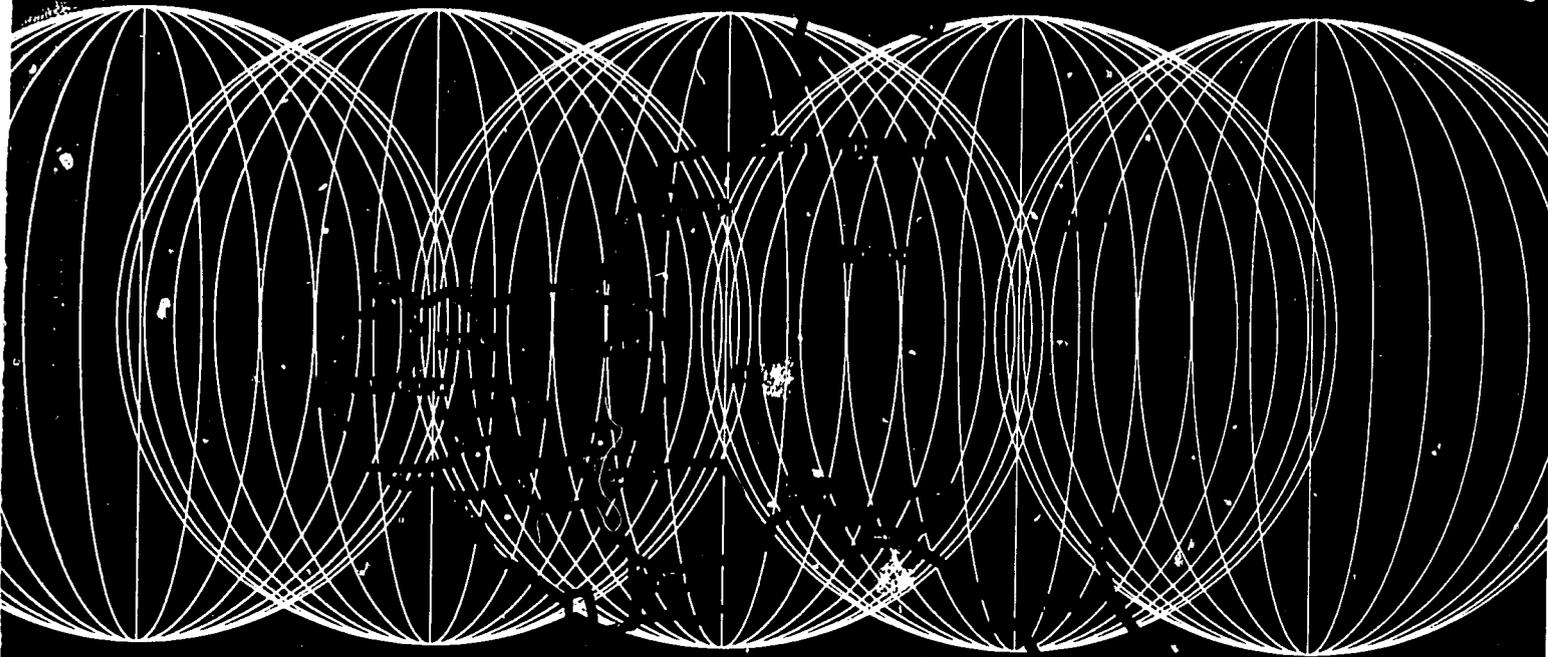
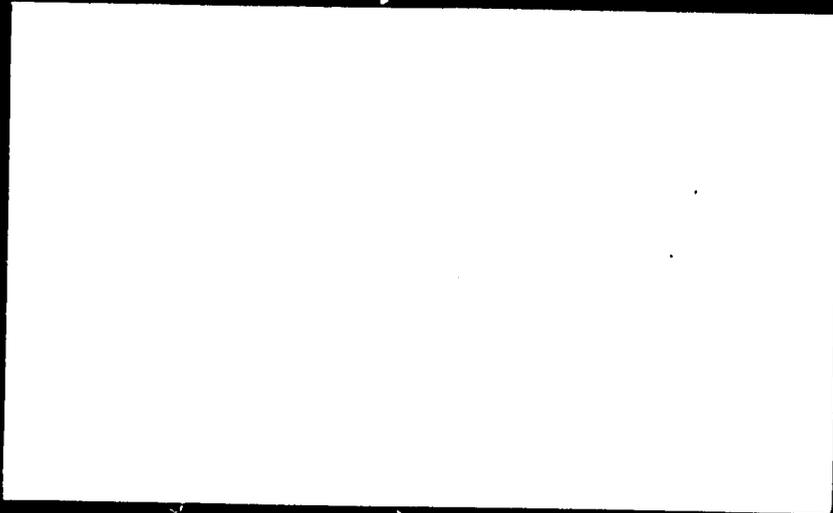


PD-ABF 709

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



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

PD-ABF 709

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

**MONTHLY REPORT**

**MARCH 1993**

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**MONTHLY REPORT — MARCH 1993**

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

**A. Program Activities — Russian Federation**

**Legal and Policy Developments**

The Law on Mortgages will soon be introduced to the Supreme Soviet for a first reading. The law, on which the team, particularly Steve Butler, has done much work, would considerably refine the provisions for mortgage lending contained in the Law on Collateral passed last May. The law as drafted does not do justice to a number of the new concepts introduced. We hope that Butler's 13 pages of comments will have some effect when the Law is finally introduced. These comments were distributed in Russian to about ten key parties, including Mr. Zadonski, the Supreme Soviet Deputy responsible and several bank, including those on the act's working group and Sberbank.

The meeting of the Russian Federation cabinet devoted to housing policy was held on March 18. The general result was the approval of the program advanced by Minister Basin. The Prime Minister reportedly had read the package of materials and had positive comments on the program and the quality of the analysis. Basin was apparently particularly effective in arguing for a shift from interest rate subsidies to assistance with downpayments as a more effective way to support new housing construction. The concrete result of the meeting was an order to Gosstroi for the decrees to be prepared in final within one month. Before the meeting, Sergei Vasilev, head of the Economic Reform Working Center, asked the team to prepare comments on several issues that would be discussed in the meeting, namely issues on the draft Presidential Decrees on housing allowances and housing finance. The draft decree contains most of the provisions the team recommended in a series of meetings with Gosstroi and the Ministries of Economy and Finance to create a viable housing finance system.

Butler submitted an annotated outline of the codex (implementing law) for the Law on the Fundamentals of Housing Policy in the Russian Federation which was passed in December. It has been sent to Anvar Shamozaferov for his reactions, and Struyk and Olson are reviewing it.

**Housing Finance**

Ravicz and Struyk have been working intensively with staff at Sberbank on beginning the process to shift to an indexed mortgage instrument. This month the team provided training along with a short paper for use in the staff's presentation to the bank's Board of Directors on the change of mortgage instruments. The design issues for the instrument are markedly different from

those in other Eastern European countries because of the combination of rampant inflation and a banking system with an interest rate structure massively negative in real terms. If the shift in instruments is approved by the Board of Directors, approval will still have to be obtained from the Central Bank. There is some concern that the Central Bank, which still thinks of Sberbank as a state bank despite its being converted to a joint stock bank, will reject such a "high" interest rate. In fact, the rate would be less than 10 percent of the current inflation rate.

Kosareva and Struyk met twice this month with the team at Sberbank working on the introducing the DAIR (Deferred Adjustable Instrument for Russia). The team now appears to understand the instrument fully. It is preparing a simplified version of the document Ravicz prepared for submission to their board. The bank has set up a new subdivision within the Credit Department for lending with the new instrument--a concrete sign that senior has agreed to accept the instrument. Much of the working group's energy is being devoted on how to sell the idea to the Ministry of Finance and the Central Bank. Based on meetings this month week, they believe it is important to proceed with some caution, because few senior officials at either institution understand indexing and they are likely to be opposed to a large increase in interest rates.

As reported last month, the team has been laying the ground work for a couple of months on the creation of a Government Working Group on Housing Finance. This month Sergei Vasilev gave Deputy Prime Minister Fyodorov his letter recommending the creation of the Working Group on Housing Finance that would be chaired by First Deputy Minister of Finance Andrey Varilov. Participants in the working group would include both public officials and private sector bankers.

The program of technical assistance to Mosbusinessbank continues. Kosareva and Struyk held a review meeting with Glyna Sokolovskaya of Mosbusinessbank. Topics covered included a report on the Utah conference (positive), next steps in our work program with MBB, and a discussion of their thinking about the range of products that they will offer. Michael Rosenberg, an expert on loan underwriting, arrived this week for an intensive two week work program with bank staff. We also expect that Rosenberg will give a seminar to the banking community at large.

### **Housing Allowances**

The English version of the Khadduri-Struyk paper, "Options for Administering Housing Allowances in Russia," has been completed and it is now being translated into Russian.

Jennie Daniell has completed the paper on Guidelines for Designing Rent Increase-Housing Allowance Programs for use by republican and municipal governments. She will produce a "perfect" English copy when she returns to Washington (March 25). In the meanwhile, we will begin the translation process next week.

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

### **Housing Maintenance Pilot Project**

Angus Olson, the resident adviser for this project, successfully guided the city officials and would-be contractors through the whole bidding and selection process. He had to intervene at several points to keep officials from derailing the process, either through well-intentioned but counter productive actions, or actions proposed to further officials' own narrow agendas. We are hopeful with the strong precedent set by these awards that it will be easier to replicate this process in the future. All three private contractors began on March 15 maintaining the buildings in the pilot program. Olson now begins helping the relevant district staff monitor the work of the contractors--another part of the training program.

In response to the request of Nikolai Maslov, Director of the Office of Housing Privatization in the Department of Municipal Housing, Angus Olson provided ideas on how to organize the management of the City's housing responsibilities, in line with the decree signed last month by Mayor Luzhkov. In order to accomplish this task Olson attended numerous meetings with Maslov's staff. Olson also provided a narrative to accompany the flow chart he had prepared earlier on how to organize the management of the City's housing responsibilities, in line with the decree signed last month by Mayor Luzhkov.

### **Housing Allowances**

The City's request for approval of its housing allowance program by the Russian Federation was completed this month and forwarded to the Federation. Action is expected within a month. Struyk and Kosareva met with Mrs. Kuznetsova to discuss further the type of help we are scheduled to provide her office over the next three months in preparing for the introduction of housing allowances. Gene Rizer, an experienced expert on housing allowances, will arrive about April 10 to do most of this work. On the basis of this meeting we can prepare a package of materials for Rizer to study before coming.

The Institute for Housing Economy (IHE) has informed the team that the conference scheduled for May 12 and 13 will be delayed, probably for one week. The final date will be reported as soon as known.

Kosareva worked with IHE staff on the design of a simple questionnaire that will be used to gather the information essential for developing a program of rent increases and introduction of housing allowances in the Republic of Udmolt. IHE has signed up the Republic of Udmolt as another client to whom IHE is giving advisory services on housing allowances.

### **Condominiums**

The "regulation" on condominiums is under review by the office of the municipal "general counsel" and is expected to be sent to the Mayor next month. Our review of the ultimate draft revealed a number of significant problems, some of which probably resulted from drafting by committee. Kosareva met with the responsible lawyer, Mrs. Terokina, and had some success in remedying the problems. Our understanding is that yet again it is supposed to go to Mayor Luzhkov for signature.

Maslov told us he would like an expert adviser to visit Moscow to work with the new office of condominiums within three weeks after the regulation on condominiums is signed. The first mission would focus on putting together training materials. In the meanwhile, he asked that we make available training materials developed for Eastern Europe.

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

### **Sector Monitoring**

The essential elements for evaluating the success of the housing maintenance demonstration project were completed last week. In particular, the baseline survey of 300 tenant households among the 2,000 occupying units in the buildings included in the demonstration was completed, and the survey of the physical conditions of the buildings was also completed.

Drs. Tanya Belkina and Oleg Pchelintsev, Institute for Economic Forecasting, submitted the final report on housing indicators for 1989-1991. The most striking aspect of these data is the enormous imbalances they show for the housing sector as measured by such indicators as the ratio of house prices to income and long-term housing lending as a share of sector investment. We discussed their preparing the same indicators for 1992 as quickly as possible. They will begin work immediately.

### **Dissemination**

Several of the teams papers were distributed at a conference organized by The Guild of Russian Realtors is held in a suburb of Moscow on March 16-18.

The team has reached final agreement with the editor of the journal, Problems of Economics (Vosprosi Ekonomiki) on the contents and financial arrangements of the special issue on housing.

### **Program Management**

Struyk participated in a dinner hosted by AID Mission Director Jim Norris for visiting congressional staff, William Schuerch and Margaret Sullivan. At the dinner several contractors briefed the staff on their projects and discussed possibilities for visits to project sites by a congressional delegation that will visit in early April.

Struyk participated in a half-day meeting on AID administrative issues organized at the Embassy by Jim Leo.

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

On March 1, the West Administrative District of the City of Moscow signed contracts with three private firms to cover the maintenance of 2,000 units of municipal housing beginning on March 15. This is the first instance in the country of firms being competitively selected to provide such services. The signing represents the culmination of eight months of work by the project team. (For more see entry under City of Moscow program and one page summary at end of report.)

Minister Efim Basin and First Deputy Minister Alexander Krivov departed on their trip to Washington (via Bucharest), under an invitation extended by Mission Director Jim Norris. On Friday, Nikolai Maslov, our program coordinator for the City of Moscow and Anvar Shamouzafarov, Director of the Housing Department in Gostroi, will depart for Washington on a study tour, also at Mr. Norris's invitation.

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

### **Logistics**

The hunt for free office space has consumed much time and effort. The team has been allocated an additional room in our current building by Gostroi on a temporary basis. The room formally belongs to the Fund for Central Russia but they have several unused offices. The team is expecting another office shortly.

Mrs. Kuznetosva (Department of Communal Services) promises two offices in another building (near the Propsect Mira metro) by mid-April.

### **Planned Travel**

#### **Housing Allowances**

**Gene Rizer (Quadel)** will travel to Moscow **April 10 - June 19** to work with the City of Moscow on the implementation of housing allowances, and with the Institute for Housing Economy on training and technical assistance on housing allowances.

#### **Legal Assistance**

**Steve Butler** will be traveling to Moscow **April 9 - April 24** to work with officials drafting the Law on Mortgages and the codex (implementing laws) for the Law on Fundamentals of Housing Policy.

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

Budget (Actual expenditures, excluding UI fee)	
March 1993	\$ 84,672
Project to date	\$676,431
Level of Effort (person-months)	
March 1993	4.14
Project to date	38.20