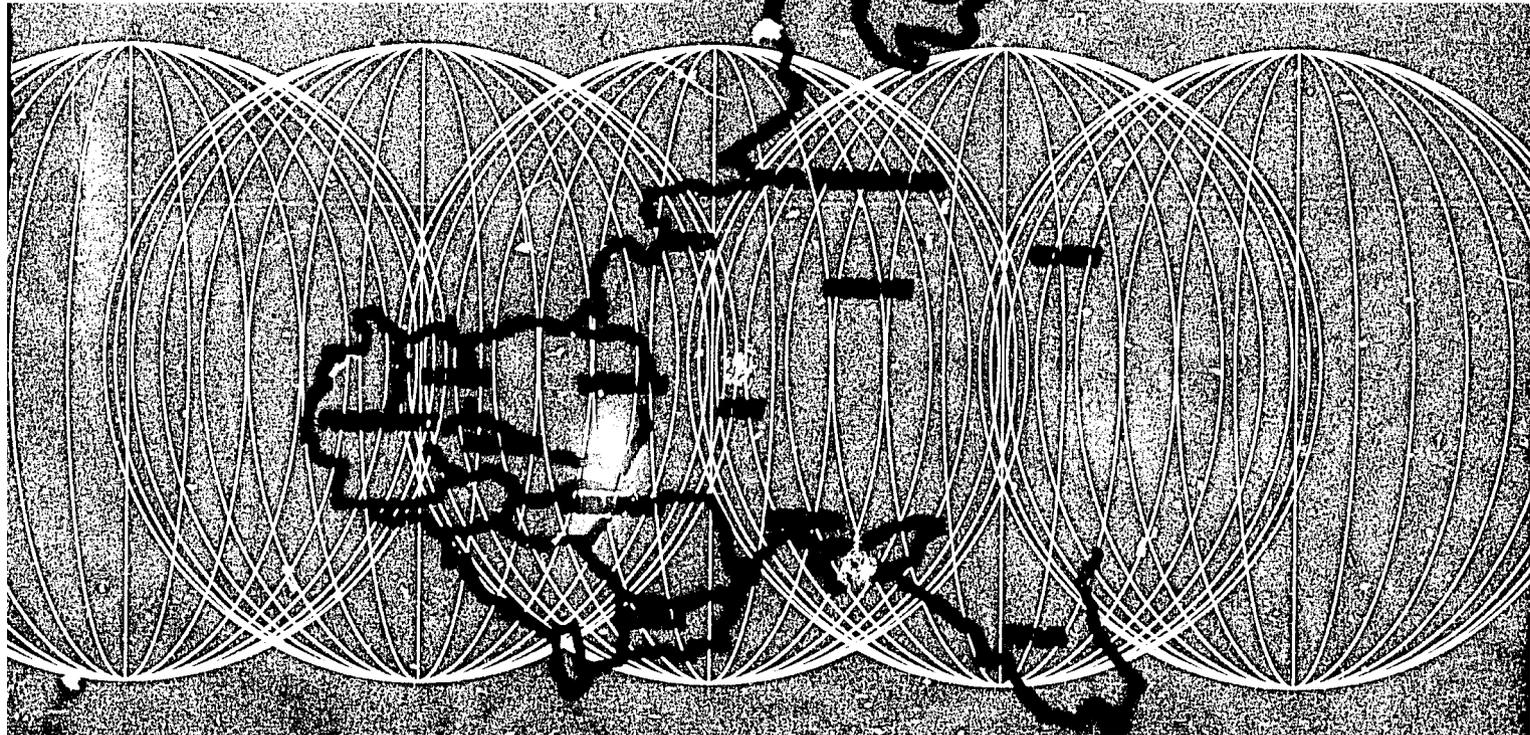
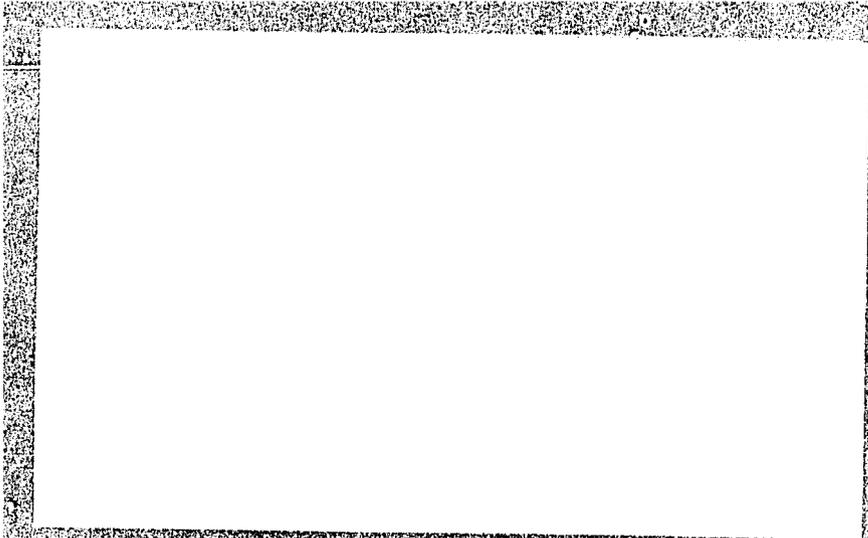


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AN INTERNATIONAL ACTIVITIES PROJECT

**FROM PLANNING TO MARKETS
HOUSING IN EASTERN EUROPE**



THE URBAN INSTITUTE
Prepared for the Office of Housing and Urban Programs (USAID)

**SHELTER SECTOR REFORM PROJECT
RUSSIAN FEDERATION/CITY OF MOSCOW**

MONTHLY REPORT

NOVEMBER 1992

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A. Program Activities — Russian Federation

General

The Urban Institute (UI)/Russia office received two requests for assistance on the following issues:

- Minister Furmanov of the Ministry for Architecture, Construction, Housing Facilities and Communal Services (Minstroy) asked for and received a description of how to run a competitive process for a public agency to sponsor the construction of new housing. Given the general shift to competitive procurement of housing by municipalities, these notes are of quite general interest. UI/Russia staff planned to meet with the Russian Union of Cities to see if they would be interested in distributing them through their members.
- The Department of Privatization of the Ministry of Economy requested UI/Russia staff to provide initial guidance on the way a voucher scheme for the purchase of land, which appears in a very recent Presidential Decree, might be organized. Struyk prepared a memorandum, as requested.

Development of the Legal Framework

Steven Butler, the project legal advisor, briefed the Office of Housing on Thursday, 12 November, on the results of his October mission to Russia. A draft of Butler's report was circulated prior to the briefing.

Housing reform law. UI/Russia staff and consultants were busy providing proposed revisions to the draft Law on the Fundamentals of Federal Housing Policy (housing reform law), which had passed the Supreme Soviet on the first reading in October. Proposed refinements on the law have now been provided directly to the Supreme Soviet committee (to Efin Basin and Sergei Derendyaev), the Government (through the Ministry of Construction), and to lawyers in President Yeltsin's office.

On November 20, the Supreme Soviet of Russia failed to pass the housing reform law on the second reading. It was defeated by a narrow margin in one chamber. It now goes back to Mr. Basin's committee, which is supposed to incorporate some needed revisions.

While several of the proposed revisions had been accepted before the second reading, UI/Russia staff remain hopeful that other revisions will be added before

final passage. The next opportunity for passage will likely be after the first of the year. The "inside information" is that the Mr. Kasbulatov did not want to pass such a liberalizing bill so close to the meeting of the Congress of People's Deputies, which convenes again in December.

Housing privatization law. A new housing privatization law was passed by the Supreme Soviet during the month. The version passed on the first reading by the Supreme Soviet was an extremely bad law. It was written by the part of Ministry responsible for building maintenance (and therefore the champion of the existing system). While purporting to support privatization, it actually moved decisively against it. It was cleverly drafted to obfuscate its real intent.

Nikolai Maslov (City of Moscow), Alexander Krivov, and Anvar Shamousafarov (Ministry) met with Efin Basin (Supreme Soviet) and succeeded in getting some of the changes recommended by UI staff made before the second reading. These alterations made a distinct improvement to the law, but still left some problems. UI Russia staff were reviewing the final bill and considering whether to submit comments to the lawyer handling housing in President Yeltsin's office so that the President could exercise his veto power against the bill.

Decree on housing allowances. Dr. Kosareva, a consultant to UI/Russia staff, and Anvar Shamousafarov (Ministry) met with Andrey Vavilov, First Deputy Minister of Finance, to discuss the meeting Vavilov had with Premier Gaidar about the draft Presidential Decree on housing allowances. According to Vavilov, Gaidar was quite enthusiastic about the proposal.

Housing Finance

First Deputy Minister of Finance, Andrey Vavilov, met with the Governor of the Central Bank to discuss the structure of the housing finance system, using a concept paper written by UI as his basic text. UI/Russia staff were told by Vavilov that the Governor agreed in principle and assigned the issue to one of the Deputy Governors. Further follow up by UI/Russia staff with Central Bank officials was expected.

After lengthy discussions and negotiations between USAID and MOSBUSINESSBANK (MBB), the formal program of cooperation began in November with the two organizations signing a joint Memorandum of Understanding in which USAID agreed to assist the bank in developing a mortgage lending operation. As part of the initial efforts, Struyk and Kosareva held a meeting with Viktor Bukata, MBB President, and several senior staff to discuss working relationships and related matters. Among topics covered was how the MBB and the team could work together in discussing housing finance policy changes with the Government.

The program got underway with numerous sessions by the UI team (Struyk, Kosareva, and Marisol Ravicz of the Urban Institute) and the working group which MBB has assembled. Ravicz gave six formal presentations during her three week mission to Moscow, each lasting three to four hours. She also worked on developing and finalizing a program of work for the 12 month period beginning in January. In addition to her work with MBB, Ravicz completed a detailed and sophisticated analysis of the extent of the subsidies involved in the contract savings scheme proposed by Sberbank, concluding that they are generally large and not very well targeted. The team provided a write up of this analysis to Sberbank and shared it with the Ministries of Finance and Economy as soon as it had been translated into Russian.

Later in the month Richard Pratt, former Chairman of the Federal Home Loan Bank Board, joined the UI team for a week to present a series of lectures to MBB staff and to hold a series of meetings with senior people in the financial sector to discuss how Russia could proceed with developing a housing finance system. During his visit, Mr. Pratt invited Mr. Bukata and Dr. Sokolsoskaya from the MBB, First Deputy Minister of Finance Vavilov, and Dr. Kosareva to attend a housing finance conference organized by the University of Utah in late February. The conference combines intensive sessions for visitors from several countries with meetings of senior U.S. private sector executives. The Urban Institute submitted the names to USAID for consideration of financing their visit.

Struyk, Kosareva, and Pratt met with Mr. Andrey Shopovalyance, First Deputy Minister of Economy. Mr. Shopovalyance had read the concept paper on the housing finance system the UI/Russia staff prepared. They had a lively discussion with him about whether an approach emphasizing a structure to help lenders deal effectively with the various risks inherent in mortgage lending or one involving deeper subsidies with no differentiation among income groups (i.e., essentially dealing with risk by making the profits to banks extremely large) was more appropriate in the current Russian context. At the end of the hour's discussion, the Deputy Minister reiterated his desire for UI/Russia staff to work closely and intensely with his staff.

In other areas, Struyk began preparation of a paper on developments in housing finance in 1992 in the City of Moscow. The paper will also include information about developments in St. Petersburg, where the country's first mortgage bank is located and has conducted lending operations since this past summer. The paper is expected to be completed by the end of the year.

Finally, the UI/Russia team met with Nikolai Maslov, Director of Housing Privatization for the City of Moscow, to discuss a draft mayoral decree on housing finance that appeared to be prepared by the First Russian Mortgage Bank (the Sberbank-based consortium that includes a U.S. mortgage bank) but is being

circulated by First Deputy Premier Bouravlaev. The decree pushes very hard for adoption of a condominium law as a basis for mortgage lending and for a large series of subsidies for the new entity. The team agreed with the points on condominiums, but argued against the subsidies on the "level playing field principle."

B. Program Activities — City of Moscow

General

The month included the first series of meetings of the Council on Technical Cooperation in the Housing Sector Between the Agency for International Development and the City of Moscow. The Council was established in a September decree in which the program of work and the general direction of housing reform was officially endorsed by Mayor Luzhkov. The Council meets weekly and consists of nine persons, including three commission chairmen from the Moscow City Council (Mossoviet), and has five committees. Nikolai Maslov is the chairman. At the first meeting it became clear that Maslov wants to use this group as a forum for developing policy proposals.

The second meeting was primarily devoted to a presentation by Mrs. Ludmilla Kuznetsova of the proposal to raise rents and introduce housing allowances in Moscow. While a number of operational questions were raised, there were no objections to the basic concept.

At the third meeting the primary item of discussion was the condominium law drafted by the city. Maslov distributed copies of the draft law and the "check list of critical provisions in a condominium law for housing lenders," which Steve Butler had prepared for both Mossoviet and relevant City officials. These documents added a level of concreteness to Butler's discussions with various parties not previously achieved.

The Government of Moscow is planning to review formally the progress of the USAID technical cooperation program at its regular meeting on December 15. UI/Russia staff produced a draft of a paper that will go to members of the Government before the meeting for review by Nikolai Maslov. Maslov and Struyk are planning to make presentations, and several Mossoviet Deputies and members of government have signed up thus far to make short interventions.

Housing Maintenance Pilot Project

Olson and Ned Symes, President of Quadel Consulting, finalized the training schedule and delivered several parts of it to local government officials and several "trainers of trainers" in housing maintenance throughout the month (see below for

detailed course schedule). Mr. Symes spent two weeks in Moscow assisting Olson in this work. During the month, Symes and Olson reviewed the plans for the initial course schedule and decided, after consulting Struyk and Poverov, (a) to expand it from 10 to 15 sessions, and (b) to focus the training tightly on maintenance operations rather than on broader housing management (rent collection, building up capital reserves, etc.) in order not to overwhelm the participants. Limiting the material is consistent with the functions that will actually be contracted for from private firms next February. The plan is to expand the range of services contracted for in the second year and that training for these additional functions will be conducted next year during the fall. This year's training will be conducted by a Russian institution for the next block of housing to be shifted to housing management.

Housing Management Privatization Program
List of Sessions in Urban Institute
Training Program for "Property Owners" in Moscow

1. The Evolution of Management
2. Understanding Motivation
3. Perception and Attitudes: Seeing and Believing
4. Group Dynamics: Managing Morale
5. Effective Management: Leaders or Bosses?
6. Participation and Productivity: Why, When, and How?
7. Managing Change
8. Management by Objectives: A Process of Management
9. Goal Setting and Feedback
10. Achieving Organizational Effectiveness
11. Introduction to Real Estate Management
12. Maintenance Planning and Budgeting
13. Maintenance Work Order System
14. Procurement
15. Property Management Company Reporting: Monitoring by the DEZ

Sessions 1-10 are being conducted by Angus Olson. Sessions 11-15 by staff from Quadel Consulting. The dozen participants receive materials to read in advance, plus new materials on the day of the class.

In addition to the training program, Olson and Struyk held initial discussions about the content and timing of a study tour for city officials who will be acting as property owners and overseeing the private management companies. Olson has

prepared an outline of the study tour, which is tentatively set for the second half of January.

Housing Allowances

Housing allowances continued to be a major policy reform considered by the government. At a meeting of the Government of Moscow on November 17, Alexander Matrosov, director the committee responsible for all maintenance in Moscow and a Minister of Government, made the presentation of a program of raising rents and introducing housing allowances. While no decision was made (since Mayor Luzhkov was not in attendance), there was no disagreement with the general concept advanced. After a moderate amount of debate, the Government decided to do two things: set up a working group that would present a concrete proposal in two weeks; and, begin a program of publicity to begin informing the population about the rent increases and accompanying social protection. At the end of his presentation, Matrosov acknowledged the assistance of USAID consultants in analyzing alternatives.

Khadduri and Alexander Puzanov worked on two administrative issues key to implementing housing allowances: (a) income certification, and (b) how to set up budgeting and financial systems for rent payments, housing allowance payments, and maintenance subsidies that make possible the cross-subsidization between families (with higher and lower incomes). They held several meetings during the month to obtain a firm knowledge of how the system is working. Khadduri completed a report that will serve as a guideline for city agencies implementing the program.

Struyk, Puzanov, Daniell, and Kosareva completed a draft of the paper, "Income Adjustments When Raising Rents in Post-Soviet Economies: Housing Allowances or Wage Increases? Analysis for Moscow." The paper addresses more systematically some of the key issues that were debated in August and September during the development of the housing allowance program for the Russian Federation. It draws some general conclusions that should be useful to the NIS in general. It was translated into Russian and will be distributed among USAID officials and consultants working in the housing sector of NIS countries.

Condominiums

Plans for a December study tour for five Russian officials, three from Moscow and two from Novosibirsk, were finalized during the month. The participants are officials from various organizations that are in some way responsible for establishing condominiums and condominium associations. The three Moscow participants will be: Y.A. Kuzochikova, deputy director of the Department of Housing Privatization, Viktor Filchenko, director of the commercial firm set up by the city that will have

responsibility for helping groups of owners form condominium associations, and Nikolai I. Somichev, a commission chairman from Mossoviet. Letters of invitation were sent to the Moscow participants and the air and hotel reservations were made. The idea is to have the participants return to Russia to be able to train others, with technical assistance from USAID, in the formation of condominium associations.

UI legal advisor Steve Butler produced a "check list" on the provisions that should be present in a condominium law in order for a bank to be able to extend a mortgage loan using a unit in the condominium as collateral. He also delivered a model condominium law to serve as a possible example for the Russians to follow. Translated copies of both documents were sent to those drafting the Moscow condominium law, several banks with whom the UI/Russia office has good relations, and Konstanin Bouravlyov, the First Deputy Premier who is responsible for developing the housing finance system in the city.

C. Program Activities — General

Sector Monitoring

As part of the work on assembling housing indicator data, Oleg Pchelintsev, a UI consultant in Moscow, attended (with USAID support) a two day conference in Delft on the World Bank's housing indicators program. The housing sector monitoring work is closely patterned on the Bank's.

The team completed the draft questionnaire for the survey of 2,000 households that will be conducted before the end of the year. The data gathered will give a much better picture of the actual condition of the housing stock, the quality of maintenance, the profile of those privatizing and current housing expenditure patterns that has been available. These data will serve as a baseline for measuring future developments. Next steps include obtaining a sample from the phone company, which is drawing a random sample of residential numbers, and organizing the pre-test of the questionnaire.

UI/Russia staff assembled some figures on housing costs and housing prices from a variety of sources. These data were provided to Mr. Norris for his use in considering options for "military housing." A copy was sent to UI/Washington office for transmittal to AID.

Dissemination

Struyk and Khadduri met with the Director General of the Union of Russian Cities, Konstantin Nikulin, to discuss the Union's possible interest in

disseminating reports produced by the project and the participation of UI/Russia staff in seminars and conferences organized by the Union. Nuklin appeared very interested in the offer of assistance. There are 92 members of the Union. Several papers are planned to be distributed through this group, with two copies of the papers going to each city—one for the participant from the executive and one for the participant from the local soviet. A cover letter describing the program and cooperation with the Union are to be inserted in each package.

The UI/Russia office took advantage of the combination of the great current interest in housing finance in the financial community and germane ministries and the presence of Marisol Ravicz to hold two seminars, with joint sponsorship by Mosbusinessbank. The first was given by Ravicz: an introduction to the new indexed mortgage instruments. The second had two parts, one given by Struyk and the second by Ravicz: managing risks in mortgage lending and government's potential role in distributing these risks efficiently (resulting in a lower interest rate to borrowers); and a further presentation on the new instruments in the context of risk minimization. Russian language background papers were distributed on all three topics. About 20 bankers and ministry people attended the first session and about 35 the second. The sessions went extremely well and provided an extremely good forum in which to explain the policy program being developed.

Struyk made a one hour presentation on November 26 at a large conference of housing and real estate specialists sponsored by Housing Initiatives, the City of Moscow, and Ministry of the Russian Federation. About 200 persons attended the presentation on the risks inherent in mortgage lending, how lenders can cope with them, and the role of government in setting the framework for housing finance.

Coordination with Novosibirsk and Ekaterinburg

Ruth O'Sullivan traveled from Novosibirsk to Moscow on November 6 to discuss the progress Olson and Symes have made in the housing management pilot program. She attended one of the training classes that they were conducting. O'Sullivan will be using some of the training materials, contracts, etc. that are being developed in her program in Novosibirsk.

Struyk and Puzanov met with four persons from Ekaterinburg, including the deputy to the local soviet who is the head of the Municipal Housing Fund, a realtor, a city official, and a staff member to a member of the Supreme Soviet from the city. They had heard about the work UI/Russia staff were doing, particularly on private management of housing maintenance, and the combination of raising rents and introducing housing allowances and were interested in meeting with them. They also discussed the condominium law and housing finance issues. UI/Russia staff loaded them up with documents that had been produced in Russian. UI/Russia staff

explained that they could not provide much direct help, but did agree to simulate alternative housing allowance designs if the necessary data were provided.

Outside Meetings/Contacts

Struyk and Olson met with Peter Epstein of ICMA who has recently begun directing the AID shelter assistance program in Armenia and Kazakhstan. He was in town for two days between initial visits to the two republics.

Struyk, at the request of Stuart Dwyer, Econ/US Embassy, reviewed a concept paper from a U.S. developer for conversion of abandoned industrial complexes for residential use.

In addition, Struyk briefed the following visitors about the Russia program:

- Scott Spangler, Associate Administrator, USAID, November 9
- Bill Schuerch, Staff, House Appropriations Committee, November 9
- Karen Volker, Ambassador Armitage's staff, November 11.
- Anne Mavity, Staff, Housing Subcommittee, House Committee on Housing, Banking and Urban Affairs, November 11

Cooperation with the UNCHS Project

Habitat has given Ministry a grant of \$80,000 and Ministry is contributing about 13 million roubles to the project, "Implementation Mechanisms for the Russian Federation's New Housing Policy." The agreement was signed at the beginning of September. UI/Russia staff have been asked formally by the ministry to participate in this project and have agreed to do so. The cost of UI/Russia staff participation will be low, as there is an overlap between the USAID work at the Federation level and this project.

D. Notable Developments Concerning the Housing Sector

As noted earlier, the Supreme Soviet passed a law containing measures to accelerate housing privatization. One provision was to make free privatization a national policy, replacing the former provision under which local governments had the right to determine the price of housing above a certain number of square meters, which were mandated by Federal law to be given free.

On November 17, the Government of Moscow formally discussed the proposal to begin raising rents and institute a housing allowance program. There is general agreement on the concept, but there will likely be considerable debate about the details. (See City of Moscow Program for more.)

By the middle of November over 300,000 housing units in Moscow had been privatized in Moscow—about 90 percent of these since January. Of these, 282,000 are municipal units (13 percent of the beginning stock) and 21,000 are departmental units (4 percent).

Housing construction in the Russian Federation continues to decline, and has now reached alarmingly low levels. On an annual basis, production for the first nine months of 1992 (measured in completed square meters of housing) is 35 percent of the 1989 level and just 51 percent of 1991 output. Moscow, which received a special loan from the Central Bank to continue high production levels, again produced about 3 million square meters—or about 12 percent of the national total.

E. Logistics and Planned Travel

Planned Travel

The following travel to Moscow is planned for December:

- Roberta Graham (Quadel Consulting Corporation; housing management trainer).

The following study tour to Washington, D.C. is planned for December:

- Five participants to learn about the operations of U.S. condominiums and condominium associations.

Logistics

Lena Glushkova, the UI/Russia office manager, obtained multiple entry visas for Angus Olson and his wife.

F. Budget and Level of Effort Summary

Budget (Actual expenditures, excluding UI fee)	
November 1992	\$96,340
Project to date	\$226,559

Level of Effort (person-months)

November 1992

6.28

Project to date

18.08