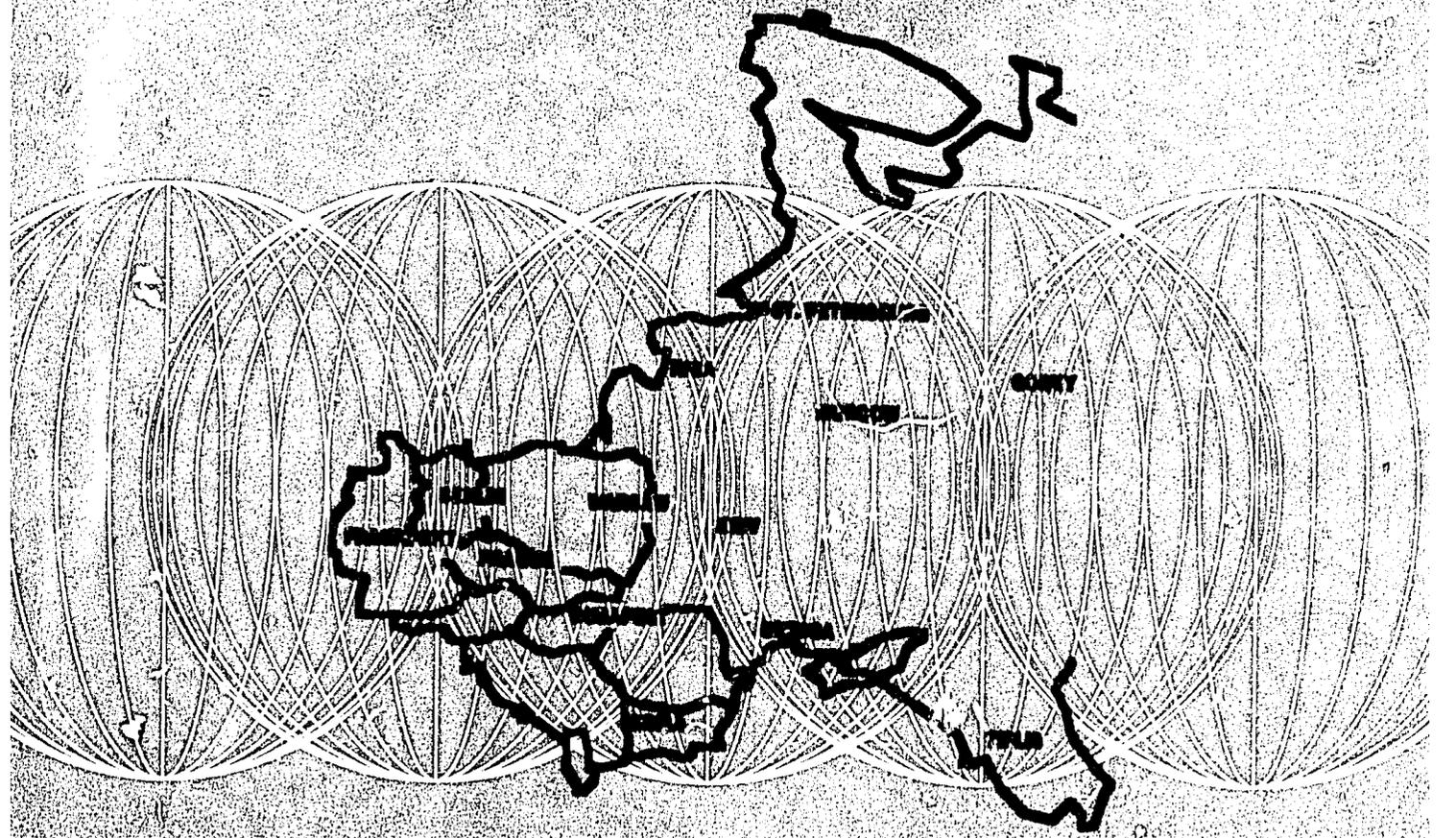
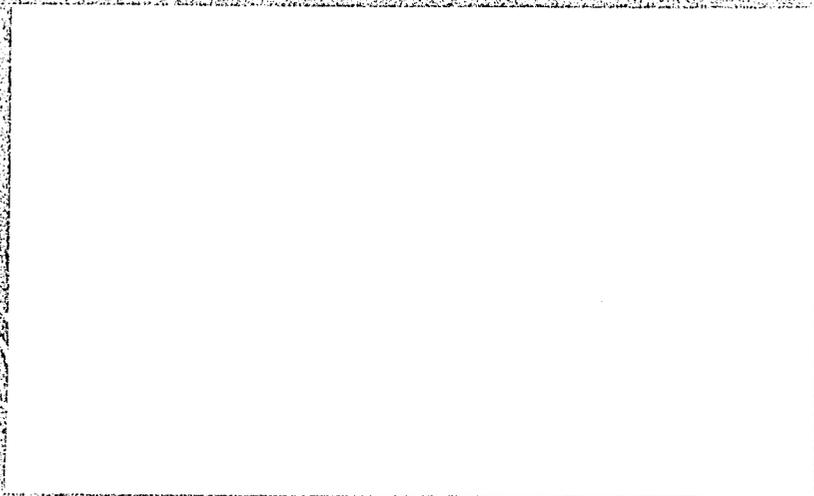


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AN INTERNATIONAL ACTIVITIES PROJECT

FROM PLANNING TO MARKETS

HOUSING IN EASTERN EUROPE



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

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

MONTHLY REPORT

AUGUST 1994

Prepared by

Raymond Struyk
Marcellene Hearn

The Urban Institute
2100 M Street, NW
Washington, DC 20037

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A. Program Activities — Russian Federation

Notable Developments

Mid-month, First Deputy Minister of Finance, Andre Vavilov, and Governor of Nizhni Novgorod Oblast Nemstov, who were with President Yeltsin in Sochi, telephoned to request help in preparing fresh proposals on housing for returning officers for President Yeltsin's trip to Germany. Our response was a variation on the military certificate program that combines some features of the version of the downpayment subsidy program beginning to operate in Nizhni Novgorod. The proposed program was enthusiastically accepted by Nemstov and Vavilov. Vavilov also urgently requested that we prepare a draft Resolution of Government to create a program for consideration by the Cabinet.

The team of four Duma members and representatives from the Office of the President, Ministry of Economy, and the Apparatus of Government, led by Duma Member, Georgi Zadonski, returned from their study tour on mortgage law in the U.S. Their report was unusually positive about the substance and organization of the event. Our thanks to Bruce Ferguson and others at Abt Associates who planned and executed the event.

Legal and Policy Developments

1. Minstroi completed the draft of a Presidential Decree that will clarify and strengthen the ability of banks to foreclose on residential mortgage loans in default and to evict the residents, if necessary. Steve Butler (HSRP Legal Advisor) reviewed the draft and Nadhezda Kosareva (CCN Consultant) and Ray Struyk (UI-Moscow) worked with Igor Aristov on revisions. A major problem in the draft had been a provision for the municipality to provide the defaulted borrower with substitute housing as a condition for eviction, if the borrower had defaulted on the mortgage of his primary residence. We worked out an alternative under which the bank would rent the unit for a one year period to the borrower, if the borrower did not voluntarily find alternative housing. If necessary the borrower could then be forcibly evicted from the unit. The cost of renting the unit would be deducted from the funds due to the borrower after sale of the unit at auction. This seems agreeable to everyone.
2. Nizhni Novgorod oblast is preparing legislation to address foreclosure as well. A resolution was drafted in the past few weeks by the Nizhni Novgorod Interregional Land Bank. During discussions among bank staff, Struyk, Kosareva, and oblast officials, including Deputy Governor Frolov, the

procedure described above was offered as an alternative approach. Both bank officials and Mr. Frolov were enthusiastic. We promised to provide the language worked out by Minstroi as soon as it is available and we have reviewed it.

3. Struyk prepared comments on the Council of Ministers's Resolution drafted by Minstroi and the Moscow Office of Building Inspection on a system of state housing inspection.
4. Alexander Puzanov (CCN Consultant) met with Tchernyshov (Minstroi's Department for Housing Economy) and presented him proposed amendments to the draft resolution of the meeting of Minstroi board on rent and housing allowances reform. Tchernyshov ordered his staff to include all amendments to the draft.

Housing Finance

The major activity of the housing finance team this month was to prepare for the two housing finance courses to be offered in St. Petersburg under the auspices of The Association of Mortgage Banks with the St. Petersburg Mortgage Bank. The FNMA team of Ruth Sando and Lucian Hodges were involved in working with the Association. Work continued with Menatep Bank, in particular, the team worked with the Bank on clauses in the agreement for their planned "Menatep Town" development. The HSRP also established relationships with and created initial work programs with The East Siberian Mortgage Bank and Baltshug Bank with BecSAMBIC Corporation. James Cook (UI-Moscow) also finished a draft of a brochure explaining mortgage loans which is intended for mass distribution by the banks with whom we are working.

Association of Mortgage Banks and the Fall Housing Finance Courses

1. At the end of the month negotiations were concluded between the Association of Mortgage Banks and the St. Petersburg Mortgage Bank concerning arrangements for the October housing finance training courses. The two one-week courses will be held the weeks of October 3 and October 10.

As part of the negotiation process, in early August, Vladimir Orlov, Struyk, Sando, Kopekin and Andrei Suchkov (CCN Consultants) visited St. Petersburg to meet with the St. Petersburg Mortgage Bank. The bank president invited the St. Petersburg Academy of Real Estate to provide major help with organizational and promotional tasks. The Academy, in turn, plans to use the facilities of the International Banking Institute.

In addition, in our visit to the bank we learned that it plans to initiate mortgage lending next January, using mortgage loans to finance the last 30 percent of the purchase price for families who have accumulated 70 percent of the price in the form of housing certificates sold by the bank. The bank will use the DAIR and asked for help in preparing to begin lending operations. Kopekin will begin the process and Cook will follow up.

2. The FNMA team of Ruth Sando and Lucian Hodges completed their mission this month. They and Struyk agreed on several items:
 - (a) the contents and teachers for the two training courses to be delivered in October in St. Petersburg and on the content of the December course on "Mortgage Finance and Risk Management;"
 - (b) the type of manuals for trainers that will be prepared for Russian trainers who will deliver the course in the future;
 - (c) FNMA will prepare a course on construction period finance, for delivery in the first quarter of 1995;
 - (d) FNMA will conduct an assessment of the training needs and the types of services sought by members of the Association of Mortgage Banks.

The FNMA team also reviewed the plans to promote the fall courses prepared by Alexander Kopekin, Orlov, and other UI team members.

3. Suchkov and Lena Klepikova (CCN Consultant) prepared information kits about the Association, the Urban Institute, FNMA, and the fall courses that will be used in preparing publicity for the course, including a projected early September press conference. In addition, they also assembled a package of materials with Cook's assistance to give banks that might be interested in joining the Association. Vladimir Orlov has been actively reviewing all documents.

Menatep Bank

In response to our comments on its initial agreement for "Menatep Town," the bank has agreed to tone down the original wording of the forfeiture clause. The Board had been reluctant to make this change, believing that they had very little competition and could get away with it. We are having the revised agreement translated.

We have also discussed the bank's role in inspecting the property during the construction phase. Menatep believed that most of its protection would be included in the clause that made the builder responsible for any defects in construction for three years after completion of the house. However, we emphasized that it is in the bank's interest to protect the value of the collateral for the life of the loan. Therefore, it is imperative that quality workmanship and materials go into the project during construction (reducing the risk that the house will fall apart in six years). Shitov, the director of mortgage operations, liked this idea and will adopt a procedure for regular unannounced inspections during the course of construction to ensure that the builder is not substituting cheaper materials and maintains quality construction.

East Siberian Mortgage Bank

In mid-August, Cook and Suchkov journeyed to Irkutsk to meet with Sergey Kurilov, Director of Mortgage Lending at the East Siberian Commercial Bank to discuss the initial stages of our work program.

The bank is in a good position to start mortgage lending and has established close ties with Vincent (a local construction/development company), local enterprises, and the oblast administration. Cook and Suchkov also met with Sherbakov Vladimir, Director of Vincent, and were shown various housing development sites along with current construction projects. They also met with Ivan T. Smolianin, Chairman of the Committee on Architecture and Construction for the oblast. The oblast has established a fund of 35 million rubles for social housing, which the bank is hoping to use for upfront subsidies. Smolianin is very interested in how the administration can help our program and would like us to submit recommendations on how the subsidy program can be administered. In addition, he would like us to submit a proposal on tax breaks for construction companies and mortgage companies so that these may be included in next year's budget [initial deadline for budget proposals is September 15]. We will probably propose a program similar to Nizhni Novgorod's and recommend that the 35 million rubles for social housing be used in the form of downpayment subsidies.

The bank is very interested in the following issues:

1. Training its employees in mortgage lending.
2. Municipal housing bonds and specific tax advantages for banks involved in lending to lower income people.
3. How the local oblast can address taxation on housing bonds.
4. An organizational chart for initial lending activity.
5. A business plan.
6. Contracts and sample forms.

7. Recommendations to the oblast administration on the subsidy program and how to administer it.

Baltschug Bank & BecSAMBIC Corporation

In early August, Cook and Kosareva held an initial meeting with Valery I. Mikheev, Managing Director of BecSAMBIC Corporation, to discuss possible cooperation on developing mortgage banking with Baltchug Bank. BecSAMBIC and the bank are working together to administer a pilot version of the City of Moscow's downpayment subsidy program.

The following week, Cook and Suchkov met with Mikheev again to discuss a work program. Alexander Prozorov of Baltchug Bank and Victor Grevenikob of Moscow United Bank (owned by Baltchug Holding Company) also attended the meeting. The Moscow government departments are clients of Moscow United Bank and the bank provides servicing for the subsidy program in Moscow.

Baltchug Bank is working with the Department of Municipal Housing to start a pilot program in three prefectures of Moscow (southern, western, and south-western) to target people on the waiting list for housing.

Cook and Suchkov met again with Mikheev and with Vyacheslav Tsybulnikov, President of Baltchug Bank at the end of the month to go over the proposed underwriting procedures and the pre-qualifying work sheet. Tsybulnikov gave a brief summary of the bank's role in mortgage banking and told us that the bank is actively working on the development of enterprise relationships. The bank has been active in consumer lending to enterprise employees. The bank is in a good position with its relationship with Baltchug Estate to start a mortgage lending program. This appears to carry the least risk for the bank at this time since the borrower's previous unit will be used to cover the primary cost of the new unit. The remainder will consist of a downpayment (if any) and the mortgage loan (with the propiska registered when the loan is paid-in-full).

The bank has also shown a strong interest in strict underwriting guidelines to prevent delinquencies. We view this as a good sign since their current procedure is to grant loans with little or no underwriting. The bank needs training in mortgage lending, computer software for DAIR, and the development of mortgage lending procedures and materials.

Housing Allowances

1. Struyk, Puzanov and Kosareva visited a district level housing allowance office in the municipality of Nizhni Novgorod. The office is enrolling about 40 households per day and has enrolled about 1,500 families since the first of July. Most participants are either elderly or invalids. The typical grant is small--less than the equivalent of a dollar per month, but still about 30-40 percent of the new rent payment. The manager of the office appears to be exceptionally able and fully knowledgeable about the program. The office appeared to be working very efficiently. No problems with income certification were expressed, and enterprises are reported to be cooperating fully.
2. Roskomstat has agreed to collect data on the implementation of rent increases and housing allowances beginning in 1995. A form prepared by Minstroi was adopted in principle. We have a number of problems with the form and will work with Minstroi in the weeks ahead to try to get it changed.

Divestiture of Enterprise Housing

In early August, Struyk met with Val Chodsky (USAID) to discuss the plans of the USAID-supported Russian Privatization Center (PRC). PRC is looking at the social assets of privatized enterprises but has no expertise in housing. We discussed the possibility of the Urban Institute working on the housing portion in concert with other contractor(s) who would handle other elements. Struyk and Kosareva also reviewed the revised concept paper on enterprise housing divestiture prepared by Dennis Whittle and Mari Horne of the World Bank. Comments were delivered via an extended telephone conversation with Whittle. The paper is great improvement over its predecessor and establishes the foundations for a workable approach.

Housing Codes

The impact of the July study tour on housing codes is rather beyond our expectations. Minstroi had drafted a resolution of government for signature by the Prime Minister which would establish a legal framework for a national system of codes. Struyk prepared comments on the draft.

In a meeting of Struyk and Rizer with Alexander Straznikov, head of the Moscow Office of Housing Inspection, who is working very closely with Minstroi officials, Straznikov indicated that Minister Basin would likely make a request to USAID for help in preparing the necessary materials for making the program a reality--procedures manual, guidance on the appropriate content of local codes, etc.--after the issuance of the resolution. Struyk explained that we had not budgeted

for such an activity this year, and the decision about additional work in this area would rest with USAID.

Quadel is now preparing its "policy report" for Mr. Straznikov, and expect to deliver it by August 20. This is the final element covered in the current work plan. If the past is any guide, the Moscow office will implement the recommendations provided.

Condominiums

1. In early August, Kosareva, Anvar Shamouszafarov, and Maxim Boyko, Director of the Russian Center for Privatization met. Boyko expressed the Center's strong interest in condominiums. Last winter the Center and GKI had decided to stop working in this area and turned over their project in Jaroslavl to the Urban Institute. Interest has been rekindled, however, apparently by the GKI's and the Center's interest in working with privatized enterprises to divest themselves of their housing. The Center has a new agreement to work with the City of St. Petersburg on developing condominiums. Since St. Petersburg is one of the cities included in the World Bank housing loan, we had, in principle, planned work on condominiums there. We will certainly not attempt to interfere with the Center's activity. An agreement was reached at the meeting that Struyk and Boyko should meet to discuss our mutual interests in this area.
2. From August 4 to 5, Warsaw and Masha Tikhomirova (CCN Consultant) traveled to Ryazan for a series of meetings with the mayoral staff.

At the first meeting, First Deputy Mayor Ampilogov outlined Ryazan's successful program, as evident by the nineteenth condominium being registered that day. Ryazan's challenges were also discussed. For example, residents currently are not obligated to share in the common area maintenance expenses and the public is suspicious of the city's promotion of the condominium program. Most importantly, new requests for condominium conversions have been put on hold because of the city's depleted maintenance subsidy pass-through budget. Despite these problems, Ampilogov related some inspirational stories which he may include in his speech at the Fall Conference on Condominiums.

The second meeting was an opportunity for Warsaw to answer questions from condominium board presidents and the Mayor's condominium staff. Next, Warsaw met one-on-one with staff members from the special department set up for condominiums, "The Division of Territorial and Social Self Management." She addressed issues such as senior citizens in the housing sector and potential investors' concern about possible termination of the condominium.

In the fourth meeting, Tikhomirova discussed privatization of maintenance with Astafieva from the Department of City Prefectures. When Tikhomirova visited Ryazan in July, she had provided them with a copy of the Gosstroi regulation and a package of UI documents to help them establish a Privatization of Maintenance Program. She was pleased to note that, on August 4, Ryazan's Mayor had signed the regulation on the competition for maintenance and repair of housing stock in Ryazan. The regulation is identical to Gosstroi's regulation except it mandates that 50% of the registration bidding fee be spent on the procurement process. The committee of entrepreneurship has already prepared a list of nine maintenance companies interested in performing maintenance of the housing stock. Ryazan is planning to create a special board to coordinate all organizational aspects of the bidding process. Tikhomirova discussed with Ampilogov the idea of providing training courses for owners and private companies.

In Ryazan, the DEZ will be organized in the next few weeks, and from the first of September, they will begin operations. It was agreed that shortly after September 1 would be a good time to introduce a program on Privatization of Maintenance and UI will provide any technical assistance they may need.

3. From August 9 to 10, Warsaw and Tikhomirova traveled to Tver to discuss condominiums and privatization of maintenance with municipality and the First Deputy Mayor. Movement toward activating these programs in Tver will be sluggish due, in part, to philosophical differences within their staff and city budget constraints. However, they have received a request from the residents of a building to establish a condominium. The building is one year old, and, based on our inspection, we believe it has the potential for success.

Warsaw invited the appropriate municipality staff to come to the UI Moscow offices in early September to finalize a draft city resolution on Condominiums and a Charter. They agreed with this plan. Tikhomirova presented an introduction to privatization of maintenance and left materials for their review.

However, two weeks later, two representatives from Tver City Administration's Legal Department made an unexpected visit to our office. They provided us with a list of numerous training and educational documents relating to various city issues, including but not limited to the condominium and privatization of maintenance programs. Warsaw is in the process of updating the current condominium materials and will provide them to the department upon completion.

4. Warsaw and Struyk developed a long-term plan of action for the Regional Condominium Program to include priorities and strategies for gaining

- participation by World Bank cities; establishing criteria and procedures for providing assistance to other inquiring cities; training and education for UI Russian Staff; and selection of written materials; and the use of newsletters and other communication vehicles to inform regions on progress and issues of condominium programs.
4. Warsaw and Belkina developed a draft agenda for the Fall Condominium Conference where Carol Rabenhorst will speak.
 5. Warsaw spoke with Hugh Winn of USAID regarding the new construction of 100 percent privatized apartment buildings which the developer would like to establish as condominiums from the outset. Mr. Winn spent the week of August 15 in Volgograd finishing up construction sign-off issues.
 6. Struyk, Warsaw, Rita Pinegina and Tanya Belkina (both CCN Consultants) met with Falco, Guetmaniouk and two other administrators at the International Academy of Entrepreneurship (IAE) in Moscow, an educational organization interested in working with the Urban Institute on joint participation in presenting training programs related to housing. Struyk met earlier with representatives of the Academy, which has offered several seminars on housing issues and cooperates with the main housing organizations such as the Guild of Realtors and the Union of Cities.

We believe that certain UI standards and criteria must be maintained for our condominium and privatization of maintenance programs to be presented through a collaboration with such organizations. Specifically, that (1) the training academy be willing to adhere to the concepts, facts, materials, and presentation recommended by the Urban Institute and the use of our actual course books; (2) The Urban Institute will participate actively in the training, and/or selection and training of instructors based on certain specialized experience or education; and (3) for the duration of the collaboration, the Urban Institute will monitor and change as necessary the training and course materials used.

IAE staff felt comfortable working within the standards listed above. We were impressed with their facilities which include an auditorium style lecture hall, well-equipped and maintained classrooms, computer classes, a restaurant, and a hotel. IAE taught 70 courses last year to approximately 8,500 students. It employs 19 permanent staff members and hires instructors with specific knowledge and experience for each course, thus coinciding with our approach. They have done work with several international organizations, and have training centers in several regions in Russia. We agreed to send them our

course materials and will arrange another meeting after they review the material.

7. Earlier this year, Carol Rabenhorst provided a copy of the Condominium Manual to several Russian Cities. We received responses from three. Warsaw, Belkina and Koutakova discussed in detail each written comment received, and have made changes as appropriate.
8. From August 29 to 31 Belkina, Warsaw and Koutakova visited Nizhni Novgorod to meet with city and oblast officials on the condominium pilot program. Separate seminars/work sessions were held with city officials and oblast officials. Both are very interested in forming condominiums in newly completed as well as existing buildings. The City has identified buildings for forming associations. Resolutions at both levels of government on Condominium Organization were drafted. Draft condominium charters for two smaller cities were also discussed. In general, the oblast is very anxious to proceed with forming associations and a concrete schedule for next steps was prepared.

Land Allocation Demonstration

1. Butler sent a program for the initial visit of the American experts on the project (Stoloff and Constable) which is being translated and which will be sent to Tver and Nizhni Novgorod in advance of the team's initial visit which is scheduled for the second half of September.
2. Nizhni Novgorod municipal administration formally agreed to participate in the project, including pledging to bring at least one parcel to allocation through competition.
3. We recruited Alexander Vysokovskii, a Russian expert on housing development and land issues, to work with the U.S. experts. We also engaged a new translator to work with the team.

B. Program Activities — City of Moscow

In the first week of August, James Norris USAID Mission Director signed the renewal of the technical cooperation agreement with Moscow.

At Nikolai Maslov's request Struyk drafted a summary "Action Program" for our project which Maslov plans to take to Mayor Luzhkov. The "Program" is, per Maslov's instructions, quite abbreviated and emphasizes actions the City should take.

Housing Maintenance

1. At David Murrell's (UI-Moscow) request, I.V. Bitsukov, Engineering Services, arranged a meeting for August 4 with the Northeast Prefecture to personally enlist their energetic participation in Privatization of Maintenance. A.M. Strazhnikov and his deputy substituted at this meeting for Bitsukov and Osypova.

The meeting at Northeast was with the 1st Deputy Prefect, I.S. Reikhanov, and 17 of his Sub-Prefects. The program received their strong expressions of support. Northeast took independent action in May 1992 to enlist private contractors in their maintenance. In late 1993 they offered some useful suggestions which were incorporated into the current program. Follow-up contacts will be made with the sub-districts and the DEZs within 7-10 days for commitments.

2. Murrell and Marina Shapiro (CCN Consultant) met with Mr. Maslov on August 4 to present him with a list of problems and suggested action steps about Privatization of Maintenance which he may use for his series of meetings with the Prefects.
3. Murrell and Shapiro met with A.M. Strazhnikov and T.B.Savina on Friday, August 5th to continue the work on a standardized inspection form and protocol.
4. SanTekhnika-Kompleks signed a contract with the Northwest Prefecture to maintain another 4,500 newly constructed units in Mitino. This contract is significant because it represents independent action by the contractor and displays the confidence of the DEZ and the Prefect in the work of the private contractor. Maintenance of new units is very profitable because of the relatively low overhead. The contract could have been viewed as a political tool for the Prefect and could have been awarded in other ways.
5. Nikolaj Maslov held a press conference on August 11 about the city's housing program. It was attended by approximately 15 persons, mostly low-level representatives of the Prefects, and four reporters (*Kuranti*, *Kvarterier*, *Ehkonimika i Zhizn* {Economics and Life} and *Moskovskaya Pravda*), the Deputy Chief of Mayor's Press Center, and Chemonics.

Mr. Maslov laid the responsibility for the future success of the program at the feet of the Prefects, stressing the need for housing reform, the benefits of privatized maintenance, and Luzhkov's goal of 250,000 units by year's end. His remarks were taken from the materials prepared by this office. He also singled out those Prefectures which are not yet involved in the program: Eastern, Western, Central, and Zelenogradskij. Questions from the press concerned the process of selecting the private firms, the transfer of the administrative functions of the REU to the DEZ, and a rumor that Engineering Services was blocking the signing of the contract in Orekhovo-Borisovo.

6. As a result of Maslov's August 11 press conference, the first request was received to participate in Privatization of Maintenance. The Sub-Prefect of Otradnoye Administrative District requested assistance for one REU, 14 buildings. Murrell, Shapiro, and Penegina attended a meeting at Bibirevo Sub-district (N.E. Prefecture) with the Sub-Prefect and the chief of the DEZ on August 17 to explain how the program operates and to begin the process of competitive bidding. Bibirevo will commit at least one REU, perhaps two.
7. On August 16, Murrell and Shapiro met with Osypova and Strazhnikov to set up the first of several meetings to discuss the introduction of minimum housing standards and the level of funding necessary to support such a standard. In preliminary discussions, the concept is being received positively.
8. Also on August 16, Bitsukov used the "Selector" conference-call system to speak with all Prefects to solicit their concrete numbers for participation in the program and to set up a schedule of presentations by this office. As a result on August 19, Murrell and Shapiro met with Dyomen, the Prefect of the Northern District, to present the program to his sub-prefects. Osypova and Strazhnikov assisted with the introduction of the program.
9. By the end of August, Murrell and his team were well underway in discussing expansion of the program with the city's ten Prefects.

(a) On August 19 they met with the Prefect of the Northern District. All of the sub-prefects were present to hear Lyudmila Osipova, of Engineering Services, introduce Privatization of Maintenance and hear a testimonial by Sub-Prefect Oleg Samarin (Tonaryazevski) about the process he recently completed to procure privatized maintenance.

Prefect Dyomin was forcefully supportive of the program and provided ample time for questions, many of which were about the contractor's role with the administrative functions, such as rent collection, passport control, and the employment of REU workers. Dyomin gave the sub-prefects three weeks to

become familiar with the hand-out materials and to decide the number of units which they will nominate for competitive bidding in each of their sub-districts.

(b) Ivan Bitsukov, Deputy Director of the Department of Engineering Services, continued to make good on his promise and set up three more presentations with Prefects. On August 23, a presentation was made before the 1st Deputy of the Central Prefecture, Mikhail Bilyaev, and his sub-prefects. Bilyaev appointed a member of his staff to serve as contact person and coordinator of the units nominated for the program.

(c) On August 31, Murrell and Penegina presented Privatization of Maintenance to the Southwest Prefect. Ivan Bitsukov introduced the program with strong remarks about the positive effects of private maintenance. Prefect Aksyonov spoke out very forcefully about the need for such a program to alleviate current poor housing conditions and the necessity of giving the program a chance to work in the district. He cut off attempts of several sub-prefects to burden the presentation with detailed critical questions.

10. Sub-Prefects are beginning to respond to earlier presentations to the Prefects.

(a) In the Eastern Prefecture, especially, a conversion occurred:

(i) Vitalij I. Zhilyakov, Deputy Sub-Prefect of Bogarodsky Sub-District scheduled a meeting on August 30 for Murrell and Shapiro to explain to the DEZ Chief and chiefs of three REUs there how to begin the program.

(ii) Murrell and Shapiro met at the invitation of the Chief of REU #6, Sergej S. Chernyakov, of Izmailovo Sub-District and his assembled staff on August 31 to discuss the REU's wish to privatize and participate in the competitions. They appealed for assistance with this process through our contacts with municipal officials.

(iii) On September 1, the Sub-Prefect at Metrogorodok was introduced to the program in detail and provided with documents.

(b) In the Northeast Prefecture, Otradnoye Sub-District met with program staff on August 29. They are anxious to begin the program for two REUs at the earliest possible date.

11. On August 30, Shapiro and Penegina met with Marina Asayeva, Chief of Section in the Economics Branch at Engineering Services, to explore some

legal and financial issues--for instance, the process REUs may use to privatize, and the outlook for providing stability in the payments to private contractors.

12. Unit Scoreboard: The contract for 11,596 in Timiryazevskij has been signed with the firm of AKVA, adding this number to Units Under Contract.

Housing Allowances

On August 1, the City began implementing its program of rent increases and housing allowances. Charges for maintenance fees and communal services, exclusive of electricity and telephone which are billed separately, for a typical 3-person family living in a three room flat increased from R531 to R4,448 per month, or 737 percent. Because of inflation since the new charges were set, the new charges cover about 10-12 percent of full operating costs.

The program appears to be getting off to a rough start. The process of changing the payment books to incorporate the new rents is going very slowly. On the other hand, all local staff responsible for this task are reported to have been trained in July.

Twenty two housing allowance offices have been opened. An inspection of six in the first week by Mrs. Medvedeva, deputy head of the economics office in the Department of Engineering and Communal Services, showed some to have real problems. It also appeared that the staff have been inadequately trained.

On August 4 and 5 Puzanov gave seminars for local HAO staff at the request of the Department for Communal services in its conference hall. About 60 people attended. The lively questions and discussions prove the staff is quite interested in the job and motivated. He has also begun to receive regular calls from local HAO's asking for his advice how to treat concrete family situations.

The problems with start up are not unexpected. Mrs. Romakina, the head of the Office of Rent Calculations and Subsidies, has insisted in preparing for the start of the program without assistance from us or from other parts of the City government. Puzanov in particular remains ready to help but Romakina continues to want to operate the program in isolation.

During the first week of operation, more than one hundred families visited the 22 Housing Allowances Offices in Moscow. Most of them just received consultation - local housing organizations have processed only about 5% of families' payment books, so HAOs are not yet in a position to do actual calculations. Mrs. Kuznetsova has inspected some of the HAOs and gave them quite high appraisal.

The information campaign in Moscow media continues to expand. Most of the published materials are compiled from what the UI staff has produced. At the request of Mrs Kuznetsova, Puzanov met with Galina Sugak, Press Center of Moscow Mayorate. They are preparing a special issue on housing reform in Moscow which would include a section titled The Urban Institute Simulations on Consequences of Rent Reform in Moscow. Calculations done in August 1994 show that the percentage of eligible families will be about 2.5 percent and for more than 10,000 families the subsidy would exceed their housing and communal services cost.

The Republic of Belarus is also about to adopt its comprehensive housing legislation which is (according to Russia-Belarus agreement on joining monetary systems) to somehow match the Russian legislation. At the request of Mrs. Kuznetsova, Puzanov met with Vadim Volozhinets, Deputy Head of Housing Department, Ministry for Construction of The Republic of Belarus. Puzanov described the Moscow housing allowance program as well as other areas of our assistance.

Condominiums

Warsaw and Tikhomirova met on August 12 with Galina Ivanova Pokamestova, President of the Association of Condominiums in Moscow. Pokamestova requested the meeting to keep us abreast of problems with a new regulation, due to be signed by Luzhkov this week, which, in her opinion does not serve condominiums in Moscow well in regards to the treatment of leasing commercial units.

C. World Bank/USAID Housing Construction Loan

In response to a request from David Leibson, Struyk prepared comments on the draft TOR for the housing finance study, which is to be included in the Staff Appraisal Report for the loan.

We also made final payments to the Russian contractors who carried out the data collection and analysis in support of the loan appraisal. Payments included VAT, with the exception of AUREC which believed it had convinced the St. Petersburg tax office that this was work for export which is not subject to the tax.

D. Other

Dissemination/Seminars/Presentations

1. Kosareva was interviewed on mortgage lending for the national TV program "Real Estate Market," which airs at 9 am three days a week on Ostankino

(Channel 1). Last week Alexander Vysokovsky (Polis 3) appeared on the program to explain how housing development is occurring in Moscow, based on the research done under our project. He managed to give the project a plug.

2. Struyk met with James Chaven (Chemonics) and James Carey (Ogilvy, Adams & Rinehart) who have a USAID contract to work with GKI to produce commercials for Russian TV and radio about the success of the privatization program, including housing. They have been working in Russia since June. Struyk gave them basic information on housing privatization and the Housing Sector Reform Program.
3. Struyk and Kosareva were interviewed by four reporters at the end of the month about housing reform and our program--three with Moscow newspapers and one from *The Economist*.

Evaluation/Monitoring

1. Struyk and Puzanov met with Alla Guzanova from the Institute for Economic Forecasting to arrange for the team which will conduct surveys in Vladimir and Gorodezts (Nizhni Novgorod Oblast) to evaluate the early experience with housing allowances. At the end of the month, we obtained formal approval of Deputy Governor Frolov to proceed. One survey will be a random survey of the population to ascertain the extent of knowledge of the existence of the program and reasons for the non participation of families who appear to be eligible. The second will survey program participants to learn about their experience with the program. Survey results will permit refinement of program outreach and administration. Vladimir and Gorodezts were selected because we have worked closely with administrations in both cities on implementing the housing allowance program and because both began their program relatively early in the year. We plan to field the surveys in mid-September. (A Similar analysis will be done for Moscow in December.)
2. Struyk met in Budapest with the Urban Institute-Metropolitan Research Institute team that is conducting an early evaluation of the housing allowance program operating in Szolnok. It was a very useful meeting, since we are just beginning a similar evaluation in Vladimir and Gorodetz. We obtained a copy of their questionnaire and will model some of our questions on theirs. Because the housing allowance programs in the two countries are quite similar, it appears that useful comparative analysis can be undertaken. Puzanov is working on our questionnaire.

Program Development

Murrell was visited by Alexander Verbitskij, Head of Water Systems and Networks Laboratory for MOSVODAKANAL, who is interested in connecting privatized maintenance with the cause of reducing water consumption. He proposes the installation of meters and water-saving devices in buildings served by private firms to compare them with the work of REU's, with the assumption that privates can demonstrate lower levels of consumption, reduce city expenditures, and further prove the worth of private maintenance. We noted how the comparison is no longer required for the sake of the program. He was given a promise that the subject will be discussed further with the Program Director and how reduced water consumption might be included in the overall Moscow program.

The strong reputation that the Privatization of Maintenance program enjoys with governmental authorities gives him a hope that we might assist him with the introduction of methods of reducing the tremendous waste of processed water. 30% of water produced in Moscow is lost within the system. Financing a metering project is a potential idea for an expanded technical assistance or even perhaps should be on the agenda for the October review meeting in Washington.

Program Management

1. The AED/NET training program continues to cause enormous confusion to us and Russian candidates. This week course dates were changed (brought forward three weeks for one course) and the dates remain uncertain for others. This results in much telephoning, replacement of candidates, etc.
2. The military certificate program continues to drain staff from the main program--in the past week we had three staff in the Baltics. Others are involved in pricing activities in Pskov and evaluation of the pilot program. The military team itself is busy working on program start up in Jaroslavl and finally completing the revisions to the program manuals necessitated by making existing housing eligible for purchase.

G. Budget and Level of Effort Summary

Budget (Actual expenditures, excluding UI fee)

| | |
|-----------------|-------------|
| August 1994 | \$300,494 |
| Project to date | \$4,463,932 |

Level of Effort (person-months)

| | |
|-----------------|---------------------|
| August, 1994 | 6.3 person months |
| Project to date | 301.4 person months |