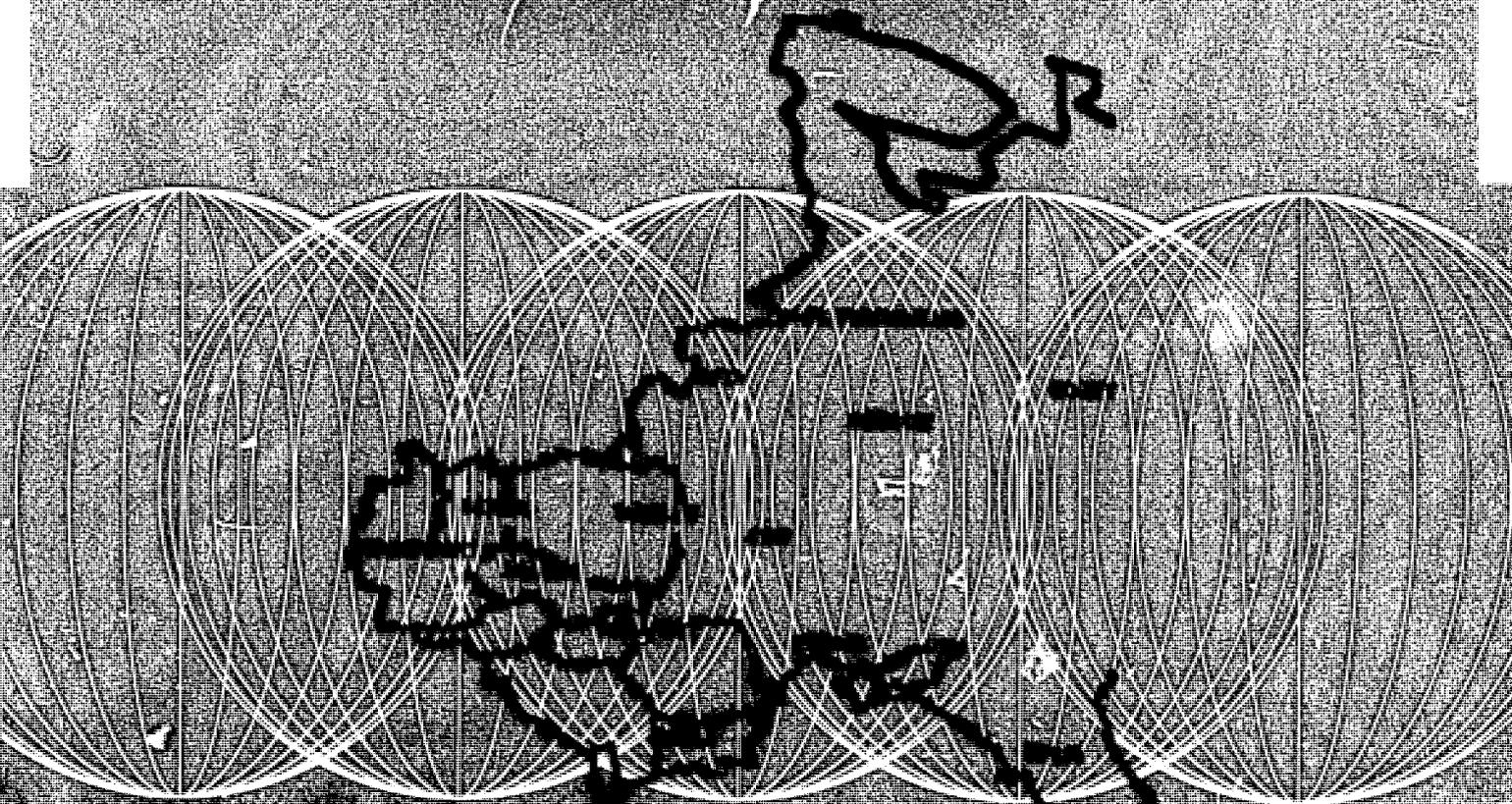
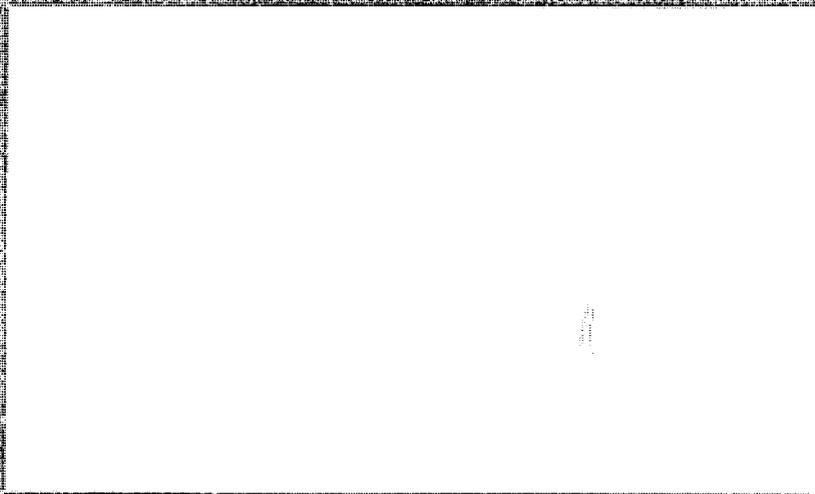


FROM PLANNING TO MARKETS HOUSING IN EASTERN EUROPE



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

MONTHLY REPORT

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A. Program Activities — Russian Federation

Notable Developments

Mosbusinessbank made its first mortgage loan. The bank is using a dual rate mortgage (the "DAIR"--Deferred Adjustable Instrument for Russia) developed by the Housing Sector Reform Project (HSRP). They will service the loan using the loan servicing software developed especially for use in Russia by the SSRP. Because Mosbusinessbank is widely viewed as a highly conservative, careful bank, its beginning mortgage lending will have a significant impact on the thinking of other banks.

Legal and Policy Developments

1. The government has sent the first part of the new draft Civil Code to the Duma for action. This is the part that deals with topics germane to land and housing. Butler completed his comments on these sections of the new draft Civil Code and they were distributed to about a dozen key officials.
2. Two initiatives were hastily constructed this month by the government's housing policy staff designed to prop up the sagging residential construction industry. First, a program created in early 1992 to support housing construction cooperatives through very deep subsidies is being remodeled a bit and being readied for more appropriations. Second, a housing construction fund will be formed from special revenue sources, such as funds received from industry privatization and land sales, which will be used as a source of very low interest construction loans.
3. The draft of the proposed Council of Ministers Regulation on the creation of regional housing funds is nearing completion. In the review process the Ministry of Justice objected to the earmarking of several non budget sources of funds for the new housing funds and these sources were eliminated from those included. As it stands now, the new regional funds will have access to very limited monies. As soon as the Ministry of Economy agrees with the draft, the document will be sent to the Council of Ministers.
4. The draft of the Council of Ministers Regulation on housing certificates (formerly termed "housing debentures") is being readied for submission to the Government. Gosstroj has reached agreement on securities issues with the Ministry of Finance and the Central Bank, and the new draft was prepared this week for review.

5. The draft of the Council of Ministers Regulation on long-term housing lending will be resubmitted to the Government in a few days. The Apparatus of Government had requested minor modifications which have been incorporated into the new draft.

Housing Finance

1. Telgarsky and Struyk have finalized plans with FNMA for a FNMA team to make its first visit to Moscow to begin work with the Association of Mortgage Banks. FNMA won the competition organized by the Institute last winter. The FNMA team will be in Moscow for the first week of June.

Preparations continue with the Association of Mortgage Banks for the next housing training course to be offered the week of June 6. FNMA will conduct the training.

2. Nizhni Novgorod Kredit Bank has begun making 10 year mortgage loans, under which the principal is indexed to the official minimum wage. Five loans have been made and six more are being underwritten. In effect, this is a Price-Level Adjusted Mortgage using a different index. As such it has all of the strengths and weaknesses of the PLAM. The important point, however, is that this is another sign that banks are beginning exploratory mortgage lending operations.
3. Struyk met with Galina Sokolovskaya, head of the mortgage department at Mosbusinessbank for a general review. The bank has taken several loan applications and is on the brink of making its first loan. Apparently the only hold up is with resolving an issue regarding the propiskas for Moscow residents who purchase units. We also discussed the bank's experience with the loan servicing software the project developed and installed. The short answer is that it is not perfect from their perspective but it will certainly be sufficient to begin operations and gain experience. Our Russian programmers continue to work with the MBB staff on problems as they arise.

Struyk met with Oleg Klimentev of the Mosbusinessbank Mortgage Center to discuss their lending program. While the first loan is expected to be made any day, the bank has decided on a couple of new loan requirements, designed to reduce the bank's credit risk, which could have the effect of reducing the demand for loans. One requirement is that the buyer and his family members NOT have the address of the new unit recorded in their propiskas, so that eviction in case of default would be easier. The staff of the Mortgage Center are fully aware of the arguments for and against such restrictions, but senior

bank management has become extremely conservative as actual lending operations are about to begin.

4. The Nizhni Novgorod Land Bank has been approached by the huge enterprise GAZ about making mortgage loans for worker housing, under a scheme roughly patterned on that worked out between Kamaz and Mortgage Standard Bank. Struyk met with people from the Land Bank this week to discuss options.
5. Butler and Kosareva continued to work on refining the language in the Russian version of the draft Law on Mortgage. The draft, written primarily by Butler, is circulating for comment within the government. Kosareva and Suchkov participated in a meeting of the Duma working group on the Law on Mortgage chaired by Duma member Gyorgi Zadonski. The group will be meeting weekly and our people are invited to attend.
6. The Ministry of Finance reports that the Central Bank of Russia has taken a position opposed to the establishment of the Agency on Mortgage Lending created by a Presidential Decree in December. In capsule, the Bank believes it should directly handle all of the functions proposed for the Agency. Since First Deputy Minister of Finance Vavilov has discussed this directly with Central Bank Governor Geraschenko without satisfactory resolution, the only remaining route is a direct discussion with the Prime Minister.

Housing Allowances

1. This month the team visited the district (raion) of Gorodetz in the Nizhni Novgorod oblast to study the housing allowance program that the district implemented in January--the first in the country. The program has about 1,500 participants, or 5 percent of households. It is expected that all jurisdictions in the oblast will implement housing allowance programs in early June.
2. Puzanov continues to provide advise to various jurisdictions that telephone him. He is nearly constant contact with Vladimir, for example.
3. Puzanov met twice with Rupstov in the office of Gosstroi which was formerly the Committee on Municipal Economy to discuss our proposal for establishing a system for monitoring the implementation of the housing allowance program. Rupstov responded favorably and after reviewing the survey instrument we drafted agreed in principle to use it. While we proposed directly surveying municipalities and rural raions, he favors sending the questionnaire to regional administrations to fill out for jurisdictions in their region. We will

likely meet soon with Mr. Avdeev, director of Rupstov's department to pursue the matter further.

4. National implementation of rent increases and housing allowances continues. This week we learned that the Krasnoarsk Region implemented the program in April.

Condominiums

1. Carol Rabenhorst and a team of five American and Russian experts began three weeks of intense work on the condominium pilot project which is to develop initial associations in eight cities. The team is visiting Nizhni Novgorod this week for the second time and will make initial visits to three more cities during the mission. Over the past several weeks, Tanya Belkina (UI-Moscow) has modified the basic "condominium manual" Rabenhorst had developed in her work in Eastern Europe to be applicable to Russia, using legal materials developed by Butler and materials on property management from other parts of the project.

Land

1. Butler met with Anvar Shamouzafarov to discuss the latest developments in the drafting of the land code and the evolving strategy for its release by the government to the Duma and passage by the Duma. Overall, it appears that a somewhat more progressive version drafted primarily by Roskomzem (compared with earlier versions from the same agency) is likely to be sent to the Duma with only modest alterations in early June.

B. Program Activities — City of Moscow

1. This month Mrs. Havanska, the deputy of the Moscow Duma principally responsible for housing, had an important meeting with Mayor Luzhkov, Alexander Matrosov (head of the Department of Engineering and Communal Services) and Nikolai Miaslov (deputy head of the Department of Municipal Housing). As a result of the meeting the mayor ordered that several mayor's orders or Duma decrees significant for the housing sector be drafted by the end of May.

According to the new decrees condominium associations will have the right to rent commercial space in their buildings under terms and conditions decided by the association with half of the rent going to the city; create a city program patterned on the federal downpayment subsidy scheme, which provides

substantial assistance to families on the municipal waiting list to purchase a unit; and maintenance and communal services payments for primary and secondary owners are to be equalized at the lower level (replacing a system where the purchaser in the secondary sale had to pay the full cost for services while the seller had been paying a subsidized price).

Housing Maintenance Pilot Project

1. Nikolai Maslov transmitted a draft Order to Deputy Mayor Nikolsky for his review. The Order, "On the Results of the Pilot for the Privatization of Maintenance in the Housing Stock in 1993 and the First Quarter 1994," is for signature of Mayor Luzhkov and was drafted with our input. The Order is a first step towards implementing Program improvements that have been gleaned from the "lessons learned" over the past 18 months. Deputy Mayor Nikolsky reviewed Maslov's Order which proposes segregating funds for payments to private maintenance contractors. Nikolski referred the Order to Matrosov and Yuri Korostilev, Head of the City Finance Department, for their comments.
2. The training contract for the South West Prefecture was signed this month. Training is now underway for "owners" who will bring about 21,000 additional units into the program.
3. Olson held a successful meeting with Bitsukov (Head of the Department of Housing Maintenance) and Kuznetsova (Head of the Economics Department). Work plan and work assignments were put forward by Bitsukov. The meeting resulted in a number of measures agreed to by all to improve the functioning of the pilot. These included revision of procurement documents to make owner and contractor responsibilities more specific; recommendations to the City Duma by Kuznetsova to make public and private maintenance tax exempt; preparation by Bitsukov of a paper on how critical maintenance equipment could be leased by the City to private contractors; convening by Strazhnikov of a meeting with private contractors to discuss program issues and to assess the need for an association that would represent the contractors.
4. Olson met with Alexander Strazhnikov, director of the office of housing inspection, who expressed his willingness to play a leadership role in helping to expand the program. He is eager to provide contractor monitoring to the DEZs on a fee basis and is already geared up to do these activities. It is doubtful that the DEZ's will ever take the monitoring role seriously-with no funding incentive on the horizon, there is no incentive for the DEZ's to fulfill their intended monitoring role.

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Strazhnikov also agreed to develop a procedure and model document that will be used to inspect buildings for deferred maintenance before any buildings are placed under private maintenance. He will serve as the "third party" inspector of buildings. The inspection document will be made part of each contract and will create an objective analysis of building deficiencies at the time of contract signing. This should preclude future owner-contractor disputes about "who is responsible for what" in each building.

The Housing Sector Reform Project is providing help to Strazhnikov's office to modernize their inspection standards and procedures. Hence, strengthening Strazhnikov's office is likely to facilitate the privatization of housing maintenance.

2. Olson and Murrell met with the Department of Engineering Provision regarding start-up problems in South Orekhevo-Borisovo District. The meeting was chaired by Bitsukov and was attended by Kuznetsova; Osipova; Medvedeva; Strazhnikov; the Deputy Prefect of the South Prefecture, Bakalinsky; and other representatives of the Orekhevo-Borisovo DEZ, REUs, and private contractors. Bakalinsky asked for this meeting in an attempt to gain the cooperation of the DEZ to implement the Program in 30,000 units. The issue is one of unemployment- what happens to REU personnel when the contracts are signed? We have consistently maintained that this is a policy issue which must be addressed by Moscow Government.

The resolution of this issue at this time was critical to the future of the Program. The unemployment issue has been continually raised by the REUs as a reason for abandoning the Program. The REUs needed to be sent a strong signal from the top officials that the Program would proceed even in the face of potential unemployment. This is exactly the position that was taken by Bitsukov in the meeting.

Housing Allowances

1. Mayor Luzhkov signed the decree for the revised program of rent increases and housing allowances. The new program incorporates the Duma's changes from the City's proposals as well as some modifications the city has decided upon. One of the major changes is the subtraction of the minimum wage for each household member from the family's income used in computing its subsidy. This is the final legislative step and implementation can now move forward. We believe the decree, the final version of which we have not yet seen, specifies implementation for July.

2. Mrs. Kuznetsova and her staff were given a demonstration of the software developed by the contractor, Bansa, for housing allowance implementation. She approved it and it is supposed to be ready for use within two weeks. Mrs. Kuznetsova and Mrs. Romakina, director of the Office of Housing Subsidies, are also heavily engaged in identifying office space in each administrative district for the housing allowance offices. In short, at last, the program appears to be on a track that will lead to implementation in the near term.

Housing Inspection & Codes Development

1. The Office of Housing Inspection is becoming more important to our program because of its direct connection with the maintenance privatization program and the general need to modernize the Office's standards and procedures. Rizer, Puzanov and Struyk met with Alexander Straznikov, director of the office, to discuss a series of topics.
2. The increasing role of the Office of Housing Inspection in monitoring the performance of private contractors was also discussed. Mayor Luzhkov has signed a decree making his office responsible for resolving disputes between contractors and DEZs as well as carrying out the role of site inspections of contractor performance.

C. Program Activities — General

Nizhni Novgorod Program

1. In a trip to the oblast this month, the team concentrated on working with the city of Nizhni Novgorod. Puzanov gave a two hour presentation on the details of implementing a housing allowance program and Tikhomorova gave a presentation on the privatization of maintenance operations in municipal housing to about 25 city administrators. The city is lagging behind the other jurisdictions, mostly because the administrators are insisting on complicating procedures. Two districts have now been nominated to introduce the new program and one staff member is working on this full time.

We also had further meetings with the N.N. Municipal Land Bank. The bank is making good progress in designing the procedures to administer the downpayment subsidies program and on organizing mortgage lending operations.

2. Training for the "owners" of the housing projects to be shifted to private companies in Nizhni Novgorod, because the IHE is asking for nearly 2 million

rbl (not including printing costs) for the effort, and negotiations are underway to reduce the cost. MosLift is an alternative if this fails.

In response to a request from the Oblast we are willing to support the training of the "owners" for the privatization of housing maintenance demonstration in the municipality. However, before going forward with this, we have asked for a letter from the municipality stating that they intend to go forward with the demonstration.

3. We reached an agreement with the Institute for Housing Economy for it to conduct an intense one week training of "owners" in the two districts of the city of Nizhni Novgorod next week as the next step in developing the pilot private maintenance demonstration. We also received a letter from the deputy mayor stating his intention to go forward with the pilot.
4. The Oblast Assembly passed the 1994 budget and it includes about 15 billion rubles for downpayment subsidies. To our knowledge this is the first region in the country to adopt the new subsidy form and Governor Nemstov pushed hard for it as a key element in the housing finance strategy which we helped design in response to his request.

World Bank/USAID Housing Construction Loan

1. Urban Institute/Washington has begun finalizing the contracts with the four Russian subcontractors.
2. At the request of the World Bank, Daniell, Angelici, and Tikhomirova produced revised estimates of effective demand for each of the seven cities. These results will be compared in a paper which will be presented at a conference in July.
3. Most final Russian and English versions of the contractors' reports have been received, bringing the number of completed products to 23. These are being reviewed by Struyk, Daniell, and Angelici and will be transmitted to the World Bank.

Presentations/Seminars/Disseminations

1. The Urban Institute/Washington has completed the production of the major report by Struyk and Kosareva on housing reform in Russia. Copies are being distributed in Moscow and Washington.

2. The World Bank-USAID Six City Conference on Land Allocation was held from May 16 to May 18 in Nizhni Novgorod. About 55 persons from the six cities and the federal government attended. The main presenters were Steve Butler, David Madway, Mark Brown, and Olga Kaganova. The objective of the conference was to educate officials about alternatives to the standard Russia/Soviet practices of land allocation. The new methods would rely on various forms of competition and would give land purchasers much greater latitude in the specific use of the plot within the city's general zoning requirements.
3. All-Russia TV channel One carried a ten minute story on the maintenance privatization program. The program was produced by the woman who produced the video on the Housing Sector Reform Program. She drew on some of footage from that program plus interviews with Moscow officials.
4. Struyk made a presentation on developments in mortgage lending in Russia to a seminar of about 100 people sponsored by Housing Initiatives, Inc.

D. Budget and Level of Effort Summary

Budget (Actual expenditures, excluding UI fee)

May 1994	\$224,605
Project to date	\$3,444,190

Level of Effort (person-months)

May 1994	8
Project to date	123

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