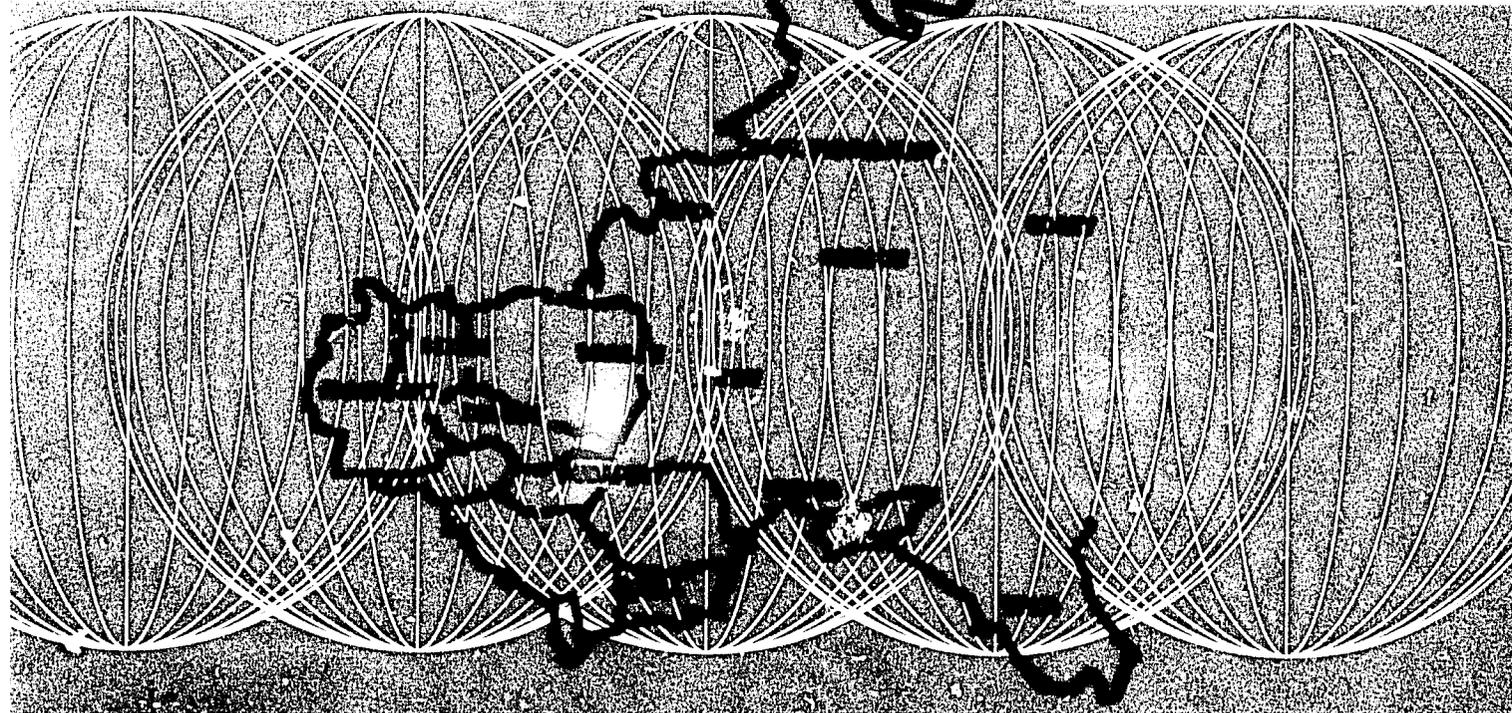
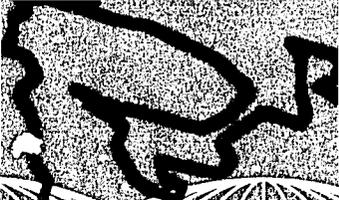
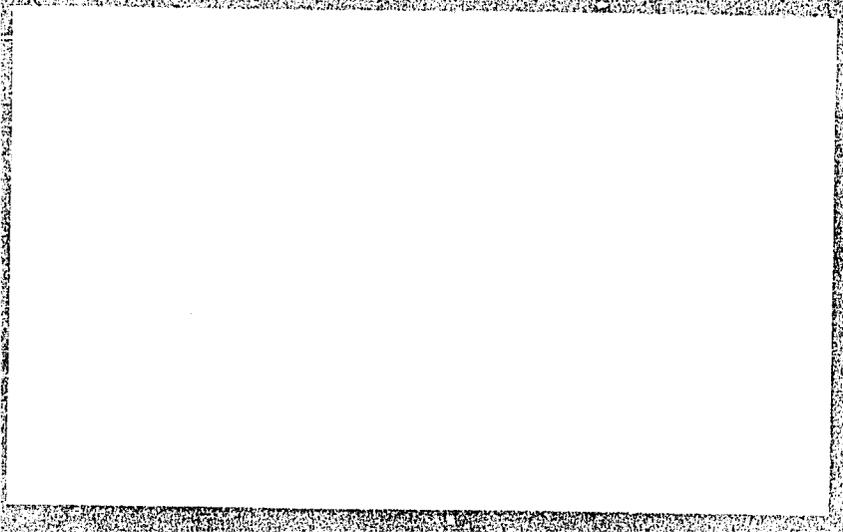


FD-1131-062

**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**

**QUARTERLY REPORT**

**SEPTEMBER 1992-NOVEMBER 1992**

Prepared by

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Prepared for

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1

**QUARTERLY REPORT  
SEPTEMBER 1992 — NOVEMBER 1992**

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

**A. Program Activities — Russian Federation**

**Housing Allowances**

Ray Struyk (Urban Institute (UI) staff) and Nadezhda Kosareva (CCN consultant) worked in September with the Russian group drafting the Presidential Decree on housing allowances to define options to be studied by the USAID technical assistance team. In mid-September Jennifer Daniell (UI staff) arrived in Moscow to train Russian counterparts from the Institute of Economic Forecasting in the use of a simulation model developed by the Urban Institute to evaluate the costs and effects of different housing allowance program designs. These simulations provided valuable input into the process of drafting the Presidential Decree on housing allowances; team members attended several meetings to discuss the implications of the simulation results. A final version of the draft decree, which is technically well-structured, was completed at the end of September.

Struyk and Kosareva also briefed 40 city officials and Deputies of the City of Moscow Soviet on housing allowances and prepared a 10-page summary report for distribution among city officials.

**Development of the Legal Framework**

Struyk, Kosareva, and Steven Butler (UI consultant) have met with numerous Russian counterparts to discuss and comment on draft legislation. These draft laws and programs included the Russian Federation program on housing (an overall policy framework for housing-related laws), the housing reform law, Presidential decrees on housing privatization and a voucher scheme to improve access to housing for households currently on waiting lists, the codexes (detailed implementing laws) to the town planning law and the housing reform law.<sup>1</sup>

Regarding the draft Law on the Fundamentals of Federal Housing Policy (the housing reform law which passed the Supreme Soviet on the first reading in October), proposed refinements on the law were provided directly to the Supreme Soviet committee, the Government (through the Ministry of Construction), and to lawyers in President Yeltsin's office. However, in November, the Supreme Soviet of Russia failed (by a narrow margin) to pass the housing reform law on the second reading. It now goes back to committee for revision. It is hoped that other changes suggested

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<sup>1</sup> Details of the advisors' comments can be found in the monthly reports for September through November 1992.

by the AID technical assistance team can be incorporated before the law is considered again (probably in January 1993).

An attempt to revise the housing privatization law to keep the common areas of privatized buildings under state ownership was stopped in November. The law, drafted the department of Ministry responsible for building maintenance (and therefore the champion of the existing system), passed first reading. However, Russian counterparts to the USAID technical assistance program—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 USAID technical advisors made before the second reading. These alterations made a distinct improvement to the law, but still left some problems. Project 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.

### **Housing Finance**

A draft agreement and workplan for providing technical assistance to MOSBUSINESSBANK (MBB) to establish a mortgage lending subsidiary was prepared this quarter for review by both the bank and USAID. After lengthy discussions and negotiations between USAID and 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.

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.)

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.

The Ministry of Finance has now become actively interested in housing finance reform legislation, seeking ideas for redirecting current subsidies for housing

construction to more efficient uses. The Ministry will prepare a proposal for the organization of mortgage finance and will invite the Ministry of Construction and the Ministry of Economics to comment. At the request of First Deputy Minister Vavilov, Kosareva and Struyk prepared a paper on the structure of the housing finance system in Russia. It is expected that the Ministry will also bring the Central bank into discussions with the USAID technical assistance team on the structure of the housing finance system.

Struyk, Kosareva, and Pratt met with Mr. Andrey Shopovalyance, First Deputy Minister of Economy. Mr. Shopovalyance having read the concept paper prepared for the Ministry of finance, the discussion centered on 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. The Deputy Minister has requested close cooperation between the USAID advisors and his staff.

Finally, the USAID advisors met with Nikolai Maslov, Director of Housing Privatization for the City of Moscow, to discuss a draft mayoral decree on housing finance. 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 housing finance entity to be established in Moscow. The USAID 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**

November included the first series of meetings of the Council on Technical Cooperation in the Housing Sector Between USAID 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. At the first meeting it became clear that Nikolai Maslov, the Chairman, 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 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. The USAID advisors 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 statements.

### **Housing Maintenance Pilot Project**

Angus Olson (Housing Management Resident Advisor) has begun conducting the training courses for the DEZs—the "owners" of city-owned housing; the first session of his ten-part training course in housing management was held on October 23. A training manual tailored to the Russian situation is being produced in the course of the program. Three representatives of each of the two owners are participating in the training, as will the Sub-Prefect of the Western Prefecture and one other representative of the Privatization of Management Subcommittee. Two representatives of The Institute of Housing Economy are also being trained in the "training of trainers" effort. Initial plans called for a total of ten people to be trained—however, the response was very positive; three more persons were added to the course.

In November, 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. 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 to: (a) expand it from 10 to 15 sessions, and (b) 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 private management.

### **Housing Allowances**

Building on analysis carried out for the Russian Federation, the USAID technical assistance team worked intensively with the City of Moscow in October to develop a housing allowance program design for consideration by the city government.

At a meeting of the Government of Moscow on November 17, Alexander Matrosov, director of 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.

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.

### **Condominium Law and Associations**

The City of Moscow has also requested assistance to organize owners' associations in buildings with privatized units. In response to this request, a study tour in the U.S. to observe the operation of condominium associations and understand the legal and managerial framework within which condominiums function is planned for early December. This tour would be followed by training sessions in Moscow on the formation and operation of condominium associations.

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.

Butler met with officials from the Government of Moscow responsible for developing policy and legislation on condominiums. The basic law on privatization may create a problem for the development of a standard form of multi-family homeownership; the situation is unclear, since the law is open to differing interpretations. The attention of policy-makers in both the Russian Federation and

Moscow Governments is focussed on a particular issue: whether homeowners associations should be given control and economic benefits from the commercial space that is part of many downtown residential buildings. This a serious issue in its own right, with implications both for the fairness of the privatization process and the City's budget (the City currently collects 2 billion roubles annually in commercial rents). Most of the homeowners associations currently forming are choosing organizational and legal forms appropriate to commercial businesses rather than housing. The long-run implication is that standardized underwriting of mortgage loans for units in multifamily buildings will be very difficult. One possible strategy for dealing with this problem is that the Ministry of Finance should be urged to take the lead on standard condominium legislation because of its importance to mortgage finance.

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, 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**

The Institute of Economic Forecasting is undertaking two monitoring studies as part of the technical assistance program:

- A longitudinal sample of 2,000 housing units in Moscow which were state rentals as of January 1992. The draft questionnaire for the survey of 2,000 households has been completed and survey work is to begin in December. 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.
- Collection of a series of indicators on the performance of the housing sector (similar to those collected by the World Bank's housing indicators project).

## **Dissemination**

Struyk met with the Director General of the Union of Russian Cities (which has 92 member cities), Konstantin Nikulin, to discuss the Union's possible interest in disseminating reports produced by the project and the participation of the USAID technical assistance team in seminars and conferences organized by 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 great current interest in housing finance in the financial community and germane ministries and the presence of Marisol Ravicz provided the opportunity to hold two seminars, with joint sponsorship by MBB. 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 a 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.

## **D. Logistics**

Offices in Moscow were obtained through Ministry. The offices are located at the Lubyanka metro stop; the address and telephone are as follows:

Furkasovskiy Pereulok 12/5  
Rooms 300, 301  
Moscow 101819

Telephone: (7095) 928-7336  
FAX: (7095) 924-7963

In addition, the project has obtained an additional 30 square meter room in a good building on Kalinina Prospect for use by Olson. (However, the building is a "closed" building, making access by visitors difficult.) The phone number is (7095) 203-5893.

An English-speaking secretary and office manager were recruited and a car and driver have been placed on hire to handle local transportation and deliveries. Other supporting office equipment—PCs, printers, FAX, and photocopier—have been provided through the Urban Institute or purchased as authorized under the contract.

Electronic mail (e-mail) services have been established between the Urban Institute in Washington and the Urban Institute office in Moscow. E-mail allows messages and documents to be transferred in digital form over the INTERNET computer network. The relevant e-mail addresses are:

UI/Washington: SMTP%"rus630601@ui.urban.org"

UI/Moscow: SMTP%"urbaninst@glas.apc.org"

**THE URBAN INSTITUTE**  
**QUARTERLY FINANCIAL REPORT (1 SEP/92-30 NOV/92)**

Shelter Sector Reform Project - Russian Federation/City of Moscow

Contract No. CCS-0008-C-00-2055-00 / UI Project 6306

Period of Performance: 1 Sep/92 - 31 Aug/94

Quarters Remaining (QR): 7

Category	Funds Authorized (a)	P-T-D Expenditures (b)	Balance of Authorized Funds [(a)-(b)] (c)	Approved Task Orders (d)	Task Order Approvals Pending (e)	Accruals [(d)+(e)-(b)] (f)	Uncommitted Funds Balance [(a)-(b)-(f)] (g)	Estimated Expenditures Next Quarter [(f)+(g)/QR] (h)
Salaries and Wages	\$837,000	\$71,980	\$765,020	\$152,403	\$13,378	\$93,801	\$671,219	\$109,289
Fringe Benefits	359,000	29,152	329,848	61,723	5,418	37,989	291,859	47,121
Indirect Costs	401,300	33,837	367,463	72,061	9,473	47,697	319,766	52,495
Consultants	431,900	13,143	418,757	36,260	15,044	38,161	380,596	59,822
Subcontracts	168,400	0	168,400	0	43,764	43,764	124,636	24,057
Training and Seminars	829,300	0	829,300	0	48,660	48,660	780,640	118,471
Equipment	7,300	0	7,300	8,000	0	8,000	(700)	1,043
Logistic Support Costs	374,900	15,618	359,282	50,577	0	34,959	324,323	51,326
Other Direct Costs	1,544,500	47,958	1,496,542	161,506	63,961	177,509	1,319,033	213,792
G&A	569,100	24,767	544,333	63,476	14,170	52,879	491,454	77,762
<b>Total Estimated Cost</b>	<b>\$5,522,700</b>	<b>\$236,454</b>	<b>\$5,286,246</b>	<b>\$606,006</b>	<b>\$213,868</b>	<b>\$583,420</b>	<b>\$4,702,826</b>	<b>\$755,178</b>
Fixed Fee	303,748	13,005	290,743	33,330	11,763	32,088	258,655	41,535
<b>Total Estimated Cost Plus Fee</b>	<b>\$5,826,448</b>	<b>\$249,459</b>	<b>\$5,576,989</b>	<b>\$639,336</b>	<b>\$225,631</b>	<b>\$615,508</b>	<b>\$4,961,481</b>	<b>\$796,713</b>

Prior Quarter

Estimated Expenditures	n/a
Actual Expenditures	n/a
Variance (%)	n/a

Current Quarter

P-T-D Expenditures	\$249,459
Previously Reported	0
Expended This Quarter	\$249,459

Next Quarter

Estimated Expenditure	\$796,713
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**TASK ORDER LOG (30 NOV/92)**

Shelter Sector Reform Project - Russian Federation/City of Moscow

Contract No. CCS-0008-C-00-2055-00 / UI Project 6306

Task Order Summary			Component Costs			Level of Effort (person-days)						
TO No.	Title	Total Cost	Resident Advisors	Washington Management	Short-Term Technical Assistance	Consultants						
						Total	Resident Advisors	(Short-Term)	Sub-Contractors	Washington Staff	Contract Mgmt	Training
						4,203	1,490	703	120	1,300	520	70
1	Core Staff (Sep/92-Feb/93)	\$639,336	\$443,741	\$195,595	\$0	625	293	0	0	272	60	0
2	Short-Term T/A (Sep/92-Feb/93)	225,631	0	0	225,631	168	0	87	41	40	0	0
<b>TOTAL</b>		<b>\$864,967</b>	<b>\$443,741</b>	<b>\$195,595</b>	<b>\$225,631</b>	<b>793</b>	<b>293</b>	<b>87</b>	<b>41</b>	<b>312</b>	<b>60</b>	<b>0</b>
<b>Project Status</b>												
	Contract Amount	\$5,826,430	Remaining in Contract		\$4,961,463	3,410	1,197	616	79	988	460	70
			Contract Expended (%)		14.8 %	18.9 %	19.7 %	12.4 %	34.2 %	24.0 %	11.5 %	0.0 %
	Current Obligations	1,200,000	Remaining in Obligation		335,033							
			Obligation Expended (%)		72.1 %							
	Total Vouchered	132,245										
	Accruals	732,722										