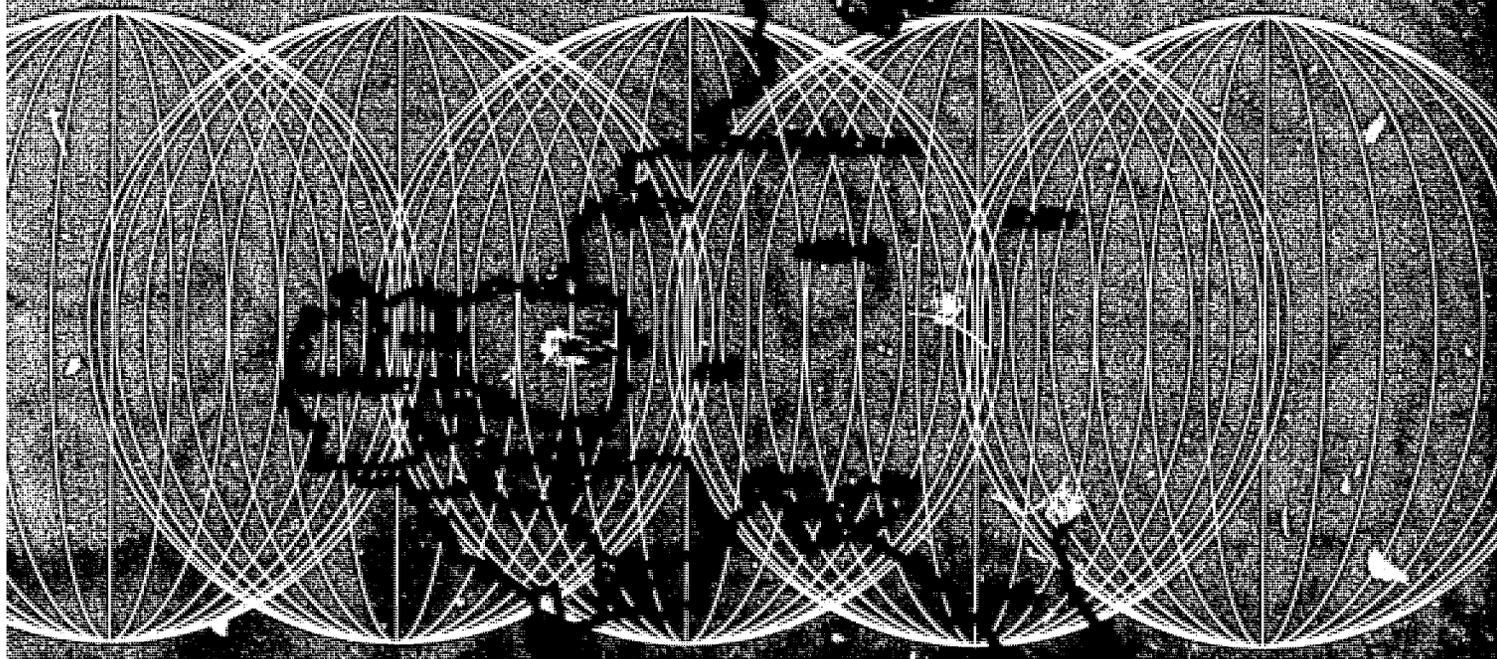
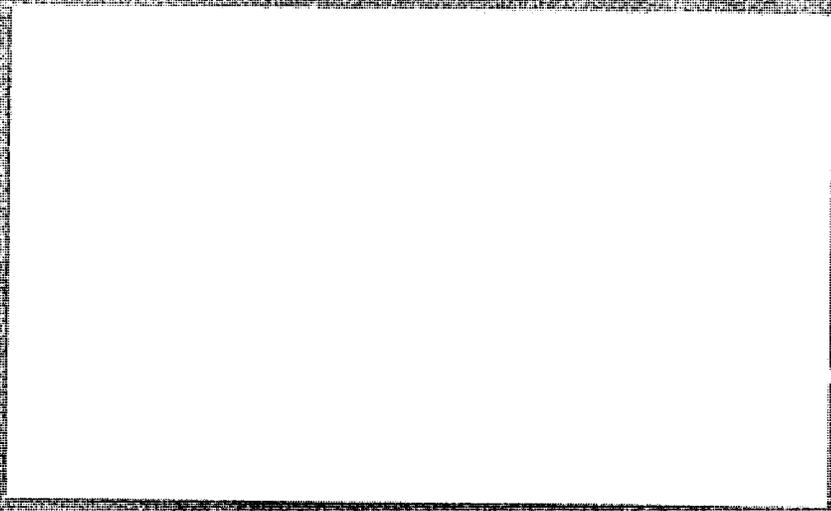


HD-ABF-464

**AN INTERNATIONAL ACTIVITY PROJECT**

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



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

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

**MONTHLY REPORT**

**DECEMBER 1992**

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## **MONTHLY REPORT — DECEMBER 1992**

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

#### **A. *Program Activities — Russian Federation***

##### **General**

Struyk and Kosareva met with Alexander Krivov and Anvar Shamozaferov of Ministry to discuss the future legislative and policy calendar. Krivov characterized housing as a definite "winner" in the Congress. (This may not be surprising, since the construction industry will certainly benefit from the new government's program to support industry.) Moreover, he reported that improved housing was a key plank in the platforms of the Civic Forum and Khasbulatov's faction. Ministry believes that Khasbulatov is committed to having the Law on Fundamentals of Housing Policy in the Russian Federation pass when the Supreme Soviet reconvenes.

The views of those more concerned with the economy, as well as housing, were less sanguine—there was genuine worry about serious economic instability in the months ahead; official targets for the government deficit for 1993 are already being revised upwards. Clearly, the greater the extent of economic instability, the greater the difficulty in establishing workable mortgage lending.

##### **Development of the Legal Framework**

Through the efforts of the USAID technical assistance team and First Deputy Minister of Finance Vavilov, President Yeltsin returned the law to accelerate housing privatization to the Supreme Soviet. However, Mr. Derendayev, chairman of the housing committee, is not inclined to include a much-needed change (allowing condominium owners the freedom to hire private management companies) and the President did not request the change in his message to the Supreme Soviet returning the law. The team is preparing a letter to Mr. Efin Basin and others in the Supreme Soviet to try to get this provision as well as some unfortunate provisions in the "Law on Fundamentals..." that deal with condominiums changed. The Economic Reform Working Center of the Russian Federation will also include our comments in its comments for Government.

##### **Housing Finance**

Urban Institute staff and MOSBUSINESSBANK (MBB) completed the draft work plan for USAID assistance to the bank during 1993; the plan was submitted to USAID for review. On Friday, December 4th, a press event with MBB and USAID/Moscow was held to announce the agreement with USAID. A half-dozen press organizations were present; the story appeared on prime-time news and was carried in the business press.

Struyk and Kosareva began a series of meetings with government officials and bankers to explore the concrete steps that should be taken next in the development of the housing finance system. The technical assistance team's ability to respond is clearly constrained by limited resources; we are now working with several banks and government agencies in providing basic information and clearly cannot continue to perform this function alone. One possible answer is for the banks form a "mortgage finance assistance center" which would hold classes and provide assistance on a fee basis.

Overall, the meetings went very well. The idea of the technical assistance center to work with banks to do those things that banks can do for themselves was extremely well received. The Ministry of Finance and the agencies of City of Moscow also seem inclined to begin work on a first set of actions to reduce the credit and interest rate risk confronted by mortgage lenders.

Apart from these activities, the USAID technical assistance team is maintaining contact with other parties in the housing finance field:

- Struyk and Kosareva met with senior management at Sberbank (Sergie Ivanov and Mikhail Gavrilin) to discuss the structure of the housing finance system we had proposed to First Deputy Minister of Finance Vavilov.
- Struyk met with the Leonid Paydiev, Head of Department of Privatization at the Ministry of Economy, to discuss a range of topics. Housing finance was discussed in the context of stimulating residential construction.
- Struyk gave a tutorial on simulation model for indexed mortgage instruments to several deputies from the Mossoviet committee headed by Mr. Spirin.

### **Housing Allowances**

During the meeting with Alexander Krivov, it was discussed how Ministry anticipated providing assistance on designing housing allowance programs to the republican and other "local" governments who would be given this responsibility in the "Law on Fundamentals...", assuming it is passed by the Supreme Soviet. It appears the Institute for Housing Economy and Municipal Economy would be the obvious organization to take on this role.

This is the institute with which Angus Olson has been working on the housing management pilot project. We have extremely good relations with them. We will discuss how we might help train the institute's staff for this new advisory task in January.

## **B. Program Activities — City of Moscow**

### **General**

Struyk and Kosareva participated in a series of meetings this week (and Olson in one) chaired by Nikolai Maslov to discuss a possible reorganization of the housing operations of the City of Moscow. They are now scattered across six agencies and functions are under control of three deputy premiers. In order to avoid getting caught in a "turf war", we have advised that the most important change should be to have a consolidated office for policy and budget at the deputy minister level.

The Council on Technical Cooperation in the Housing Sector Between the Agency for International Development and the City of Moscow met twice in December to review issues relating to condominiums and housing finance. The housing finance session was devoted to a presentation by Mr. Yevgeni Spirin, chairman of a Mossoviet committee concerned with housing, on a structure for housing finance in the city. It is a highly complex scheme, with subsidies layered on both the demand and supply sides. His objective is to make new housing affordable for purchase by the "average" Moscow family. We have agreed to work with Spirin to estimate the housing affordability of Moscow families, based on our survey of households that is now in the field.

The Government of Moscow was scheduled to review formally the progress of the USAID technical cooperation program at its regular meeting on December 15. However, because of internal matters in the city government, the presentation has been postponed indefinitely.

### **Housing Maintenance Pilot Project**

Olson delivered the eighth, ninth, and tenth parts of the training program for local government officials and several "trainers of trainers" in housing maintenance. The sessions continue to go extremely well. Roberta Graham (of Quadel Consulting) arrived in early December to present five sessions on financial aspects of housing management. These sessions also went very well and provided a strong conclusion to the training course. A "graduation" ceremony was held on December 10th. The certificates of completion were signed by the Prefect of the West Administrative District, Alexei Bryachikhin, and Angus Olson.

Olson has prepared an outline of the study tour for officials in the West Administrative District who will act as property owners under the pilot program. It will be scheduled for the last week in January. Olson is also working on the contract between the city and private management companies.

## **Housing Allowances**

At the regular weekly meeting of Government, the program of raising rents are introducing housing allowances was again discussed. Several members of the government, including Konstatin Bouravlyov, a First Deputy Premier, and Maslov (not a member of the government), spoke in favor of proceeding. Additionally, the idea was generally agreed upon by the chairmen of two of the three germane committees of Mossoviet. The schedule that was proposed by Mr. Matrosov, member of government and head of the Department for Maintenance Services, was for an increase in maintenance fees of 2 or 3 times as of January, with quarterly increases thereafter. Mayor Luzhkov said he preferred an accelerated schedule.

However, the meeting did not end with a formal adoption of the program. Rather, Luzhkov asked that Matrosov and Mossoviet return with an agreed upon final proposal.

## **Condominiums**

After some initial confusion and delays because of missing passports and visas for the Russian participants from Moscow, a study tour on U.S. condominiums was successfully carried out in Washington during December 9-16. The study tour brought the Russian participants into contact with a number of parties involved in condominium affairs, including management companies, association executives, and non-profit housing organizations.

Struyk and Kosareva had a somewhat discouraging with Mrs. Terokina, the person on Nikolai Maslov's staff who is supposed to be spearheading the drive to prepare the condominium law. Her position was that there were a number of provisions in the draft law (prepared by legal advisor Steve Butler) that were at variance with Russian Federation law and the Federation law would have to altered. However, Mrs. Terokina was unable to state that if this was a definitive list of problems; nor could she say that she and her colleagues in the City's legal office could produce such a list. Mr. Maslov has promised to push the lawyers, but obtaining results may be difficult.

## **C. Program Activities — General**

### **Sector Monitoring**

The panel survey of 2,000 households who occupy units that were rentals as of January 1992 was begun in December. Survey instrument design, pre-testing, and interviewer training were successfully completed and the survey has been fielded

without difficulties so far.

Olson and Struyk met with Alla Guzanova, the person directing the survey just noted, about using the same questionnaire in a survey of the occupants of 300 of the 2,000 units that will be included in the housing management pilot program. The survey will be conducted in February just before the buildings are handed over to private maintenance companies and the data will serve as "baseline" data for the evaluation of the pilot. The household survey data will be complemented by information gathered through physical inspections of the buildings. Our plan is for the inspections to be done by staff from the Institute for Housing Economy and Municipal Economy, an institute which is expert in housing management operations.

### **Dissemination**

Kingsley and Struyk's paper on housing privatization is in the current issue of the journal, *Economic Issues* (in Russian). This is one of the most prestigious economic journals in the country.

### **Training**

Twelve applicants for the four week course that will be conducted by David Falk and others at the University of Maryland in February were sent to St. Petersburg for interviews with Falk and others. With many strong candidates and only five slots allocated, greater representation from Moscow would be welcome.

Four persons were named to participate in the Housing Finance Conference/ Training Program being organized by Richard Pratt and others at the University of Utah at the end of February. Our candidates include from Mosbusinessbank, the President and the person now heading the working group on mortgage finance, the First Deputy Minister of Finance, and Dr. Nadezhda Kosareva, the senior Russian consultant to our project who is heavily engaged in our housing finance work.

In response to a FAX from Pratt's office this week, papers on housing finance (in Russian) and recent legislation important for housing and housing finance were sent to the conference organizers in Utah.

### **Coordination with Novosibirsk and Ekaterinburg**

Two city officials from Novosibirsk took part in the study tour to Washington on condominiums which we have organized for Moscow officials. It is also expected that similar representation for the January study tour will be obtained.

Roberta Graham went on to Novosibirsk the week after her Moscow presentations to teach the same classes there as she has in Moscow, using the materials developed and translated for the Moscow presentations.

### **Military Housing & Central Russia Project**

Struyk has been participating in approximately weekly meetings at USAID/Moscow on these topics. He has reviewed proposals (some developed by USAID) on both of these topics and also prepared some housing price and cost data for USAID. Struyk also prepared a memo at the request of James Norris providing additional information on the cost of constructing housing in the Russian Federation. Later, Struyk and Deikun met with Dr. Tanya Belkina to obtain additional information on costs.

### **Outside Meetings/Contacts**

Struyk met with Carolyn Harris, an attorney from New York who has been working with the City of Moscow under the CEELI program. In particular, she has been working with the Office of the Mayor on legal issues involved in the residential development of suburban areas around Moscow. She has been working on drafting legislation for a regional government that would have area-wide planning powers and related tasks. She reported that the Mayor's Office was becoming involved in housing finance as part of suburban development.

Struyk met with Frank Davis and David McFarlane of Delta Heights, a New Hampshire-based developer, at the request of former Senator Gordon Humphries. They are exploring development of housing in Russia.

## **D. Notable Developments Concerning the Housing Sector**

In early December, there were several important developments:

- The Supreme Soviet passed the law "On the Right of Citizens of Russia to Own and Sell Land Plots for Farming, Gardening and Building Private Homes," which for the first time in the country's history permits free exchange of land. The law abolishes Article 12 of the constitution, as it applies to the types of plots covered under the law; the article in principle continues to apply to larger plots of agricultural land. The Congress of People's Deputies, however, simply amended Article 12 of the constitution was amended to permit limited sales of land; land originally sold for residential use and be resold without restriction for continued use of this type.

- The Supreme Soviet also passed an amendment to the constitution replacing Article 58 which states that the state will provide citizens with housing at a low price. It is replaced with a new article which contains a more market-oriented statement about private property rights and state assistance through housing allowances. This amendment was approved by the Congress of People's Deputies.
- Acting Prime Minister Gaidar presented the Government's "Anti-Crisis" program to the Supreme Soviet last Friday. The two areas singled out as the highest priority were conversion of defense industry and housing. These priorities reflect agreements between the Government, the Civic Union, and the trade unions.
- Effective December 1, the Ministry of Architecture, Construction, Housing Facilities, and Communal Services (Minstroy) ceased operations and was replaced by two State Committees. Apparently Minister Furmanov will be the chairman of the committee which takes the housing and construction functions and Deputy Minister will assume the chairmanship of the committee dealing with housing maintenance.

On December 23, 1992, the Supreme Soviet adopted the resolution "On Introducing Changes and Amendments to the Law of the Russian Federation—On Privatizing the Housing Stock in RSFSR." This resolution was first passed on November 18, 1992, but President Yeltsin refused to sign it into law, citing that the Supreme Soviet did not have the constitutional power to enact such changes to the law. The Supreme Soviet's right to pass the law was confirmed and the newly-passed version is expected to be signed by the President.

On December 24, 1992, amendments to the Constitution created by the "Law on Fundamentals of the Federal Housing Policy" were adopted by the Supreme Soviet. These are also expected to be signed by the President before mid-January.

## **E. Logistics and Planned Travel**

### **Program Resources**

The team is being kept extremely busy by requests for assistance from officials from the Russian Federation, the City of Moscow, and various banks. Thus far we have been able to respond to these reasonably efficiently, but will be unable to respond further if the requests continue to increase and the program continues to grow. In response to these pressures, Jennifer Daniell, a junior Urban Institute core staff person, will be assigned to Moscow for extended periods on a non-resident basis.

### **Planned Travel**

Steven Butler is scheduled to travel to Moscow on January 22, 1993, for a period of three weeks. He will be working on legal issues concerning housing finance and mortgage lending.

As noted above, Jennifer Daniell will be spending extended periods in Moscow to support the work program. She is scheduled to arrive in Moscow on February 1, 1993, for an initial period of eight weeks.

### **F. Budget and Level of Effort Summary**

Budget (Actual expenditures, excluding UI fee)	
December 1992	\$180,573
Project to date	\$417,027
Level of Effort (person-months)	
December 1992	6.52
Project to date	24.60