the NHF.
bureaucratic. This will need to be explored as part of the feasibility study of the National Housing Fund.

- **EU funding for NHF for the next programming period.** Assuming a 6-month period for a feasibility study, and another 1.5 years for capitalizing and operationalizing the Fund, it could be possible to get the Fund up and running by early 2018. In the first two years of operations, the Fund should implement ‘pilot’ or ‘demonstration’ projects, and scale up thereafter. In this respect, the timing is perfect to position the Fund and its underlying thematic areas/ windows for funding under the next programming period (2020-2027). It is also critical that the establishment of the Fund not be delayed beyond 2018.

### 3.3.4 Steps to Establish the NHF

As mentioned earlier, the Fund could be placed under the institutional subordination of the Prime Minister’s office to facilitate inter-ministerial coordination necessary for its funding structure and function. It would, however, receive financial and technical oversight from the Ministry of Finance and the MRDPA, respectively.

It is critical that the functioning of the NHF be based on proper design and operational guidelines, meant for gradual/ phased implementation in accordance with increasing capacity and experience. The first stage would encompass the design of the NHF (including a technical and financial feasibility study and the preparation of an Operational Manual). The design of the NHF would include detailing of the funding windows, instruments under each window, sources of financing, target beneficiaries, co-financing mechanisms, phasing and timetables, administrative purview, management responsibilities, harmonization of procedures, and monitoring mechanisms.

A ‘transitional team’ of nominated staff and seconded personnel/ private specialists within the MRDPA would then identify pipeline projects, and commence their preliminary implementation. This would include an outreach campaign, first contact with beneficiary entities to announce the scheduled launch of the NHF, and publication of draft funding guidelines based on consultations with stakeholders.

Following this preliminary stage, a distinct institutional entity would be established to oversee and run the NHF with permanent operational and management staff. The establishment of a distinct institutional entity is critical to the Fund’s success as a complementary but fully independent actor in the housing sector.

While the Fund is being operationalized (drafting of operational manual, setting of procedures, pipeline identification, establishment of NHF unit, etc.) funding lines could be launched to support the first phase of pilot projects. The operationalization of the Fund might take from one to two years.

### 3.4 Conditions for Proper Functioning of the NHF

The NHF poses several challenges in terms of its organizational setup and operationalization, which require institutional effort and engagement. There are several prerequisites for the functional and sustainable operation of the NHF, as discussed below.

#### 3.4.1 Administrative capacity

The NHF unit must be endowed with adequate administrative capacity in terms of both human resources and functional budgets (for training, adequate premises etc.). Capacity is also conditioned
The NHF poses several challenges in terms of its organizational setup and operationalization, which the MRDPA, respectively. It would, however, receive financial and technical oversight from the Ministry of Finance and Minister’s office to facilitate inter-ministerial coordination necessary for its funding structure and resources and functional budgets (for training, adequate premises etc.). Capacity is also conditioned responsibilities, harmonization of procedures, and monitoring mechanisms.

The first stage would encompass the design of the NHF (including a technical and financial feasibility study and the preparation of an Operational Manual). The design of the NHF would include detailing the funding windows, instruments under each window, sources of financing, target beneficiaries, pipeline identification, establishment of NHF unit, etc.) funding lines could be launched to support the sustainable operation of the NHF, as discussed below.

It is critical that the functioning of the NHF be based on proper design and operational guidelines, meant for gradual/phased implementation in accordance with increasing capacity and experience.

Steps to Establish the NHF

3.4.1 Administrative capacity

Assuming a 6-month period for a feasibility assessment, the following tasks are the elaboration of the national housing strategy and endorsement of the unit’s actions, budget approvals, facilitating inter-institutional cooperation, etc.

3.4.2 Legal framework

Revisions to the existing Housing Law must include provisions for the establishment of the NHF. The New Housing Law should detail the role of the Fund in co-financing housing programs, the sources of funding, approved allocation of funding, and management of the NHF.

The functioning of the NHF should be linked to the National Centre for Human Settlements (HABITAT), the interministerial structure operating under the authority of the Prime Minister (the secretariat is held by the MRDPA). HABITAT’s main tasks are the elaboration of the national housing strategy and implementation of housing policies (according to GD no. 711/2001 with subsequent amendments).

Other legal and regulatory improvements may include a clarification on the process of directing funds gathered from property overtax (i.e. overtax on housing units owned other than those for personal inhabitation), especially in larger cities.

3.4.3 Operational requirements

Integration of funding from different sources requires atypical contracting instruments as well as new monitoring instruments. As mentioned earlier, the challenge is most significant when combining funding from State sources with EU funds, the latter having specific monitoring and accountability requirements. The contract conditions might be explored in this regard to ensure appropriate sequencing of activities and integrated in the eligibility criteria for accessing complementary funding lines. As an example, a beneficiary could undertake thermal insulation works with EU funds only after structural consolidation/seismic retrofitting works funded by the NHF have been implemented.

3.4.4 Strategic planning at the local level

In parallel with the national housing strategy, requests for funding from local authorities must be supported by needs assessments and prioritization of housing investments at the local level. This can be achieved by better representing housing as a policy and program area. In the case of larger cities which face more complex housing challenges but also are endowed with higher administrative capacity, housing plans might be drafted in addition to the local development strategies—that go into more detail on the housing aspects. Such strategic and programmatic thinking must consider asset management to provide for the best use of available land and buildings for housing purposes.

3.4.5 Investments in Housing by other Stakeholders

While the NHF is envisioned as a platform for integrated funding for housing in Romania, EU Funds for the 2014-20 period will be implemented based on the already approved operational materials. For this stage, complementarity must be considered at the level of eligibility criteria and applicant guidelines in order to coordinate the eligibility criteria under the NHF.

Incentives, in the form of planning or financial instruments, should be introduced to mobilize private funds, and make affordable housing projects sustainable business investments.
3.5 Action plan for the NHF

The Establishment of the NHF, as a main instrument for coordination of funds will require the actions outlined in Table 1, with estimated timelines and budgets. These actions are recommended as high priority and should be implemented under the financial oversight of the Ministry of Finance, the technical oversight of the MRDPA, and the administrative oversight of the Prime Minister’s office.

Table 3.3 Establishment of the NHF

<table>
<thead>
<tr>
<th>Time frame</th>
<th>Activity/ project</th>
<th>Estimated budget (EUR)</th>
<th>Activity start date</th>
<th>Activity complete date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term</td>
<td>Develop design of NHF and (Draft) Operations Manual. Include channels of funding</td>
<td>350,000</td>
<td>Q4 2015</td>
<td>Q3 2016</td>
</tr>
<tr>
<td></td>
<td>(windows), products under each window and sources of financing, beneficiaries,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>co-financing, phasing and timetables, administrative purview, management,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>harmonization of procedures, and monitoring mechanisms.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short term</td>
<td>Establish distinct institutional entity with transitional team to oversee and run NHF</td>
<td>200,000 (salaries)</td>
<td>Q1 2016</td>
<td>Q2 2016</td>
</tr>
<tr>
<td>Medium term</td>
<td>Identify pilot projects and allocate 'seed money' (EUR 5 - 10 million)</td>
<td>NA</td>
<td>Q2 2016</td>
<td>Q3 2016</td>
</tr>
<tr>
<td>Medium term</td>
<td>Conduct feasibility studies of pilot projects</td>
<td>150,000</td>
<td>Q3 2016</td>
<td>Q4 2016</td>
</tr>
<tr>
<td>Medium term</td>
<td>Conduct outreach campaign to recipients identified in project pipeline</td>
<td>100,000</td>
<td>Q3 2016</td>
<td>Q4 2016</td>
</tr>
<tr>
<td>Medium term</td>
<td>Implement pilot projects</td>
<td>Contingent on seed</td>
<td>Q4 2016</td>
<td>Q4 2017</td>
</tr>
<tr>
<td></td>
<td></td>
<td>money allocation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium term</td>
<td>Finalize Operations Manual, capitalize and operationalize the Fund</td>
<td>NA</td>
<td>Q4 2017</td>
<td>Q1 2018</td>
</tr>
<tr>
<td>Medium term/</td>
<td>Scale up operations</td>
<td>NA</td>
<td>Q1 2018</td>
<td>continuing</td>
</tr>
<tr>
<td>long term</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
IV. SPECIFIC PROPOSALS FOR REALLOCATION OF FUNDS

Certain funds and programs can be partially or wholly reallocated to address urgent needs in the housing sector. Some such reallocations might require revisions to the legal framework or feasibility assessments based on funding eligibility, monitoring, and accountability requirements. Such reallocations are recommended for the NHA Youth Housing program, the EU funds used for energy efficiency improvements, the BauSpar subsidy, and the current VAT subsidy for purchase of houses below a certain price threshold.

4.1 NHA Youth Housing

The NHA Youth Housing program has been successful in terms of the number of rental units completed for inhabitation by youth aged 18-35 at approximately 30,000. As of July 2015, a loan to the NHA of EUR 175 million was approved by the Executive Council of the European Council Development Bank for the construction of 6,990 youth housing units. This represents significant financing of a program that does not target the poor and whose aims can be accomplished by leveraging private sector investment to construct affordable rental housing for youth.

Funding for youth housing can be reallocated to more pressing needs, such as social housing or necessity housing, by modifying the legal framework defining youth housing as a category under public housing. This reallocation would co-opt a large stock of good quality housing units to house poor and vulnerable households who otherwise would not be able to contribute to the economy. As mentioned above, the need for affordable rental housing for youth can instead be addressed by private sector intervention through public-private partnerships (PPPs) or Development Agreements (DAs) structured in consultation with public authorities.

4.2 EU funds for Energy Efficiency

Most EU funds have been targeted to energy efficiency improvements, either as thermal insulation projects (through the Regional Operational Program) or as modernization of heating plants in cities (through the Sectoral Operational Program on Environment). Given other urgent needs in the housing sector, a certain proportion of EU funds dedicated to energy efficiency could be reallocated to rehabilitation of old stock including interior common areas (entryways, elevators) and seismic retrofitting of risky buildings. For instance, 20% of housing investments in the next ROP programming period (2014-2020) dedicated to thermal rehabilitation might be reallocated to rehabilitation of old stock and retrofitting on seismically risky buildings.

The ROP 2014-2020 allocation for thermal rehabilitation projects is substantially higher than in the 2007-2013 programming period – approximately EUR 1.2 billion for “energy efficiency of public and residential buildings, including investments in public lighting”. During the 2007-2013 programming period, ROP emulated the state-budget investment program for thermal insulation of apartment buildings. Basically, ROP investments in thermal insulation of apartment buildings began several years after the state-budget program started functioning – a program that proved a great impact in many cities in the country.
Coordinating and harmonizing EU-funded and state-budget investments

For the 2014-2020 programming period, ROP finances a wide range of investments (it went through a series of adjustments following JASPER technical assistance), and state-budget investment programs should follow this development. For example, investment categories covered by ROP 2014-2020 include:

- Improving the thermal insulation and the hydro-insulation of building envelope (exterior walls, windows, carpentry, upper floor, and the floor above the basement), roofs and coverings, including consolidation measures;
- Rehabilitating and modernizing the heat distribution system – heating and hot water in the shared part of apartment buildings, including the installation of thermostatic valves, etc.;
- Upgrading the heating system: repairing / replacing the central heating per apartment building / staircase; purchase and installation of alternative systems for producing energy from renewable sources – thermal solar panels, electric solar panels, heat pumps and/or biomass heating systems, etc.;
- Replacing fluorescent and incandescent lighting in shared areas with energy efficient and long-lived lighting;
- Implementing energy consumption management systems: purchasing and installing smart systems for electricity promotion and management;
- Any other activities that lead to the fulfillment of project objectives (replacing elevators and electrical circuits in shared areas – stairs, basement, dismantling installations and equipment, repairing facades, etc.);
- Developing energy efficiency strategies (e.g. CO₂ reduction strategies) that have projects implemented under ROP 2014-2020.

To the extent possible, project selection criteria for state-budget thermal rehabilitation projects for apartment buildings should be coordinated and harmonized with the evaluation and selection criteria for ROP 2014-2020. ROP criteria are included in the table below. Given that the state-budget investment program for the thermal insulation of apartment buildings (the National Multiannual Program for Increased Energy Efficiency in Residential Buildings – implemented in accordance with GEO 18/2009) doesn’t include a clear budget for hiring external evaluators, it would be ideal to use indicators allowing a more expedient assessment, as for example:

- Reduction of anticipated energy consumption;
- Number of households with a better classification of energy consumption;
- Type of connection to district heating networks.

Technical and financial evaluation grid for Axis no. 3: Increasing energy efficiency in residential buildings

<table>
<thead>
<tr>
<th>CRITERION / SUB-CRITERION</th>
<th>Maximum score</th>
<th>Given score</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL SCORE</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>1. Component’s contribution to the fulfillment of specific objectives</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>1.1 Annual decrease of equivalent CO₂ emissions (kgCO₂/m²/year)</td>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>
### Technical and financial evaluation grid for Axis no. 3: Increasing energy efficiency in residential investment program for the thermal insulation of apartment buildings (the National Multiannual GEO 18/2009)

Program for Increased Energy Efficiency in Residential Buildings for ROP 2014 - 2020. ROP criteria are included in the table below. Given that the state-budget indicators allowing a more expedient assessment, as for example:

- To the extent possible, project selection criteria for state-budget thermal rehabilitation projects for should follow this development. For example, investment categories covered by ROP 2014 - 2020
- Coordinating and harmonizing EU-funded and state-budget investments

#### 1.1 TOTAL SCORE

<table>
<thead>
<tr>
<th>CRITERION</th>
<th>CONTRIBUTION TO SCORE</th>
<th>EQUIVALENT</th>
</tr>
</thead>
</table>

#### 1.2 Reduction of annual specific energy consumption (kwh/m²/year) 15

<table>
<thead>
<tr>
<th>CRITERION</th>
<th>CONTRIBUTION TO SCORE</th>
<th>EQUIVALENT</th>
</tr>
</thead>
</table>

#### 1.3 Number of households with a better classification of energy consumption 10

<table>
<thead>
<tr>
<th>CRITERION</th>
<th>CONTRIBUTION TO SCORE</th>
<th>EQUIVALENT</th>
</tr>
</thead>
</table>

#### 1.4 Type of connection to district heating networks (according to the technical solution) 10

<table>
<thead>
<tr>
<th>CRITERION</th>
<th>CONTRIBUTION TO SCORE</th>
<th>EQUIVALENT</th>
</tr>
</thead>
</table>

The project aims at a building connected to district heating in the following proportions:

- a. Between >90% and ≤100% 10
- b. Between >75% and ≤90 % 8
- c. Between >50% and ≤50 % 4
- e. Between ≥0% - ≤100% 1

#### 2 Compliance with the principles of sustainable development, equal opportunities, gender equality, and nondiscrimination 10 0

<table>
<thead>
<tr>
<th>CRITERION</th>
<th>CONTRIBUTION TO SCORE</th>
<th>EQUIVALENT</th>
</tr>
</thead>
</table>

- a. The project provides for the installment of alternative systems for energy production from renewable sources. 5
- b. The project takes into account the potential for natural disasters mitigation and adaptation of project investments to these disasters (e.g. use of ecological materials, which do not support combustion). 3
- c. The project provides for building facilities / adapting infrastructure and/or equipment for access of disabled persons. 2

**The scoring is cumulative.**

#### 3 Complementarity with other investments made through other priority axes of the ROP / investment priorities, and other funding sources 8 0

<table>
<thead>
<tr>
<th>CRITERION</th>
<th>CONTRIBUTION TO SCORE</th>
<th>EQUIVALENT</th>
</tr>
</thead>
</table>

- a. The project is implemented in municipalities where investments in the district heating system are being made or are to be funded from public funds (European or national). 4

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Housing in Romania: Coordination of State and EU funds
### Housing in Romania: Coordination of State and EU funds

#### 5.1 Consistency of the technical and economic documentation [2]

<table>
<thead>
<tr>
<th>a. Content-related aspects of the technical and economic documentation, as well as the qualitative aspects are sufficient, accurate and substantiated. The analysis and selection of the optimal variant were conducted.</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. The costs comply with the reference unit prices for intervention works / eligible activities provided for in the applicable cost standard or other relevant documents – if there are no cost standards.</td>
<td>3</td>
</tr>
<tr>
<td>c. The drawn parts are complete and correspond to the written parts. The written parts are related to and comply with the conclusions of the technical expertise and the energy audit report, etc.</td>
<td>3</td>
</tr>
<tr>
<td>d. The general estimate complies with the methodology and the structure in accordance with GD 28/2008. The specific estimates are clear, complete, and realistic.</td>
<td>2</td>
</tr>
</tbody>
</table>

*The scoring is cumulative.*

#### 5.2 Readiness / maturity degree of the component

| a. The applicant’s building permit has been issued. | 5 |
| b. The applicant possesses all the permits required through the Urban Planning Certificate. | 4 |
| c. The applicant has prepared the technical and economic documentation (technical design phase). | 3 |
| d. The applicant has carried out the public procurement procedure for drafting the technical design. | 2 |

#### 5.3 Project sustainability following the end of non-reimbursable funding

| a. The applicant proves to be able to maintain and operate the investment after the project and its non-reimbursable funding end. | 3 |
| b. The applicant proves to have limited capacity to ensure the maintenance and operation of the investment after the project and its non-reimbursable funding end. | 1 |

**TOTAL SCORE**

| 100.00 | 0.00 |
Other measures could be adopted from the ROP and included in the program set through GEO 19/2009, such as the requirement that only 60% of households in an apartment building must agree with the implementation of such works. At the same time, GEO 19/2009 could try a better targeting of funds by taking into consideration the following prioritization criteria:

- The absolute number of non-insulated apartments in the respective TAU, with preference given to the TAUs where the number of non-insulated apartments is higher.
- The share of non-insulated apartments, with preference given to the TAUs where the share of non-insulated apartments is lower.
- The Local Human Development Index (LHDI), with preference given to less developed TAUs.
- The Financial Sustainability Index (as measured as medium salary per county), with preference given to the TAUs where the wage average is higher.

4.3 BauSpar subsidy

To ensure that government funds are spent in the most equitable manner, and to better target the subsidies, it is recommended that income eligibility criteria be established for participation in the subsidized BauSpar scheme. For instance, beneficiaries might be required to be below the median national income. In addition, the subsidy can be targeted specifically to those saving for renovation loans, as the Prima Casa program is already successful in serving households in need of affordable mortgage financing. The subsidy element remaining after eligibility criteria can be reallocated to a guarantee scheme or direct subsidy scheme focusing on smaller home improvement loans – for instance on Windows 5 and 9 under the Fund.

4.4 VAT subsidy

Individuals purchasing private houses within a certain price range (less than EUR 86,000 or RON 380,000)\(^9\) are offered a VAT subsidy – they pay 5% VAT payment compared to the regular VAT of 24%. Although data on this program is not available, it appears that there is no income eligibility criterion. In other words, this program loses potentially substantial government revenue by way of untargeted subsidies to individuals who do not need them. This subsidy would be much more effective if targeted by income level, for instance to people earning below the national median income. The additional revenue thus generated (from otherwise “lost” VAT) could be allocated to other priority areas discussed in this report, including public housing and seismic retrofitting.

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\(^9\) This is was established by GEO 200/2008, which made an adjustment to the 2003 Fiscal Code to include, among other changes, a reduced VAT for houses purchased for less than EUR 86,000 (RON 380,000). The land must not exceed 250m\(^2\), and the house area should be less than 120m\(^2\) (including auxiliary buildings).
This report provides an analysis of how housing and social infrastructure investments from the state budget can complement investments made from EU funds. The recommendations included in the report provide a set of specific action steps that could be undertaken by the Romanian Government to better coordinate funds, streamline programming in the housing sector, and establish the proposed National Housing Fund.

Two other reports are also included in the overall package:

- “Towards a National Housing Strategy”, which includes a detailed assessment of Romania’s housing sector, and recommendations to inform the country’s forthcoming National Housing Strategy; and
- “Prioritization of Housing Programs and Projects”, which provides a detailed review of all housing related programs in Romania, and proposes new programs, together with prioritization mechanisms and actions required to make this happen.