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

MONTHLY REPORT

DECEMBER 1993

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A. Program Activities — Russian Federation

Notable Developments

The inflation rate for November was 11.6 percent according to the Center for Economic Reforms. This is equivalent to about a 260 annual rate. Various economists were quoted in the press as saying that they expect inflation to hold at this level during December. The belt-tightening measures of Finance Minister Fyoderov are widely credited for producing the result.

The Government of the Russian Federation issued an Order on December 8, 1993 which creates a new form of subsidy to support home purchase that will replace existing subsidies that reduced interest rates on long term loans. The new subsidies are "downpayment" subsidies, i.e., cash payment paid to sellers at the time of purchase transaction. Subsidies paid by oblast, municipal, and federal governments are covered by the Order. For subsidies paid by the federal government, the Order specifies a range of downpayment subsidies from 5 to 70 percent of the price of a modest unit of the size appropriate for the particular family. Larger subsidies are targeted to families with lower income and more years on the waiting list. Those eligible to receive federal subsidies are those on municipal housing waiting lists and in certain privileged groups, e.g., retired military officers.

Late December witnessed major developments on the road to creating a market-oriented housing system in the Russian Federation.

- President Boris Yeltsin signed the long-awaited Decree which establishes the basic framework for mortgage lending in Russia.
- At the December 21 meeting of the Board of Management of Mosbusinessbank, the Board formally decided to go forward with market-oriented, long-term mortgage lending beginning in January 1994. The initial loans will be made to members of the bank's staff, largely to provide a controlled environment in which to initiate operations. The bank will employ the Deferred Adjustable Instrument for Russia (DAIR) which was developed with assistance from the SSRP team.
- President Boris Yeltsin signed a decree that established national regulations for the creation and operation of condominium associations. Ultimately (probably next summer), these regulations will be replaced by a law passed by the Federal Assembly. In the meantime, local governments can use these regulations to initiate the creation of associations.

Legal and Policy Developments

Nadezhda Kosareva (CCN Consultant) and Karen Angelici (UI-Moscow) are working with Ludmila Kuznetsova and Anvar Shamousafarov on a scheme to simplify the special housing benefits given to certain groups of citizens, e.g., veterans of World War II, victims of Chernobyl. The switch to charging rents on total space rather than living space has necessitated some reconsideration of these calculations and both Gosstroi and the Government of Moscow believe that the opportunity should be used to simplify the calculations as well.

Marina Shapiro (UI staffer working with SSRP Resident Advisor Angus Olson) met with staff attorneys of The State Property Committee (GKI) to review the draft Federation Regulation on the privatization of maintenance. They recommended that the section setting targets for the commercialization of REU's be deleted, because this will be addressed in the "State Program for Privatization for 1994". They also recommended that the section on evictions be deleted, because this should be addressed in the civil code and in legal proceedings. Shapiro drafted an amended the Regulation based on these discussions.

The Committee on Municipal Economy (Roskommunkhoz) has again submitted its draft of the codex to implement the provisions of the Law on Fundamentals of Housing Policy for adoption. Gosstroi and the Ministries of Finance, Justice and Economy are again opposing it. (Kosareva worked with Shamouzafarov to prepare comments against the move for adoption.) It now seems likely that the Ministry of Justice will be given the lead in preparing the codex.

Visiting lawyer Carol Rabenhorst identified a major problem in the temporary Federal Regulation on condominiums drafted by GKI which gives undue power to owners of commercial space to decide on how to use the space. She met with GKI lawyers to argue the point and Struyk and Kosareva took the point up with Anvar Shamouzafarov.

At the request of the Ministry of Economics, (a) Steve Butler (SSRP Legal Advisor) reviewed proposals of a German technical assistance team for the Law on Mortgage; and (b) Kosareva provided overnight comments on a new draft Federal regulation on the procedures to be followed in taking land for public purposes. Butler also reviewed a draft law on mortgage of agricultural land prepared by Roskomzem, and Struyk converted the review into a letter to the agency. It is being translated and will be distributed next week.

Deputy Prime Minister Gaidar has asked Gosstroi for legislative initiatives in housing reform that could be placed before the new Federal Assembly when it convenes in January. Gosstroi will try to have final versions of the Law on Mortgage

and the Urban Planning Codex ready. The team was scheduled to meet with Gosstroi officials to go over the several existing drafts of the Law on Mortgage to try to produce a definitive draft. Anvar Shamouzafarov believes the draft of the Urban Planning Codex can be completed quickly, in part drawing on the comments Butler produced some months ago.

The team worked intensively this month with Gosstroi to prepare implementing guidelines for the new up-front subsidy program for home purchase that was created a couple of weeks ago by a Council of Ministers' Order.

Housing Finance

Ray Struyk (SSRP Resident Advisor) and Kosareva met with Arkady Ivanov in his capacity of chairman of the board of the Association of Mortgage Banks and Vladimir Busov, who has taken over a director of the training activities of the Center for Mortgage Business, which is serving as the Association's training arm. They resolved some problems that had delayed the publication of the "Mortgage Manual Series" and had initial discussions about the two week training course scheduled for February on which the Urban Institute/USAID and the Center will cooperate.

Consultant Michael Robertson and Struyk met with the Association of Mortgage Banks--Vladimir Orlov (President of the Association), Arkady Ivanov, Vladimir Busov--to discuss the two-week training session that we will develop with them for presentation in February. The course will begin on February 14 and will be held in a suburb of Moscow. Forty to fifty "students" will attend, with priority given to members of the Association. The course will be offered by the Association approximately every quarter and after the first couple of offerings the faculty will be exclusively Russian.

Andrei Suchkov worked with Vladimir Orlov, finalize the program for the two-week training course on mortgage finance being sponsored by the AMB and USAID, beginning the middle of February. Struyk worked on organizing the participation of U.S. experts. Robertson will have the lead for major parts of the course.

Senior Banking Advisor Thomas Healy began working with Mosbusinessbank this month. He has begun by examining the skeleton business plan prepared by the bank and has started the process of constructing a more comprehensive one. The idea is to use the development of the plan as an organizing device for discussions with and mentoring of bank staff. A marketing letter on soliciting mortgage loan applications has been prepared by Mosbusinessbank staff and is being reviewed by Healy.

Struyk and Suchkov met with Alexy Golubovich and Alexander Androsov of Menatep Bank to discuss the bank's interest in mortgage lending. Menatep is one of the banks classified as an "International Standard Bank;" one of its staff participated in the University of Pennsylvania Fels Center for Government course last summer and in a mortgage servicing training program offered by the Urban Institute principally for Mosbusinessbank staff in October; and the bank has been making dollar-denominated mortgage loans to its staff. The bank is interested in beginning lending operations in the next several months.

Housing Allowances

The national conference being co-sponsored by the Interministerial Committee on Housing Reform, the Moscow Department of Municipal Housing, and USAID has tentatively been rescheduled for three days beginning February 11. The Moscow team is responsible for finding the rest house for the conference and then the dates can be solidified.

The Ministry of Labor, as directed by the Council of Ministers' Regulation on housing allowances, has prepared a draft regulation on determining and verifying incomes for the housing allowance and other social programs. The draft has some major problems from our perspective and Puzanov is preparing comments for use by Gosstroi and the Ministry of Finance.

Condominiums

Carol Rabenhorst and Karen Angelici met (separately) with Anvar Shamouzafarov and Pavel Krashcheninikov (Ministry of Justice) to discuss the content of the draft Provisional Regulations on Condominiums and to express the team's interest and willingness in working on the model foundation document and charter that will have to be prepared within a couple of months following the issuance of the regulation.

Rabenhorst also met with Russians and Americans in the Office of Privatization at GKI to discuss the demonstration GKI is launching in Jaroslaval. While GKI's primary interest is in commercial space, they are forming condominiums in five residential building which have commercial space on the first floor. The American advisers--from Bain-Link--are taking a very aggressive position regarding the relative rights of the owners of commercial space relative to the rights of collective rights of the owners of residential space. In short, the Bain-Link position is that the owners of commercial space should be able to pursue business activities without restriction, which could include activities which would lower residential property values, e.g., locating a noisy disco in the building.

Rabenhorst and Angelici traveled to St. Petersburg where they met with city housing officials, who are very interested in working with us on a condominium training project. There have been no condominium associations established in St. Petersburg, since there is no local condominium law and the Russian Federation law has not yet passed.

B. Program Activities — City of Moscow

Struyk, Sasha Puzanov (CCN Consultant), and Kosareva met with Galina Havanska, a newly elected member of the Moscow Duma, to discuss the major housing issues that would be placed before the Duma when it convenes. Mrs. Havanska is the only housing expert among the 35 deputies; she occupied a senior post for housing in the Central Prefecture before the election. We have worked substantially with her in the past and this promises to be a good working relationship. The main topic of discussion was the program of raising rents and implementing housing allowances which was approved in November by the Government of Moscow, conditional on approval from the Duma.

Housing Maintenance Pilot Project

Training concluded on schedule at the Mitino District, and 12 representatives of the owner completed the course. The course has been condensed into 12 sessions presented over a 30 day period, and the results were excellent. The streamlined training curriculum will facilitate the achievement of the goal to have 250,000 units under private maintenance by the end of 1994.

Training commenced at the Orekhevo-Borisovo District, and 17 representatives of the owner are participating. The training is being professionally videotaped at the Ekran Television Studio located in the District. The video will enable participants to make-up missed sessions, and the finished product will join the library of Urban Institute training materials available for dissemination.

Alexander Matrosov, Director of the Department of Communal Services, and First Deputy Mayor Nikolsky met with all Prefects on December 3 to plan the expansion of the Pilot. Although all Prefectures were supposed to have submitted their proposals for the expansion of the Pilot by December 10, 1993, only three Prefectures had complied by the deadline. The Department of Engineering Provision is taking follow-up action to remind the recalcitrant Prefectures that they must submit plans as soon as possible. Proposals were received from the Northeast Prefecture (Babushkinsky and Otradnoye Districts), Southeast Prefecture (Maryino District), and Zelenogradsky District (a high-tech area that is not associated with any District). The total number of units from these three proposals equals 21,800

units. The 1994 first quarter goal of 50,000 units should be easily achieved, when the seven remaining Prefectures submit their plans.

One of the maintenance firms in the Western Prefecture, Moszhilrehmservice, announced that they would not seek a renewal of their contract on March 1, 1994. Moszhilrehmservice will use their experience to focus on the more lucrative private capital repair business. This will open one of the bid packages for re-bidding.

Another of the firms, OLSO, was the subject of a recent negative article in Kourante, the same newspaper that wrote a negative article on the Pilot earlier this year. No one at the Prefecture is giving any credence to the article. OLSO was unjustly attacked for things beyond their control, such as poor performance of the rubbish removal subcontractor, and damages incurred during the October coup attempt. OLSO, Prefecture staff, and Shapiro talked to the reporter in an effort to get a balanced story. The reporter cited her contacts with Dolgov and Lapotkin, and unfortunately, she seemed to be swayed by their negative attitude toward the Pilot. OLSO was given the first advance of 10 million rubles (out of a total of 30 million rubles) for damages from the coup. This payment has been considerably delayed, and is a reflection of delays of maintenance funding in general.

Several of the private firms are experiencing problems in getting paid by the prefectures. In some cases this is moving beyond the irritant stage and could endanger the willingness of the firms to renew their contracts. Olson is helping to mediate the disputes, but a more systemic solution is needed. Olson will try to incorporate stronger language (and penalties) into the contract to give the firms greater leverage with the prefectures. This was proposed and was not agreed to by the city.

The procurement schedule for the Mitino District has been finalized. These are buildings that are just being prepared for initial occupancy. The plan is for the contractor to be on-site comfortably in advance of the first move-ins.

Housing Allowances

A group of eight persons participated in a one week study tour to the U.S. on the administration of housing allowances. The tour was organized by Gene Rizor and others at Quadel Consulting who have very extensive experience with the U.S. Section 8 and voucher programs. In addition, Rizor's several months working on housing allowances with the City of Moscow have permitted the course to be carefully tailored to the needs of the group. Among the participants were the director of the Institute for Housing Economics (with whom the team is working to provide knowledge of the allowance program outside of Moscow), key administrators of the Moscow program, Alexander Puzanov (the Institute's Russian expert on allowances),

and the member of the Nizhny Novgorod Oblast Administration responsible for allowances.

Gene Rizer met with City officials regarding the overall design of software for implementing the housing allowance program. Much work remains to be done by the City, and the team is concerned about the substantial amount of programming work that must be completed, tested and disseminated in order to achieve the program implementation deadline of March 1, 1994.

Mayor Luzhkov signed the decree on the program of raising rents and introducing housing allowances. Although the decree had been approved in principle at a meeting of the government in November, the signature had awaited some clarifications and revisions. On the basis of this definitive and detailed document, implementation can proceed at full speed to meet the March 1 target date.

Kosareva, Puzanov and Struyk had their initial meeting with Raisia Ramakinya who was named director of the city's Center for Housing Subsidies, the agency within the Department of Communal Services which has been created to administer the city's allowance program. Mrs. Ramakinya plans to staff the new office largely from staff already on the city payroll who now work in the housing computation center, where she is deputy director. Unfortunately, she had not been given all the materials produced to date by Puzanov, Rizer and others. The team supplied these to her at the meeting. Her position at the meeting, prior to reviewing our materials, was in favor of a model involving substantially more centralization of some functions compared with the team's concept. Moreover, she has planned on a single housing allowance in each of the city's ten prefectures--each of which could be responsible for 100,000 participants within a year: a seemingly unmanageable work load for a single office.

Puzanov and Struyk met with Alexander Straznikov, director of the city's department of building inspection. Straznikov participated in the recent housing allowance study tour to the U.S. and is anxious to increase the professionalism of his residential inspection operations. His idea, apparently endorsed by Mrs. Kuznetsova, is to inspect units of housing allowance recipients and to have the REUs make necessary repairs. Some years in the future, minimum housing quality standards will likely be added to the allowance program as a condition for participation. Straznikov requested help with designing the new inspection procedures. Rizer will meet with him in January to develop a more precise definition of the request.

Condominiums

Rabenhorst met with Mrs. Galina Teryokina, who directs that city's office on condominiums, and with Mikhail Poltev, director of the Center for Housing Reform, which is the institution which is providing training to the heads of would-be condominium associations. Poltev is anxious for help in refining the course the Center is now offering, and we will factor this into our ideas for next year's work program. Rabenhorst also discussed our idea for the Center for provide training in the six cities in which the World Bank is active and he responded positively.

Rabenhorst also met with members of the Association of Housing Communities, a new group formed by leaders in the privatized units that have established owners' associations, or are close to doing so. They are quite anxious to receive assistance with organizing their associations and training to help them take over the management of their buildings.

Rabenhorst and Angelici met with Nikolai Maslov to discuss future technical assistance on condominiums. He expressed strong interest in our team giving help to the Center for Housing Reform in refining its training course for condominium associations, including production of a training manual. His attitude is much more positive than that of Mrs. Terokina, who directs the office for condominiums under his direction. Terokina has been a continuing problem and we plan to work directly with the Center for Housing Reform, with whom Rabenhorst had productive meetings.

Nizhni Novgorod Program

Struyk and Kosareva visited the Oblast of Nizhni Novgorod to begin negotiating a work program on housing sector reform. This trip was a follow-up to Mission Director Norris's letter responding positively to Governor Nemstov's letter requesting assistance. Our team had a productive meeting the governor and multiple meetings with Deputy Governor V. Frolov.

The principle areas of assistance to the Oblast by American and Russian experts tentatively agreed upon are:

- to work with the Nizhni Novgorod Academy of Architecture and Construction to develop courses during 1994 in housing economics and the economics of investment decisions in housing construction and to offer these courses to the Academy's students;

- to provide expert review of documents prepared by the Oblast on housing reform, including rent reform, housing finance, and the privatization of housing maintenance services;
- to work with the Oblast on the design and implementation of its program for raising rents and introducing housing allowances during 1994;
- to work with the Oblast administration to determine its appropriate role in fostering the development of a housing finance system in the oblast and to work with a bank in the oblast to begin long-term mortgage lending on market principles.

The team also worked with staff in the housing department on their housing allowance proposals. A group from the oblast housing department visited the Institute's office in Moscow to work with Sasha Puzanov on housing allowances. Struyk and Kosareva drafted the action plan for the Oblast that was requested by Governor Nemstov during the visit.

C. Program Activities — General

Presentations/Dissemination/Seminars

Struyk and Olson each met with Earl Noll, Peace Corps volunteer in Nizhni Novgorod who is working with the oblast on housing issues, to discuss housing allowances and privatization of housing maintenance, respectively. Noll will participate in meetings in Nizhni between Struyk and Kosareva and the Oblast and city Administrations.

Olson and his team spent an intensive day with a delegation from Kazakhstan led by Wallace Kaufman who visited Moscow expressly to learn from the experience of the pilot project. One thousand units have been designated in Almaty for the initial phase. The Kazakh program plans to rely heavily on the material developed under the Moscow project.

Our team did its standard two-day seminar on housing finance and housing allowances in Togliatti on December 16 and 17. The event was hosted by Jack Horowitz, a Peace Corps volunteer stationed in the city who works with the administration. About 35 people attended the sessions on housing allowances. Nine different banks were represented among the 15 participants on the second day.

Monitoring and evaluation

Working with Alla Guzanova, Angelici finalized the questionnaire for the second wave of survey of 2,000 Moscow households. The survey will be completed this month.

Struyk has begun work on designing a system for collecting data quarterly on the actions of local governments to increase rents and implement housing allowances.

World Bank/AID Housing Construction Loan

Consultant Tanya Belkina held a workshop for all of the contractors on how to collect the data for the Housing Indicators Survey. She distributed the manual for computing the housing indicators and discussed it in detail at the workshop. The final version of the Household Survey was also distributed to the contractors.

The Urban Institute's office of contracts continues to work on finalizing the contracts with the four Russian contractors who are gathering data for this project. Two of the Russian contractors--AUREC and H-Center--who are to gather data in support of preparation of the loan submitted work plans. Both were highly unacceptable and were rejected. They were told they could not begin actual survey work until the plans had been approved. The team received revised plans from both firms and the work plan for housing indicators from the team at the National Academy of Sciences.

By the end of the month most of the work plans for most of the surveys were now been approved and work is proceeding. Urban Institute contracts office issued a second letter of authorization to all of the contractors that provides additional funding to carrying them through January. It is the hope of the office of contracts to have the subcontracts in place by the end of January.

The Urban Institute/Moscow has been given the task of handling all of the logistics for a training conference for local officials from the six cities in which the World Bank will made land development loans to be held about January 20. A total of 75-85 participants, faculty and staff, are expected to participate.

Expanded Military Housing Program

A team of Ravicz, Katsura, and support staff visited Pskov and Novgorod to explain the certificate program, determine the size of the pool of eligible officers, and identify local institutions with whom to work. (Struyk and Kosareva participated in

the visit to Pskov which was first.) Ravicz and Struyk drafted a revised concept paper that incorporates information learned from the trips to Pskov and Novgorod.

Ravicz drafted the agreement among USAID, Gosstroj, the Oblast and the city that would be signed for each site participating in the pilot certificate program. Hugh Wynn called Struyk to tell him that Paul Scott had determined that the letter prepared by Ravicz soliciting proposals from the banks in Novgorod and Pskov for their participation in the program could not be sent. The letter in effect solicits proposals on behalf of USAID, which would ultimately contract with the banks, which is contrary to the procurement regulations. This will result in further delay from the schedule originally projected by the Urban Institute. Nothing can be done under the USAID contract officer gets involved, makes decisions, and acts.

Harold Katsura completed his mission to Novgorod and Pskov on developing a method for determining the price of vouchers.

F. Budget and Level of Effort Summary

Budget (Actual expenditures, excluding UI fee) ¹	
December 1993	\$208,678
Project to date	\$2,306,680
Level of Effort (person-months)	
December 1993	7.25
Project to date	83.85

¹ Due to the Urban Institute's effort to close out the calendar year by December 31, 1993 these numbers only reflect expenses for December reported by December 31.