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

MONTHLY REPORT

APRIL 1993

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SHELTER SECTOR REFORM PROJECT RUSSIAN FEDERATION/CITY OF MOSCOW

A. *Program Activities — Russian Federation*

Legal and Policy Developments

The team provided substantial assistance to the Russian Federation during this period on the draft Law on Mortgage. During his trip to Moscow Butler met with numerous legislators and government officials to comment on the draft legislation. At the request of the Ministry of Economy Butler sat in on an overnight redraft of the law that was introduced at the review meeting of the government. Butler prepared a summary of recent developments in the draft Law on Mortgage. The memo inventories the changes that Butler has succeeded in introducing into the draft and summarizes a number of additional desirable changes.

Butler also met with Anvar Shamouzafarov (Gostroi) to discuss several topics, including new condominium regulations which the Russian Federation will issue and the codex on guarantees of new construction. At Shamouzafarov's request, Butler drafted a section of the codex on guarantees of new construction, which would give purchasers greater protection. Also while in Moscow Butler completed comments for the Ministry of Economy on the draft Fundamental of Land Policy in the Russian Federation.

During this period Gostroi worked on finalizing the Joint Resolution of the Government and Supreme Soviet on Housing Allowances that was agreed to in principle in March. Ray Struyk and Nadezhda Kosareva had a long meeting with Igor Aristov (Gostroi) on making changes to the Decree. The team recommended several changes to the Decree which in its previous form sets a national income limit for receiving allowances. Setting such a limit is not consistent with local program design and could create a situation in which those entitled to receive an allowance payment under the local program are prevented from doing so by the income cutoff. The Decree also mandates a 300 ruble compensatory payment to every person, allowance recipient or not, to offset the cost of the rent increase.

Housing Finance

The program of technical assistance to Mosbusinessbank (MBB) continues. Michael Rosenberg, an expert on loan underwriting and the loan origination process, wrapped up his intensive two week work program with bank staff. He was joined by R. Subramaniam, a loan servicing expert from the Housing Development Finance Corporation. Subramaniam introduced some new ideas, beyond those presented by Rosenberg, into the loan origination process, including

the regular use of references and guarantors. Subramaniam delivered a seminar to about 50 bankers and government officials on loan origination and underwriting.

Struyk and Kosareva met with Dr. Sokolovskaya at MBB to discuss the schedule for future assistance with the development of the bank's mortgage lending program. There have been increasing signs that the pace of assistance may have been too rapid in the past two months. Struyk met with Galina Sokolovskaya to discuss the next phase of the Mosbusinessbank work program. Based on the discussion, a revised schedule of work was developed. Struyk has formalized it and sent it to MBB for review. (A copy has also been sent to Washington.)

The Ministry and the Central Bank agreed to work together on housing finance. Kosareva participated in a small meeting on development of the housing finance system in which Andrey Vavilov, First Deputy Minister of Finance, and Aleander A.Khandruev, Deputy Chairman of the Central Bank, were the principals. Sberbank continues to move cautiously toward a formal proposal to the Ministry of Finance and the Central Bank for shifting to the new mortgage instrument. As part of the general readjustment in interest rates which began April 1, Sberbank agreed with the Ministry of Finance and the Central Bank to increase the mortgage interest rate to 100 percent, with no subsidies for most borrowers (there are a few special groups that get interest free loans based on laws passed several years ago). Struyk and Kosareva met with the Sberbank team to discuss a strategy for the gradual introduction of the new instrument. They concluded with the instrument being introduced initially in three highest mortgage loan volume regions of the bank's 77 regions as soon as possible. The 100 percent loans would be available generally until the necessary training on the new instrument could be completed more widely. The team believes Sberbank will eventually take a positive decision on the instrument, but the bank seems to move slowly on policy development. At Sberbank's request Kosareva prepared a simplified presentation of the formulas used in the DAIR to compute monthly payments due from the borrower.

There is suddenly a great deal of action from staff from Sberbank, the Central Bank, and the Ministry of Finance in response to the order which accompanied the major housing reform law in December to these agencies to produce a proposed plan for long-term housing finance by April 22. Staff at the Ministry of Finance have produced a draft government order which Kosareva and Struyk reviewed. The draft deals nearly exclusively with lending by Sberbank to households now on the waiting list for social housing. The draft calls for a program of downpayment subsidies shared equally by local governments and the central government, with separate provisions outlined for each narrow income

group. The team's comments suggested a simplification of the subsidy scheme, and elimination of various provisions deleterious to the banking system, such as not counting housing loan assets among those for which reserves must be held.

Igor Aristov (Gostroi) and Yuri Blokhin (City of Moscow, Committee on Economic Development) left to attend the 3-week program on housing finance being given by the Fels Center at the University of Pennsylvania.

Housing Allowances

Gene Rizor, Quadel Consulting, arrived to begin three months of work on housing allowances with the City of Moscow and the Institute for Housing Economy (IHE). Sasha Puzanov will be working closely with Rizor throughout his stay. In ongoing meetings with IHE Rizor is trying to guide them to formulating a "business plan" covering both technical issues and financial questions for the provision of assistance to local governments with housing allowances. To date, IHE has five clients (four oblasts and one city) with whom they are working designing their programs for raising rents and implementing allowances.

The dates of the housing allowance conference sponsored by IHE and the Urban Institute are May 19 and 20. Based on calls IHE has received about the conference, they believe they are expecting many more requests for assistance after the conference. IHE and the UI team are discussing about three levels of service: (1) full service of design and implementation, including training; (2) a package of materials on alternatives for implementing allowances; and, (3) provision of training materials and training services for implementation. Of note is Ivan Tosics (Metropolitan Research Institute in Budapest) agreement to make a presentation on the Hungarian housing allowance program which is now working in Szolnok. Having someone from a Eastern Europe speak about the reality of an operating system will have a powerful impact on the audience.

Military Housing

Struyk has been reviewing various documents associated with the AID program, such as the concept paper. Kosareva developed additional information on the way in which the Ministry of Defense processes relocation of retiring officers and gave this information to George Deikun, USAID and Duane Kissick, PADCO. A Russian, knowledgeable about the construction industry and fluent in English, has been identified who could serve as the principal counterpart to the team and gave them names of Russians with whom the team may want to meet.

Kosareva assembled background information on the interagency committee dealing with on social issues of the military; the agenda for a planned meeting of this group; and, a presidential order on the program on government measures on increasing the social support for the military, including retirees from 27 March 1993, with support coming from the sales of military property, the general budget, and taxes of commercial organizations.

B. Program Activities — City of Moscow

Housing Maintenance Pilot Project

Long term advisor Angus Olson continues to work with the DEZ (the "Office of Unified Customer" at the municipal district level) and the contractors on the initial monitoring of contractor performance. Olson participated in a series of meetings with the "owners" and management firms as part of the routine monitoring activities. Various problems continue to be resolved, e.g., the firms have to pay the VAT and the contracts will be increased to cover this. Olson is pushing for a policy for removal of junk cars--no previous policy. If he succeeds, the removal of the cars will make a big difference in the appearance of the sites. One contractor is now on its fourth team of janitors in as many weeks.

Olson had several discussions this month with the Department of Communal Services about including some of the departmental units that the city has accepted in the management pilot. Mrs. Ludmila Kuznetsova, Deputy Director of the Department of Communal Services about the expansion of the management pilot program. They reviewed the progress to date. Mrs. Kuznetsova made two suggestions for expansion: (a) adding buildings in the Northeast and Southeast Prefectures, and/or (b) adding buildings received from the Department Stock sooner. Olson also met with the person responsible for the maintenance of the 32,000 units in the departmental stock. The team's plan is to take over 10,000-15,000 units as soon as we can conduct the necessary training, etc.. Olson will begin discussing expansion with the Prefects of the two districts in early May. Adding these units is very important as it will move the pilot from being a "curiosity" to being a real program. Adding these units will be administratively simpler than adding an equivalent number of municipal units because we will not have to coordinate with the Prefectures.

Olson has been working with the Institute for Housing Economy to develop their program for training future waves of "owners" for the private housing management pilot program. He is now working with them to develop a business plan format to help them determine the fees they should be charging the City of Moscow for training staff over the next several months.

Olson completed a paper describing the management pilot program. The paper includes as annexes all of the documents used in the bidding process. The paper has been sent to Washington. Olson is developing "lesson plans" for the housing management course that IHE will begin teaching this summer. The plans for the first three sessions have been completed and the rest will be finished when Olson returns from vacation.

Housing Allowances

The City of Moscow has sent Prime Minister Chernomyrdin a request for him to issue an order authorizing the city to proceed with the experimental rent increase-housing allowance program that was agreed to at the cabinet meeting on March 18. Moscow had planned to raise rents on April 1, but is being delayed until it gets this final permission. It now appears it is necessary for Mayor Luzhkov to meet with Prime Minister Chernomyrdin. The mayor has agreed to do this. It is the team's estimate that rents will now be raised for the first time in July, but this is clearly a moving target.

Rizor and Puzanov have concentrated on dealing with a fundamental issue of implementation of the allowance program: where and how should the calculations of allowance payments be done. The basic options are at the projected 130 housing allowance offices (HAOs) or at the 17 existing computing centers that are part of the Department of Communal Services. (Rents are now calculated at the computing centers.) The team has assessed the capabilities of the existing centers and analyzed the amount of data transfer that would be involved in each alternative. The team may have hit on an efficient way to deal with this problem by having the HAOs issue vouchers which the tenant would present for obtaining its discount when paying its rent. Rizor prepared an outline of the major steps that had to be accomplished for the implementation of the allowance program and submitted it for review to Mrs. Kuznetsova, Deputy Director of the Department of Communal Services

Condominiums

Mayor Luzhkov signed the decree on condominiums. The team has not yet seen the final version but were informed that the lawyer in Nicolai Maslov's office (Office of Privatization) handling this did not make the final changes the team suggested. A lawyer in Maslov's office says she agrees with the team's proposals and now hopes to incorporate these points into the foundation agreement and other documents that are now to be prepared. We are also informed that a "training center" that is part of Maslov's office is now beginning to prepare a course for tenants who want to form a condominium association. Maslov's office has decided that it will have a licensing procedure for new condominium

associations. In effect, this will be a certification that the housing community (1) has adopted the proper legal organization, (2) has created a workable financial plan, and (3) has had designated members complete a training course in housing management which will be provided by the office. Maslov has decided that at least for the time being his office will prepare the training program for tenants interested in forming a condominium without our assistance. A request may come later.

Butler met with Mrs. Terokina about the implementation of the recently issued condominium regulation. They agreed that Butler would take the lead in preparing the model legal documents for condominiums. He hopes to complete this task by the first of May. There are apparently problems with the formation of associations in new buildings in which the units have been auctioned. Butler will be preparing a memo on revisions to the regulations now covering these buildings for review by Mrs. Kuznetsova.

Housing Finance

Struyk, Kosareva and Butler met on two occasions with Mr. Mikhail Klimov, Deputy Chairman of the Economic Committee, to continue discussions about the city's role in housing finance. The first meeting was to discuss a draft Moscow Government Decree on housing finance. The team had a number of objections to provisions which the committee had already decided to change or which were accepted by Mr. Klimov. One part of the decree establishes a working group and Klimov asked the team to be formal members of the body. The team agreed. Struyk, Butler, and Kosareva met Klimov to discuss the list of "normative documents" which they believed were necessary for the City to prepare to foster the development of housing finance. The team's position was that many of these regulations were unnecessary and the decisions were better left to the banks with some guidance from a yet-to-be-formed Center for Russian Mortgage Finance. Some of the "normative documents" should be laws or decrees as they will set forth the city's policies on the form and priorities of subsidies to support construction of new, owner-occupied housing for those on the waiting list. It was a highly constructive meeting.

Property Tax

Butler met with staff at the Office of Tax Inspectorate to discuss administration of the property tax. While he was helpful within the limits of a single meeting, he believes that the Office needs massive technical assistance if it is to be effective. He prepared some notes for them on enforcement at their request.

C. Program Activities — General

Sector Monitoring

Struyk made final corrections to the report on housing indicators for 1989-1991 prepared by Drs. Tanya Belkina and Oleg Pchelintsev, Institute for Economic Forecasting. The final report was sent to Washington.

Alla Guzanova submitted the cleaned data from the baseline survey of 300 units in the buildings included in the housing management pilot project. Basic tabulations of these data have been given to Angus Olson for his review. Struyk negotiated an agreement with Guzanova to do the first follow-up wave of data collection in the last week of May. The team hoped to do this a couple of weeks later but were warned that with school ending on May 25, the team would already by early June find a significant share of families gone to their dachas for the summer and therefore have real problems interviewing the same households as in the baseline survey. Struyk and Guzanova also discussed the changes needed to the questionnaire. Guzanova will prepare a new draft instrument. The team expects to sign a contract for the survey work.

Struyk and Kosareva completed the draft of a major paper, "The Russian Housing Sector in Transition," and sent it to Washington in Monday's DHL.

Daniell, Puzanov, and Struyk completed the paper, "Housing Privatization in Moscow: Who Privatizes and Why?" using data from the survey of 2,000 households completed in December. The results show a strong relationship between the probability of privatization and the value of the unit. Interestingly, however, there is little relation between privatization and household income; this presumably reflects the fact that the distribution of housing by quality level under the old regime was determined primarily by non market factors rather than purchasing power.

Dissemination

The team distributed about 200 more of our housing finance and other papers at the seminar on loan origination and underwriting.

The process of soliciting articles for the special issue of *Vosprosi Ekonomiki* (Problems of Economics) is completed. Two of the English language articles have already been given to the editor, as these will take more time to prepare.

Program Management

Struyk sent to Sean Walsh a proposal for management in Moscow of the expanding assistance program on housing construction announced by Secretary Christopher. Since Angus Olson has experience as a developer, the offer was to shift some of Olson's time to this activity and to supplement his work on the maintenance demonstration as necessary with short-term people until the fall when a more permanent arrangement could be made.

D. Notable Developments Concerning the Housing Sector

The Supreme Soviet adopted the new law, "On the Status of the Russian Federation Capital," on the second reading, although additional amendments will be made; final passage is expected after the Easter holidays. The statute was drawn up by the Supreme Soviet and among other things abolishes the post of mayor. There would be a new "head of city administration." Many analysts view both the decision of the Constitutional Court and the new law as attacks against the President.

The Law on Mortgage has become tangled in a jurisdictional dispute within the Supreme Soviet. The draft bill (on which we have worked) was developed by the Committee on Budget, Plans, Taxes, Prices and Banks. Now, however, the conservative Agricultural Committee has advanced another bill, one designed at all costs to keep land from being mortgaged or setting precedents on mortgage lending to which it is opposed. Butler was advised by Mr. Gneorgni Zadonski, the subcommittee chairman of the committee on budget, that we may be asked to write a letter to the Supreme Soviet Presidium in support of their bill.

E. Logistics and Planned Travel

Logistics

The team has received a fourth (and final) room from Gostroi. It is a large (30 sq.m.) room. It is conveniently located adjacent to one of our other rooms. There is some question as to whether the team will retain the space. However, the team has taken the advice of the administrative staff and will occupy it. Experience shows that it is very hard to get people to vacate rooms once they are assigned.

Planned Travel

Jennie Daniell and **Karen Angelici** will be traveling to Moscow on May 14 to work with the Institute of Housing Economy and the City of Moscow on the upcoming conference on housing allowances and to assist the program coordinator. Ms. Daniell will remain in Moscow for approximately one month; Ms. Angelici will remain on extended TDY to provide assistance to Long-Term Advisors Struyk and Olson.

Marisol Ravicz and **Michael Lea** are scheduled to arrive in Moscow on May 10 to work with Sberbank and MOSBUSINESSBANK on mortgage loan pricing. This mission is scheduled to last two weeks.

Kevin Villani arrives in Washington on May 3 to prepare for the World Bank housing mission. Mr. Villani will arrive with the World Bank team in Moscow on May 10; the mission is scheduled to last three weeks.

F. Budget and Level of Effort Summary

Budget (Actual expenditures, excluding UI fee)	
April 1993	\$ 54,730
Project to date	\$528,212
Level of Effort (person-months)	
April 1993	2.89
Project to date	41.09