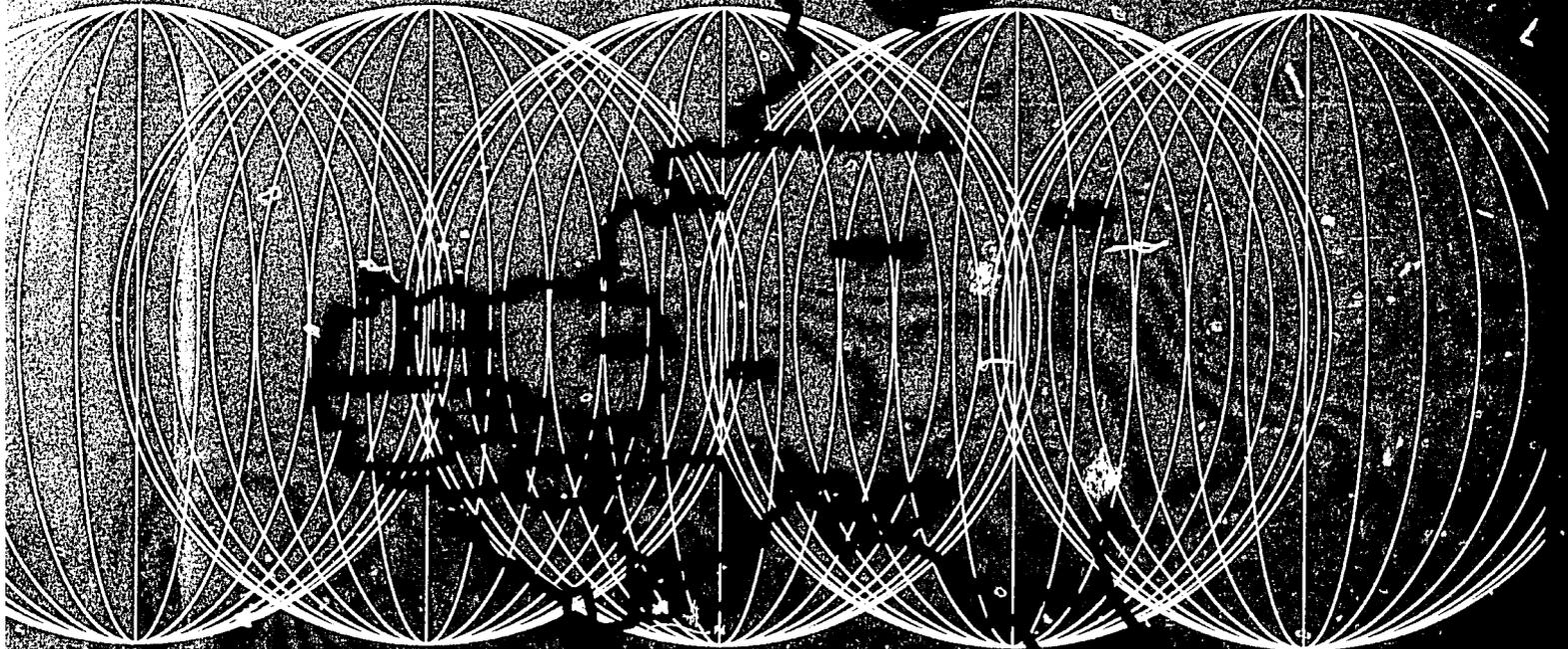
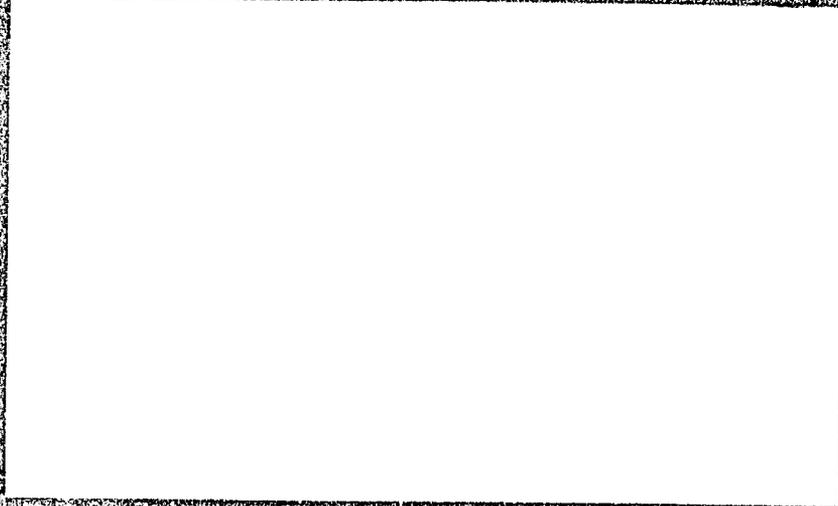


FROM PLANNING TO MARKETS
HOUSING IN EASTERN EUROPE



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

PD-HBF-549.

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

QUARTERLY REPORT

DECEMBER 1992-FEBRUARY 1993

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**QUARTERLY REPORT
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**SHELTER SECTOR REFORM PROJECT
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A. Program Activities — Russian Federation

Housing Allowances

Ray Struyk (SSRP Resident Advisor), Nadezhda Kosareva (CCN Consultant) and USAID staff met in January with Minister Efim Basin, Deputy Chairman Krivov and Anvar Shamosafarov (Head of the Housing Department) of the State Committee on Construction and Architecture (Gostroi) to review the technical assistance program. Gostroi will provide assistance in designing housing allowance programs to the republican and other "local" governments who would be given this responsibility in the recently passed Law on Fundamentals of Housing Policy. The Institute for Housing and Communal Economy (IHE) will work directly with cities and republican, krai, and oblast governments to assist them to design their programs of raising rents and introducing housing allowances. The SSRP team will support the Institute by training staff, helping develop some strategies, and reviewing strategies developed by the Institute.

Sasha Puzanov (CCN Consultant) and Kosareva began working with staff at the Institute for Housing and Communal Economy (IHE) in early February to review the concept of the allowance program and to teach them how to use the housing allowance simulation model (HASM) developed under the SSRP assistance program to the City of Moscow. Struyk and Kosareva met with Igor Bychkovsky and Irina Minc (IHE) to further plan our cooperative work on helping local governments design their rent increase-housing allowance programs. A conference with the Institute on "Approaches to Implementing the Housing Reform Law," will be held on May 12-13. with most attention will be given to housing allowances.

The team has collected data and developed plans to do a comparative study of a program of raising rents and introducing housing allowances in Moscow, Ufa (Bashkiria), and Novosibirsk that will be a kind of guide for cities which are addressing program design issues.

Development of the Legal Framework

Steven Butler (SSRP Legal Advisor) and Struyk have met with numerous Russian counterparts during this quarter to assist in drafting and commenting on legislation. Most notably, Butler met with Anvar Shamosafarov (State Committee on Architecture and Construction - Gostroi) to discuss how the technical assistance team can most effectively participate in the preparation of the codex that will implement the Law on the Fundamentals of Housing Policy in the Russian

Federation. Struyk met with the Gostroi official drafting the Presidential Decree on "nonbudget sources of finance for housing construction," which includes provisions for the development of the housing finance system.

Housing Finance

In December Urban Institute staff and MOSBUSINESSBANK (MBB) completed the draft work plan for USAID assistance to the bank for 1993. The completed work plan was accompanied by a press event with MBB and USAID/Moscow to announce the agreement with USAID. The team has completed much work in the housing finance area this quarter.

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 team is working with several banks and government agencies in providing basic information. In an effort to consolidate assistance in this area, Struyk and Kosareva met with three banks this week to discuss the possible creation of a "center for Russian mortgage lending," which would be owned by several banks interested in mortgage lending and which would offer consulting services and educational programs to member and non member banks. The banks were: Sberbank, the Mortgage Standard Bank, and the Joint Stock Mortgage Bank. Reception to the idea was very positive. In a meeting between Sberbank and representatives of the Office of Housing, Sberbank expressed a willingness to take a leadership role in creating the center and asked for help from AID in establishing it. The tentative plan is for Sberbank to host a meeting of interested banks at the end of March, having distributed the concept paper in advance and with Deputy Chairman Barabash having held preliminary meetings with a couple of key bank presidents.

Struyk and Kosareva met with Dr. Sokolovskaya and other members of the working group on mortgage finance at MBB to discuss the ongoing work program. MBB is anxious to begin thinking about funds mobilization and an initial meeting is being arranged to learn about MBB's current sources, terms, and cost of funds and their general strategy. As part of the work on mobilization, Sokolovskaya, Struyk and Kosareva met with Leonid Paydiev, Head of the Finance Department of the Ministry of Economy, to discuss the possibility of pension funds and insurance companies investing in securities based on residential mortgages.

The Supreme Soviet will be taking up President Yeltsin's Budget Proposal for 1993. Of great interest is the proposal to use rub 285 billion of state debt to support the development of mortgage financing. This proposal had its genesis in the USAID technical assistance team's joint work with the Ministry of Finance. One of the U.I.'s specific proposals was for the creation of a mortgage loan agency. At the request of

Anvar Shamosafarov, the proposal was also given by Kosareva to the State Committee on Architecture and Construction.

Alexander Puzanov made projections (using various scenarios) regarding mortgage loan affordability for the current income distribution in Moscow. The results were presented as a "new system for the financing of housing construction" to the working group of The Moscow City Council Committee on Architecture.

Steven Butler spent the second half of January working intensively with MOSBUSINESSBANK staff on legal aspects of mortgage lending. His report contains working drafts for MBB of all of the principal documents used in loan origination that have significant legal implications, including the application, commitment letter, disclosure form, loan contract, and promissory note. The working group at MBB is now to draft their legal forms, based on the edited model documents Butler provided and the discussions led by Butler over the past two weeks.

Butler also prepared a draft paper on legal aspects of mortgage lending in Russia. It was discussed at the end of January with a knowledgeable Russian lawyer to determine how actual practice differs from the statement of the law. Butler will finalize the paper based on these discussions. Butler's memo with comments on the Mortgage Law was translated and given to Mr. Zadonsky's Working Group at The Supreme Soviet; this was done at their request.

Apart from these activities, the USAID technical assistance team is maintaining contact with other parties in the housing finance field, including senior management at Sberbank to discuss the structure of the housing finance system the team proposed to First Deputy Minister of Finance Vavilov and with Leonid Paydiev, Head of Department of Privatization at the Ministry of Economy, with whom Struyk discussed housing finance in the context of stimulating residential construction.

B. Program Activities — City of Moscow

General

Several institutional changes have occurred in the City of Moscow this quarter which affect housing policy operations. In February Mayor Luzhkov signed a decree that concentrates responsibility for formation of the City's housing policy in the Department of Municipal Housing, headed by Pyotr Saprykin. In practical terms, this means that Nikolai Maslov, Director of the Office of Housing Privatization and coordinator of the shelter cooperation program for the City of Moscow, will have the principal policy formulation role. Maslov explained in a meeting with Struyk and Kosareva that this transfer of responsibilities, particularly from the Department of

Communal Services, will be gradual and that the team should continue to work with staff there on implementation of the housing allowance program.

The Department of Municipal Housing is establishing an Office of Property Tax Policy; the Office of Tax Inspection is engaged solely in tax collection. Struyk has provided some materials to Maslov on policy issues involved in defining and administering the property tax. Further discussions are likely in the weeks ahead.

In January Michael Lippe, Sean Walsh, and George Deikun of USAID and Struyk and Kosareva met with Maslov to review progress on housing privatization and the cooperation program. Maslov reported that by the middle of February 500,000 units will have been privatized in the city.

Housing Maintenance Pilot Project

In December Olson completed the training program for local government officials and several "trainers of trainers" in housing maintenance. These sessions went very well and provided a strong conclusion to the training course. A "graduation" ceremony was held on December 10th. Three of the participants in the training, along with three participants from Novosibirsk, attended a "Property Owners Study Tour" in Washington from January 26-February 3.

The team and IHE will hold a conference on the maintenance demonstrations and housing allowance in the second half of September. The conference, likely to last four days and to held in suburban Moscow at a "rest house," will cover both the maintenance pilot projects and housing allowances. The sponsors will include USAID, IHE, and probably Gostroi and the Committee on the Municipal Economy.

The RFP soliciting bids for the Pilot Project was issued in February. A press conference by Maslov, Matrosov, and Bryachikin to publicize the RFP was held in mid-February; the timing coincided with the advertisements that Olson placed in three Moscow newspapers. Twenty four private firms expressed interest in being hired under contract to maintain residential buildings under the pilot project. In the end, six bidders submitted a total of eleven bids for the three "packages" of buildings being competed. (A firm could bid on more than one of the packages.) Olson participated in the opening and scoring of the bids, the interviews with each of the proposers and the final decision meeting for selecting the winning companies. Olson was impressed by the quality of the proposals received and by the seriousness with which the competitive process of run by City officials. The panel of Moscow officials decided to award two contracts, with one firm being awarded contracts for two of the packages.

Contracts with the winning firms were signed on March 1, 1993. This program is exactly on the schedule drafted last July—a significant accomplishment given its complexity.

Housing Allowances

The target for implementation for the first, modest rent increase remains the first of April. The team has met on a regular basis with the Government throughout this quarter to design the program of raising rents and introducing housing allowances. In February Struyk and Kosareva participated in a meeting chaired by A.S. Matrosov, Director of the Department of Communal Services and Member of Government, and attended by the City's top housing officials, at which concrete plans for implementing the housing allowance program were first discussed. Matrosov asked the team to take several assignments having to do with detailing the administrative structure, identifying the duties of the housing allowance office, and designing a training program for city officials.

Condominium Law and Associations

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.

At the end of February, final changes were made to the draft condominium law. The critical changes the team sought were obtained. The team believes that the final version resembles in its essentials the draft law prepared by Steve Butler. There were some difficulties between the team and Maslov's office in agreeing on the contents of the final draft. Mrs. Terokina, the person on Nikolai Maslov's staff spearheading the drive to prepare the condominium law felt that there were a number of provisions in the draft law (prepared by Butler) that were at variance with Russian Federation law and the Federation law would have to be altered. Butler provided Maslov with critical comments on the draft of the condominium regulation which has been prepared by the city lawyers using Butler's draft as a major input (the city believes that legislation is not needed). Maslov had already made some of the changes, based on conversations with Kosareva. It is believed the final draft condo regulations was sent by Maslov to Mayor Luzhkov for his signature in late February.

On February 1 the Department of Municipal Housing created a new office to deal with the formation of condominiums. The SSRP team will assist with the development of the newly created office on condominiums. The plan is for there to be a three-person office at the City level that would set policy, etc., and an additional

three-person office in each Administrative District that would do actual implementation work, including helping with the creation of condominium associations. The assistance is planned in two parts: (a) an initial trip of a couple of weeks that would help the City office define its duties and generally help these new people understand condominiums better; and (b) a second, three week trip in which training for the staff in the offices in the Administrative Districts would be prominent. The timing of the trips remains to be set.

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. Puzanov and Daniell have begun analyzing the data and will prepare two papers — one on privatization and the other on the quality of the housing stock.

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 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.

The team took delivery of the drafts of two major products on January 22: (a) the housing indicators for 1989-1991; and (2) the data from the survey of 2,000 households in Moscow living in units that were state rentals as of January 1992. Both of these data gathering tasks were executed by staff at the Institute for Economic Forecasting. Early review suggests that both products are in good shape and more detailed reviews is now being undertaken. For the interview data, this consists mainly of doing consistency checks on data within individual observations. For the indicators, checking what was done against what was called for in the UNDP-World bank guidelines, supplemented by the team's instructions. Copies of the final products will be sent to USAID in a few weeks.

Kosareva and Struyk have reviewed the draft housing indicators report for 1989-1991 and have provided written comments to the team at the Institute for

Economic Forecasting (IEF) which is doing the work. The IEF team has addressed many of them and make further revisions. While this is turning out to be a labor intensive process, we are hopeful that the data for 1992 will be assembled with much less trouble. Realistically, we do not now expect to receive this report in final form until April.

Butler submitted his report on existing laws and legal developments over the past six months in housing area. (The report is a standard part of the program's monitoring activities.)

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.

Butler gave a seminar on February 9 on existing legal provisions for mortgage lending in Russia and modifications to the law that appear to be appropriate. The seminar was attended by about 50 persons from the banking community, Federal ministries, and the city of Moscow. Butler also gave a seminar on legal aspects of housing finance, focusing on amendments needed to existing laws. The seminar was attended by about 40 Russian bankers, attorneys, and government officials.

The project has now distributed about 6,000 copies of twelve papers to interested persons since August. Our address list is now over 400. Word about our papers has spread quite widely and on a typical day three or four persons from outside Moscow will visit our office and ask for copies of the papers. As noted in an earlier report, at least two organizations are reprinting some of our papers and selling them on commercial terms.

Struyk and Kosareva held their second meeting with a reporter from *Commerzant*, the local major business newspaper, to explain mortgage finance in detail. *Commerzant* will begin a new real estate publication and this reporter will be responsible for housing finance reporting.

E. Logistics

Program Resources

The SSRP team had to give up our space in the building belonging to the Supreme Soviet on Novi Arbat on January 29. At the suggestion of Anvar Shamosafarov, Struyk sent a letter to Minister Basin in mid-February renewing our request for additional office space. The Minister approved the request and allocated

us three rooms in a City building near the Prospect Mira metro (two metro stops to the north of our office in Furkasovskiy Pereulok). We accepted the offer, but it will take some time for us to actually receive the space because current occupants will have to be evicted.

THE URBAN INSTITUTE
QUARTERLY FINANCIAL REPORT II (DECEMBER, 1992-FEBRUARY, 1993)
 Shelter Sector Reform Project - Russian Federation/City of Moscow
 Contract No. CCS-0008-C-00-2055-00 / UI Project 6306
 Period of Performance: September 1, 1992 - August 31, 1994 (Base Period)

16-Mar-93
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Quarters Remaining (QR):	6
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Category	Contract Budget Base Period (a)	Total Approved Task Orders 1-5 (b)	Task Order Approvals Pending (c)	P-T-D Expenditures P-4(3/9/93) (d)	Accruals [(b+c)-(d)] (e)	Budget Ceiling Balance [(a)-(d+e)] (f)	Estimated Expenditures Next Quarter [(e+f)/QR] (g)	Total Project Costs (Actual/Estimated) (h)
Salaries and Wages	\$837,000	\$202,690	\$0	\$139,280	\$63,410	\$634,310	\$116,287	\$318,977
Fringe Benefits	359,000	82,089	0	56,408	25,681	276,911	50,432	132,521
Indirect Costs	401,300	92,900	0	62,671	30,229	308,400	56,438	149,338
Consultants	431,900	65,850	0	30,946	34,904	366,050	66,826	132,676
Subcontracts	168,400	83,959	0	84,554	(595)	84,441	13,974	97,933
Training and Seminars	829,300	0	0	0	0	829,300	138,217	138,217
Equipment	7,300	19,900	0	0	19,900	(12,600)	1,217	21,117
Travel & Logistic Support Costs*	1,544,500	226,180	0	123,361	102,829	1,318,310	236,857	463,047
Other Direct Costs**	374,900	140,937	0	40,583	100,354	233,963	55,720	196,657
G&A	569,100	101,794	0	57,681	44,113	467,306	85,237	187,031
<i>Subtotal</i>				<u>\$595,483</u>				
<i>Indirect cost rate adjustments</i>				<u>(\$3,724)</u>				
Total Estimated Cost	<u>\$5,522,700</u>	<u>\$1,016,309</u>	<u>\$0</u>	<u>591,759</u>	<u>\$420,825</u>	<u>\$4,506,391</u>	<u>\$821,205</u>	<u>\$1,837,514</u>
Fixed Fee	<u>303,748</u>	<u>55,897</u>	<u>0</u>	<u>32,547</u>	<u>23,350</u>	<u>247,851</u>	<u>45,200</u>	<u>101,097</u>
Total Estimated Cost Plus Fee	<u>\$5,826,448</u>	<u>\$1,072,206</u>	<u>\$0</u>	<u>\$628,030</u>	<u>\$444,175</u>	<u>\$4,754,242</u>	<u>\$866,405</u>	<u>\$1,938,611</u>

*Travel (incl. per diem), transportation (incl. shipping), and overseas allowances
 **LTA field costs and home office costs

Total Obligated Funds Available
 Thru This Quarter: \$1,350,000
 Obligated Funds Balance
 Thru Next Quarter: (\$588,611)

Summary	Estimated Expenditures	Expenditures End of Quarter	P-T-D Expenditures
Last Quarter ending: November 30, 1992		0	\$249,459
This Quarter ending: February 28, 1993	\$796,713	\$378,571	\$628,030
Next Quarter ending: May 31, 1993	\$866,405		

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THE URBAN INSTITUTE
QUARTERLY FINANCIAL REPORT II (DECEMBER, 1992-FEBRUARY, 1993)
 Shelter Sector Reform Project - Russian Federation/City of Moscow
 Contract No. CCS-0008-C-00-2055-00 / UI Project 6306
 Period of Performance: September 1, 1992 - August 31, 1994 (Base Period)
TASK ORDER LOG

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Task Order No.	Period	Title	Total Cost	COMPONENT COSTS:			LEVEL OF EFFORT (person-days)							
				Resident Advisors	Washington Prof. Staff/Mgt.	Short-Term Technical Assistance	Total	Resident Advisors	Consultants	Subcontractors	Washington Prof. Staff	Contract Management	Training	
							4,203	1,490	703	120	1,300	520	70	
1A	9/92-2/93	Core Staff	\$606,602	\$401,225	\$154,185	\$51,192	581	320	0	0	228	33	0	
2A	9/92-3/93	Short-Term TA	\$223,750			\$223,750	139	0	12	43	64	0	0	
3	3/93-4/93	U.S. Prof. Staff	\$58,434		\$58,434		91	0	0	0	75	16	0	
4	3/93-4/93	LTA	\$140,835	\$140,835			108	108	0	0	0	0	0	
5	3/93-4/93	STA (Sberbank)	\$42,585			\$42,585	40	0	40	0	0	0	0	
Total			\$1,072,206	\$542,060	\$212,619	\$317,527	959	428	52	43	387	49	0	
Budget Ceiling and Funding Summary:							LOE Expended:	22.82%	28.72%	7.40%	35.83%	29.77%	9.42%	0.00%
Base Period Budget: \$5,826,448							LOE Balance:	3,244	1,062	651	77	913	471	70
Expenses Thru This Qtr: \$1,072,205														
Ceiling Balance: \$4,754,243														
Expenses Thru This Qtr: \$1,072,205														
Expenses Next Qtr: \$866,405														
Total: \$1,938,610														
Funds Obligated: \$1,350,000														
Funds Needed: (\$588,610)														

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