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

MONTHLY REPORT

JUNE 1993

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A. Program Activities — Russian Federation

Legal and Policy Developments

This month the team provided significant assistance in drafting and commenting on proposed legislation in the shelter sector.

Gostroi (State Committee on Construction and Architecture) asked the team to review the draft codex for the Law on Fundamentals of Town Planning. Ray Struyk (SSRP Resident Advisor) read the draft and identified initial concerns. Steve Butler (SSRP Legal Advisor) will review the draft codex and the team will discuss Butler's comments directly with Alexander Krivov. Gostroi also requested Butler review the draft federal regulation on condominiums. Contrary to the team's expectations, it does not appear to follow closely Butler's draft model regulation. Butler's comments will be submitted to Gostroi early next month.

The team received the second draft of the Housing Codex, which has been prepared by the Committee on Municipal Economy (the former branch ministry on building maintenance). There is little change from the previous draft on which Struyk provided extensive comments. The team believes that this entire version will be killed by other parts of Government and we should wait for the next generation of drafts to become further involved.

The Law on Mortgage was blocked from being introduced for the first reading in the Supreme Soviet. The last minute emendations were ultimately excluded; the committee chairman apparently plans to make significant modifications after the law's passage on the first reading. Champions of the agricultural mortgage law, which has provisions highly contrary to the general law on mortgage, were responsible for the mortgage law not being introduced.

The Program HOUSING--the housing policy statement prepared by Gostroi--was signed by Prime Minister Chernomyrdin and it is now the official policy blueprint of the Government.

The Presidential Decree freezing rents issued in the run-up to the referendum in April remains in effect and is a real constraint to local governments. Meanwhile, the RF Committee on Municipal Economy has prepared a draft of the Federal regulation for implementing the provisions of the Law on Fundamentals of Housing Policy on raising rents on state rental housing and implementing housing allowances. The document needs a number of revisions, and the team discussed the changes that

could be made with Gostroi and the Moscow's Department of Communal Services, both of which will provide comments to the Committee on its draft.

Housing Finance

Preparation continues on the "Procedure" on housing finance which will govern several aspects of long-term housing lending by Sberbank and other commercial banks. The "final draft" contains several highly conservative amendments which were added at the suggestion of Sberbank, amendments that would strongly discourage any bank from voluntarily making mortgage loans. The team remonstrated the drafters that these amendments are highly unpopular with the working level staff at the Ministry of Finance. Gostroi is also strongly opposed to these changes.

In a related development, Gostroi is now pressing for the first meeting of the Working Group on Housing Finance recently approved by Minister Fyodorov. Minister Basin proposes that he personally and Deputy Governor Khandruev be co-chairmen of the committee along with First Deputy Minister of Finance Vavilov. Minister Basin proposes that the Procedure be developed by the Working Group in the broader codex of the overall development of the housing finance system.

Nadezhda Kosareva (CCN Consultant) attended a meeting with First Deputy Minister of Finance Vavilov and President of Sberbank Yasin at which the Government's policy for housing finance was again discussed. The context was budget funding from the Ministry of Finance for compensatory payments to Sberbank depositors which is mandated by law. Vavilov argued that this major infusion of liabilities (perhaps 1 trillion rubles or the equivalent of the bank's total current liabilities) should be targeted for certain types of lending, particularly payments should be used for housing lending using an indexed mortgage instrument. Yasin eventually agreed in principle to devote one-half of the liabilities to such lending. The next steps in the process of making this agreement binding are to obtain a final commitment from Minister Fyodorov for the funds and to prepare a written agreement between the Ministry and Sberbank.

The program of work with MOSBUSINESSBANK (MBB) will be intensive through the end of July. Struyk and Kosareva met with Dr. Sokolovaskaya for a general work program review. Michael Rosenberg, an expert on loan origination and underwriting, worked with MBB staff to clarify the procedures he discussed with them in his spring visit and which were codified in a loan origination manual. Loan servicing expert R. Subramaniam completed work on the loan servicing manual. He also gave a full day training session to staff and Sberbank. Consultant Len Newman completed his assignment this month as well. He is developing the loan servicing software for the DAIR and other mortgage instruments, that will work under Russian financial practices, e.g., cash rather than accrual accounting procedures.

After some weeks, the team's program of work with Sberbank is reviving. Struyk and Kosareva met with Sergei Ivanov. Ivanov reported that the bank has made no concrete decisions about its future mortgage lending operations and has no specific time table for introducing general changes in their lending program, including such areas as underwriting. The team responded that when the bank's plans had jelled, we would be glad to work out a corresponding tailored assistance program, within our available resources. In the meantime the team has plans in the near future to provide manuals and expert consultation coincident with our work program with MBB.

Rosenberg gave a day-long workshop on loan origination and underwriting to Sberbank staff, and Butler gave a day-long workshop on legal documentation associated with mortgage loan origination.

Urban Institute staff in Washington arranged meetings on June 9-11 for Arkady Ivanov, President of the Joint Stock Mortgage Bank and co-founder of the Association of Mortgage Banks. The meetings included the Mortgage Bankers Association, FNMA, GNMA, OTS, FHA, and AID's Office of Housing and Urban Programs.

Upon Ivanov's return to Moscow, Struyk and Kosareva had an extensive and productive meeting with Arkady Ivanov, who is also the principal force in forming the Association of Mortgage Banks. Concrete plans for cooperation in developing and presenting a series of training programs for bankers interested in mortgage lending were discussed. Ivanov proposes using as the local partner the recently formed joint venture, The Center for Mortgage Business, in which Ryland Homes and the Joint Stock Mortgage Bank are equal partners. While the Center is a for-profit entity, it is proposed that the wing of the company conducting training and other "public interest" activities would operate on a non profit basis. The Center's charter clearly includes such activities within its mission (in addition to housing construction and finance). The most specific discussion were about a series of training courses that would be launched this fall. Ivanov places particular emphasis on education for bankers in the regions and in consumer education.

Housing Allowances

In light of the slowdown in the process of developing the Presidential Decree on implementing allowances, a parallel diminution in activity of working with local governments is expected. At the same time the Institute for Housing Economy has suddenly grown less interested in pursuing a housing allowance agenda. This appears to be a direct response to pressure on the Institute from the Committee on Municipal Economy, under which the Institute falls and which is its largest client.

The Committee is a highly conservative organization and is fighting reform of the rental sector generally.

Although proceeding at a slower pace, work on housing allowances continues. Gene Rizor and Roberta Graham of Quadel Consulting have been working with Sasha Puzanov (Institute for Housing Economy - IHE) to review the key elements in an overall workplan for designing and implementing rent increases and housing allowances. Rizor and Puzanov met with IHE staff to demonstrate housing allowance administration software. Also discussed was some further development by Puzanov of procedures for computing administrative costs, staffing level, and start up capital costs for implementing allowances. IHE has received requests to give consulting services on a wide range of housing reform issues, including some from outside the CIS. The IHE would like to explore expanding their cooperative arrangement with the U.I. to offer assistance on a wider variety of housing topics, beyond just housing allowances and private management

IHE staff indicated that they will be making their first general presentations on housing allowances to two clients (the Komi Republic and Udmurt) in late July or early August. They will provide the materials to be presented for the team's comments in advance of their delivery. In addition, IHE now has a contract with the Moscow oblast and have identified a company in Dubna that could develop software for the housing allowance program.

Kosareva prepared a letter for Gostroi that reviewed a proposal from Volgograd Oblast to increase rents and housing allowances. The proposal was good, and the team recommended that Gostroi approve its implementation.

Joint Ventures

This month Steve Butler, Tanya Belkina, and Karen Angelici (UI-Moscow) have met several developers, builders, and materials producers about their interest in and expectations about participating in U.S.-Russian joint ventures. They completed a report for Sean Walsh on their findings concerning the type of technical assistance in promoting joint ventures that might be most useful. The central conclusion is that several activities can be identified which would likely be highly productive; greater possibilities seem available in the building materials area rather than housing development per se. This exploratory work was carried out to help determine the kind of response the team might make to Minister Basin's request for help in this area.

B. Program Activities — City of Moscow

General

Struyk, Kosareva, and Rizor met with Nikolai Maslov, the coordinator of the team's with the City. The purpose of the meeting was to review the team's recent work and to discuss next steps. The team will provide him the detailed work program for the housing allowance implementation and a short summary of the experience to date in the housing management pilot project.

Housing Maintenance Pilot Project

The team obtained final approval in principle to add about 5,000 units to the management pilot program by September. These are departmental units at a number of sites that the City accepted from enterprises in 1991. The units are provided by the Department of High Rise Buildings (DHRB). September 1 is the tentative target date for getting the second batch of 5,000 units under contract. There may be some delay because of the large number of people on vacation in August.

Mrs. Kuznetsova and Mrs. Medvedeva at the Moscow's Department of Communal Services are anxious to expand the pilot program. However, the City of Moscow was late in approving the cost-of-living related increases in management fees for the pilot projects. The payments were finally approved this month. However, the contractors are not happy and there needs to be some more routine system of approval. Currently, Alexander Matrosov, the Director of the Department of Engineering and Communal Services, must personally sign the authorization.

Olson completed the lesson plans or teacher's manual for the housing management course he taught last fall. Two new units have been added to the training course, expanding the training from 16 to 18 sessions. This material is being used in the training of the officials from the DHRB who are acting as "owners" of the departmental stock. The training of the DHRB staff commenced on June 4. At the request of the owner, Olson agreed to accelerate the training schedule to teach 4 sessions per week. The training was completed on June 30. Seventeen officials completed the course. Olson audited every class. After some needed "fine tuning" of the early presentations, the instructors at the Institute for Housing Economy gave a very solid performance.

The third monthly review meeting between the owners and contractors in the pilot projects took place this month. The contractors appear to be doing well. At one site, the Kutusovsky, the contractor repainted the entryways which has made a dramatic difference in appearance. While the buildings are all clean, the general lack of funds for any capital repairs really limits the significance of changes in

appearance. Numerous tenants expressed their satisfaction with the Pilot results, some even volunteering their time to participate in future beautification projects.

The bi-weekly meetings between the "owners" (DEZ officials) and the contractors continue. Various implementation issues are being resolved, including some of the details of who is responsible for what in emergency situations.

Housing Allowances

After a meeting with Kosareva and Shamouzafarov, First Deputy Minister of Finance Vavilov signed a joint letter from himself and Minister Basin to Valery Dolgov, Chairman of the Committee on Municipal Economy of the Russian Federation, strongly supporting the idea of Moscow and Nizhni Novgorod proceeding with the housing allowance demonstrations. It is hoped that this will be sufficient to resolve the issue. Currently, the Committee opposes the implementation of housing allowances in Moscow on an experimental basis and is supported by the Ministry of Finance in this position.

Drafts of three chapters of a proposed Procedures Manual for the Housing Allowance Program were delivered to Kusnetsova, along with information about the anticipated administrative costs for two of the proposed rent increase scenarios. Angelici, Puzanov, and Rizer met with Kusnetsova to discuss the draft chapters, and to discuss the materials to be presented by Kusnetsova at Maslov's June 17 Housing Committee meeting. Kusnetsova requested some changes to the chapter that summarizes program policy, with revisions to be given to Committee members prior to the meeting. The chapter summarizing key program and organizational policies was revised as requested by Mrs. Kuznetsova, and presented to members of Mr. Maslov's Housing Committee for their consideration.

At Kusnetsova's request, Daniell, Angelici, and Puzanov completed simulations of rent increases that are higher than those originally planned. Previous simulations revealed very low participation rates which prompted the request for new simulations. Kusnetsova presented the results at Maslov's Housing Committee meeting.

Rizer, Graham, Puzanov, and Struyk participated in a meeting of the committee that is overseeing the implementation of the housing allowance program in Moscow. The meeting was chaired by Nikolai Maslov. Mrs. Kuznetsova made her proposals related to rent increases, housing allowance program design, and the social standard for housing. Mr. Ivanov of Mossoviet indicated that Mossoviet was preparing its own legislation related to these issues and that their approach was very different from Kuznetsova's. Among the decisions reached at the meeting were that a Scientific Soviet would be held in August to present materials and have discussions with

experts regarding program design, and particularly the schedule for increasing rents, so that full cost coverage is achieved by 1998.

Rizor and Graham continued work on drafting procedures for enrollment, income verification, and recertification for housing allowance program participants. Graham and Puzanov met with Mrs. Medvedeva to discuss issues of documentation that would be available to verify each source of income for participants in a housing allowance program. This is to assist the development of procedures related to verification and to identify what documents families should be instructed to bring to the intake interview.

On June 24 several team members met with Mr. Filtchenko, Deputy Director of the Center for the Promotion of Housing Reform, to determine the interest and capabilities of his organization in training staff who will administer the housing allowance in Moscow. He responded positively. His Center is now involved in an extensive program of training related to condominiums.

Condominiums

Maslov's office has produced a draft regulation on condominiums to implement the government decree which was signed in April and he asked the team to review it. His office also began a training class for groups of tenants who want to form condominium associations. The group organizing the training is the Center for the Promotion of Housing Reform under the direction of Deputy Director Viktor Filtchenko. There will be 25 persons in each class. Maslov reported that demand for slots is high. The course is, in part, using materials prepared for the AID Hungarian program which ICMA had translated into Russian for use in Armenia. At Filtchenko's request, Butler and Olson gave half-day lectures as part of the training course.

Butler brought a set of model condominium documents which were prepared on the basis of the Moscow Regulation. The documents have been distributed to various interested parties in and outside of government, including the Municipal Housing Department, the Fund for Privatization of Individual Flats, and the nascent Association of Mortgage Banks.

C. Program Activities — General

Sector Monitoring

The team at the Institute for Economic Forecasting submitted a draft final report on the 1992 housing indicators for Moscow. They are under review by Struyk and Angelici. Daniell and Angelici have begun work on preparing a summary paper on selected indicators which would track changes in Moscow over the 1989-1992

period and compare Moscow with selected cities in Eastern Europe, Germany and the U.S.

The team received the cleaned data for the reinterviews of 300 tenants in the buildings in the private management pilot project. Angelici is undertaking the calculations following an analysis plan worked out with Struyk and Daniell.

Dissemination

The paper by Struyk and Kosareva, "The Structure of the Housing Finance System in Russia," has been published by the Economic Reform Working Center of the Russian Federation and reprinted in *Rossikiye Vesti*.

The team completed all of the papers for which we are responsible for the special issues of *Voprosi Ekonomiki* on housing. We understand that the issue is on schedule for publication in July.

Struyk was the guest on a 30 minute radio show on the Independent Broadcast Network, originating in Moscow Thursday night, about the housing situation in the Russian Federation.

Struyk met with Jon Darrah, Senior Country Representative for the Peace Corps, about the possibility of working together to reach more Russian cities with the housing reform program. At the conclusion of this constructive meeting, it was agreed that Struyk would prepare a memo outlining a concrete initial program that could be executed this fall.

Other

Struyk gave a two hour seminar to a group of 30 graduate students from the Real Estate Department of the University of Wisconsin. The group was led by two faculty members, Kerry Vandell and Rod Matthews.

At Anvar Shamouzafarov's request Struyk and Kosareva met with a group led by the Deputy Mayor of Ryazan. The city is participating in a national experiment on condominiums under which different models of condominium associations are being tried. Butler met with officials from Ryazan about the city's participation in a condominium demonstration project. Butler will spend several days in Ryazan on his next trip on condominium documentation and planning for the construction of the project.

Struyk attended a working breakfast at the Ambassador Pickering's residence. The guest of honor will be Secretary Bensten. There were five "outside" guests in

addition to Struyk, mostly businessmen, including such persons as the director of McDonalds in Moscow.

Struyk, Rizer, and Daniell met with Timothy King of the World Bank, and Jim Hill, a consultant with the Bank working on means testing for social safety net programs. We discussed the means testing work that has been done for housing allowances and gave them copies of relevant Urban Institute reports.

Olson, Struyk, and Deikun briefed Bryan Atwood, AID Administrator, and Malcolm Butler, head of the NIS Task Force, on the housing program in Russia. Atwood and his entourage visited one of the municipal rental buildings where a private firm is now responsible for management, where Olson and the manager conducted a tour of the site.

D. Notable Developments Concerning the Housing Sector

During the first four months of 1993, 2.55 million State rental units were privatized--on average more than 600,000 units monthly. Since the beginning of the privatization process, ownership of over 5.3 million units have transferred to their occupants. This is about 16 percent of the units eligible; in Moscow the figure 28 percent. For Moscow, if we add the number of units for which applications have been filed, over one-third of the eligible stock could be counted as privatized.

Government of Moscow figures show that for the first time in recent years, the number of families on the municipal waiting list for housing was reduced in 1992, with 65,000 families being provided with improved housing conditions. Nevertheless, some people on the waiting list since before 1981 have not been helped, and even those in preferential categories who registered before 1986 are still waiting.

For 1993 the City plans to produce or renovate 4 million square meters of housing (through both public and private sources), up from 3 million in 1992 and 1991. Next year the City will auction 500,000 square meters of new housing in the open market, up from 300,000 in 1992. Production cost has passed 100,000 rubles per square meter, while auction prices are about 250,000 rubles per square meter.

F. Budget and Level of Effort Summary

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| Budget (Actual expenditures, excluding UI fee) | |
| June 1993 | \$133,740 |
| Project to date | \$1,053,508 |
| Level of Effort (person-months) | |
| June 1993 | 8.25 |
| Project to date | 60.15 |