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STAFF APPRAISAL REPORT

RUSSIAN FEDERATION

HOUSING PROJECT

JANUARY 30, 1995

Infrastructure, Energy and Environment Division
Country Department 3
Europe and Central Asia Region

CURRENCY EQUIVALENTS

Unit of Currency = Ruble (Rb)

December	1991	=	169
December	1992	=	415
December	1993	=	1247
September	1994	=	2204

FISCAL YEAR

January 1 - December 31

WEIGHTS AND MEASURES

Metric System

ACRONYMS, ABBREVIATIONS, AND GLOSSARY

BTI	Bureau of Technical Inventory
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CBR	Central Bank of Russia
CM	Council of Ministers
CPIU	Central Project Implementation Unit
ERR	Economic Rate of Return
FIDP	Financial Institutions Development Project
FSU	Former Soviet Union
CDP	Gross Domestic Product
GKI	State Committee for the Management of State Property
ICB	International Competitive Bidding
IG	Interministerial Group on Housing Reforms
ISB	International Standards Bank
Kombinat	A large vertically integrated building materials and construction organization
Krai	Territory, Administrative Subdivision
LCB	Local Competitive Bidding
LCC	Local Coordinating Committee
LPIU	Local Project Implementation Unit
LRC	Loan Review Committee
Minstroi	Ministry of Construction and Architecture
MOE	Ministry of Economy
MOF	Ministry of Finance
Oblast	Administrative Subdivision of a Republic, Province
PCR	Project Completion Report
ESP	Enterprise Support Project
PPAR	Project Performance and Audit Review
Propiska	Residency Permit
PRU	Project Review Unit
Raion	District
RAP	Regulatory Action Plan
Roskomstat	State Committee on Statistics
Roskomzem	State Land Committee
SA	Special Account
Sberbank	National Savings Bank of Russia
SOE	Statement of Expenditures
TCP	Technical Cooperation Program
TOR	Terms of Reference
USAID	United States Agency for International Development

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

TABLE OF CONTENTS

Loan and Project Summary i

I. The Housing Sector 1
- A. Background 1
- B. Urbanization 2
- C. Overview of the Housing Sector 3
- D. Legacy of the Socialist Housing System 4
- E. Current Conditions in the Housing Sector 5
- F. Russian Government's Response to the Housing Challenge 8
- G. Housing Sector Reform Issues 10

II. Bank Lending Experience and Strategy 13
- A. Bank Experience 13
- B. Bank's Lending Strategy for the Housing Sector 14
- C. Project Preparation 18

III. The Project 21
- A. Project Objectives 21
- B. Overview of Project Components 23
- C. Housing Market Development Component 24
- D. Transformation of the Building Materials Industry 32

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E. Technical Cooperation and Training 34
F. Performance Indicators 35

IV. Cost Estimates and Financial Aspects 37
A. Cost Estimates 37
B. Financing Plan 38
C. Special Account 40
D. Flow of Funds 40
E. On-Lending Terms 41
F. Cost Recovery 43
G. Municipal Finance 45
H. Procurement 47
I. Disbursement 53
J. Reporting 55
K. Accounting and Auditing 55

V. Project Organization and Management 57
A. Project Management and Summary 57
B. Project Organization 57
C. Project Implementation 58
D. Implementation Schedule 59
E. Supervision Plan 60

VI. Project Justification and Risks 61
A. Project Benefits 61
B. Economic Analysis 63
C. Project Beneficiaries 64
D. Environmental Aspects 66
E. Project Risks 67

VII. Agreements and Recommendations 69
A. Project Agreements 69
B. Recommendations 70

ANNEXES

Annex 1.1 Major Laws, Decrees, and Resolutions Relating to Housing Reform 71
Annex 1.2 Application of Laws at the Local Level 81
Annex 1.3 Housing Policy in Russia 89
Annex 1.4 Housing Market Analysis in Project Cities, 1993-1994 99
Annex 2.1 Housing Sector Reform Strategy 119
Annex 3.1 City Selection Procedure 127
Annex 3.2 Land Development Sub-Component 133
Annex 3.3 Summary of Local Regulatory Action Plans 165
Annex 3.4 Construction Finance Sub-Component 177
Annex 3.5 Equity Matching Sub-Component 201
Annex 3.6 Technical Cooperation and Training Plan 211
Annex 3.7 USAID Technical Cooperation and Training Plan 217

Annex 3.8 Draft TORs for Project Implementation and Project Studies 225
(i) General Consultants 225
(ii) Regulations for Building Material and Housing Construction 238
(iii) Housing Finance Study 244
Annex 3.9 Summary of Environmental Assessments 249
Annex 4.1 Detailed Project and Component Costs 261
Annex 4.2 Land Development Component Financial Analysis 263
Annex 4.3 Summary of Procurement Actions 267
Annex 4.4 Disbursement Schedule 271
Annex 5.1 Composition of the Interministerial Committee for Housing Reforms and Central Office of Minister of Construction 273
Annex 5.2 Project Organization and Management 277
Annex 5.3 Logical Framework, Performance Indicators and Housing Indicators 285
Annex 5.4 Supervision Plan 301
Annex 7.1 List of Documents Available in Project Files 305

TABLES IN TEXT

Table 3.1 Project Components 23
Table 3.2 Eligibility Criteria 24
Table 3.3 Summary of Pipeline of Appraised Land Development Sub-Projects 27
Table 3.4 Maximum Size and Credit Amount Requirement for Residential Facilities . . 30
Table 3.5 Maximum Size and Credit Amount Requirements for On-Site Infrastructure . 31
Table 4.1 Project Cost Estimates 37
Table 4.2 Proposed Financing Plan by Institutions 39
Table 4.3 Summary of On-Lending Terms and Conditions to Sub-Borrowers 42
Table 4.4 Maximum Debt Service Requirements Per City 46
Table 4.5 Counterpart Funding Requirements 47
Table 4.6 Summary of Proposed Procurement Arrangements 48
Table 4.7 Estimated Disbursements 54

MAP: IBRD NO. 25911 309

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STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

LOAN AND PROJECT SUMMARY

Borrower	Russian Federation.
Implementing Agencies	Interministerial Coordinating Group, Chaired by the Ministry of Architecture and Construction (Minstroi); Participating Cities: St. Petersburg, Tver, Novgorod, Nizhny Novgorod, Barnaul, and Moscow (for demonstrations); Participating Commercial Banks.
Beneficiaries	Participating Cities: St. Petersburg, Tver, Novgorod, Nizhny Novgorod, Barnaul, and Moscow (for demonstrations); Participating Commercial Banks; Private Real Estate Developers, and Building Materials Enterprises.
Poverty	Not applicable
Amount	US$400 million equivalent.
Terms	17 years, including five years grace, at the Bank's standard variable interest rate
Commitment Fee	Standard.
Onlending	The Government would on-lend the Bank loan in US dollars to local governments and participating banks. Sub-loans would be made at an interest rate reflecting the cost to the Government plus a spread of up to 2.5% with varying maturities and grace periods. Commercial banks will lend to final beneficiaries (private real estate developers and building materials enterprises) at market interest rates for maturities of 6 months to 8 years.
Project Objectives	The main goal of the Project is to support the Government's efforts to develop housing markets with choice for consumers and competition among private suppliers. More specifically, the Project objectives are to (a) implement national housing reform policies in receptive cities, especially to de-monopolize the supply of land; (b) demonstrate practical ways that markets can produce housing and generate employment, and (c) institutionalize new principles and practices, in particular in construction and the building materials industry .
Project Description	The proposed Project will include three components: (a) Land and Housing Market Development, with land development and construction finance Sub-components in the Participating Cities of Barnauls), Nizhny Novgorod,

Novgorod, Tver, St.Petersburg, and Moscow (for demonstration); (b) Transformation of the Building Materials Industry, with an equity matching Sub-component; and (c) Technical Cooperation and Project Management with technical cooperation and project management Sub-components. The Government will hold annual project reviews in order to reprogram investments, technical cooperation and reforms among sub-project types and cities. *The Land Development Sub-component* is designed to break up the present Government monopoly on land supply by assisting local governments in auctioning serviced and unserviced sites suitable for residential development to private developers. The Government will on-lend funds to local Governments to implement reforms and carry out infrastructure sub-projects. *The Construction Finance Sub-component* would encourage the banking community to enlarge the volume of medium-term lending for private sector housing construction. Subloans would be used to construct housing that is modest in size and energy efficient. This Sub-component will demonstrate that the private sector can produce housing that is more efficient and appealing than that produced by large traditional construction organizations. *The Equity Matching Sub-component* will encourage the establishment of industries to produce modern and more efficient building materials based on transfer of efficient technical and management skills through joint ventures. The Government would on-lend the Bank loan for this sub-component to participating commercial banks which would assume the credit risk for loans to Russian enterprises. Conservative guidelines have been established to delimit qualifying investors (i.e. venture capital funds and private companies with experience in producing modern building materials), minimum equity contributions (at least 1/3 of sub-project cost) and products in order to ensure that this experimental component is financially prudent. *The Technical Cooperation Component* will support policy reforms, finance project units, and prepare future projects.

Benefits The principal benefits would be to reinforce the sector policy dialogue by: (a) providing tangible evidence to Russians about the value of Government's policy of moving towards competitive housing markets; and (b) demonstrating the range of financing, regulatory, and institutional tools used to develop real estate in market systems. Quantifiable benefits are substantial. The land development Sub-component alone is expected to stimulate construction of over 22,000 apartments, 8,200 town houses, and 1,000 individual houses; and generate more than 100,000 person years of short term employment.

Risks The Bank's lack of experience in implementing projects in Russia has been offset by careful sub-project preparation, emphasis on early procurement arrangements, and extensive capacity-building TA. In addition, larger than usual physical and price contingencies would partially offset the difficulty of assessing costs in Russia's rapidly changing macro-economic environment. The risk that there might not be adequate demand for the new units has been reduced by demand studies and would be mitigated during implementation by monitoring of markets and flexibility to move funds among project components. Another

risk involves the availability and timing of local counterpart funding for the land development sub-projects, given the unsettled state of local budgets and intergovernmental fiscal relations. This risk would be offset by developing local financial plans and improved budgeting. While the political risk that reforms will falter is endemic, the Government has shown sustained commitment thus far in pursuing reform in the housing sector.

Environment The Project is rated in Category B. Environmental assessments have been completed on the initial land development sites. Environmental guidelines for the Construction Finance and Building Materials Sub-components are consistent with the Enterprise Support Project, and will give priority to environmentally-friendly building technologies. The main environmental concerns relate to lack of adequate sewerage infrastructure in St. Petersburg. A mitigation plan financed by the project will provide strategic small investments in the water and sewer system of that city.

Map 25911

Project Costs

Sub-Component	Local	Foreign	Total	Foreign as % of Total
Land Development				
Civil Works	84.2	84.3	168.5	50%
Land Donated by Cities	89.4	0.0	89.4	
Acquisition Expenses	6.6	0.0	6.6	
Taxes on Civil Works	38.7	0.0	38.7	
Interest During Construction	0.0	36.4	36.4	100%
Total Land Development	218.9	120.7	339.6	36%
Construction Finance	106.7	71.1	177.8	40%
Equity Matching	0.0	143.3	143.3	100%
Technical Cooperation	8.3	24.8	33.1	75%
Base Cost	333.9	359.9	693.8	52%
Physical Contingencies	18.4	18.1	36.5	50%
Price Contingencies	16.5	11.9	28.4	41%
TOTAL	368.8	389.9	758.7	51%

Financing Plan

Source	Local	Foreign	Total	% of Total
IBRD	154.2	246.0	400.0	53%
Government of Russia			0.0	0%
Participating Local Governments	153.4	49.8	203.2	27%
Private Investors	59.2	88.1	147.3	19%
USAID and Other Donors	2.0	6.0	8.0	1%
TOTAL	368.8	389.9	758.7	100%

Disbursements

IBRD FY	FY95	FY96	FY97	FY98	FY99	FY00
	(US$ Million Equivalent)					
Annual	19.3	88.0	103.2	92.4	67.8	29.3
Cumulative	19.3	107.3	210.5	302.9	370.7	400.0

Economic Rate of Return Not applicable

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

I. THE HOUSING SECTOR

A. BACKGROUND

1.1 Stabilization. The collapse of the Former Soviet Union (FSU), following the historic political events in 1991, resulted in massive disruptions in all spheres of economic activity. The immediate impact was a sharp decline in real output and investment. In January 1992, Russia launched an ambitious and unprecedented economic reform program, which consisted of liberalization of prices, exchange rates and the trade regime.[1] However, high fiscal deficits caused an explosion of inflation, with retail prices increasing six-fold and severely changing the price relationships between inputs to the housing sector such as building materials and labor and outputs such as final house prices. The tight fiscal situation will make it difficult to increase public expenditures in sectors such as housing, unless such expenditures can recover costs.

1.2 Household Incomes. Despite output declines, total household incomes grew in real terms by 12% in January-April of 1994 and registered unemployment remains low (1.7% of the labor force by the end April 1994). However, the average real income in 1993 remained below the level of early 1990s. The actual decline in consumption standards is difficult to gauge given the previous scarcity of goods, problems in the distribution system, and the lack of information on private sector activities. The decline in output and manifold increases in prices during the last three years have taken its toll on the living standards of the Russian population. Certainly, a significant percent of the population has fallen below the minimum subsistence level, including, many pensioners.

1.3 Privatization. The Government has initiated a program of economic reform that involves simultaneous restructuring and progressive privatization of parts of the economy, and the introduction of competitive markets and pricing systems. Progress in privatization has been the centerpiece of the Government's achievements in structural reform. The Russian privatization program has privatized a larger number of *enterprises* than any other program in the world; Small-scale privatization has also kept pace, though with significant regional variation; many farms have been technically privatized, though they remain under collective ownership. *Land* privatization is accelerating following the Prime Minister's announced commitment in March 1994 to expand a pilot model of farm privatization carried out in Nizhny Novgorod. Reforms in the *housing* sector also have been dramatic. At the beginning of the transition, approximately 16% of the housing stock was privately owned. By the end of 1993, nearly 55% of housing has been transferred to private ownership -- one

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1/ More information about the macro-economic situation during the early period of reform is available in the Country Economic Memorandum (CEM) published by the World Bank and entitled *Russian Economic Reform: Crossing the Threshold of Structural Change*, September 1992.

of the largest transfers of wealth into private hands by any country.[2] An account of recent laws, decrees and resolutions relating to housing reform is provided in Annex 1.1.

1.4 Financial Sector. There are almost 2000 independent commercial banks in Russia today, nearly all having been created within the last few years. Although much of the expansion in bank credit during the past two years was funded through directed credit programs, the level of financing extended under such conditions is declining steadily. Among the vast number of new banks in Russia, there may be up to 100 leading commercial banks that are evolving into sustainable banking institutions.

1.5 G-7 Agreements in 1993. Based on the Accelerated Program of Assistance agreed upon in a meeting of the G-7 Foreign and Finance Ministers on April 14-15, the Board endorsed a lending program on the order of US$ 9 billion in new commitments during the period FY94-96 as part of this accelerated program of assistance, including the proposed Housing Project. During the most recent discussion of the Country Assistance Strategy (CAS) on May 19, 1994, the Board endorsed an Intermediate Case lending program of up to US$1.5 billion annually plus some quick disbursing assistance with the possibility of a significant increase depending on performance. The program assumes continued, albeit inconsistent, progress on macro-economic stabilization based on a framework agreed with IMF, in addition to progress in implementing key structural reforms such as privatization, trade policies, financial sector development and progress in the energy sector, all of which are essential in laying the foundation for successful stabilization at a later date.

1.6 Request for an Accelerated Housing Project. In response to the Government's request at the G-7 meeting in April 1993, the Bank agreed to include a Housing Project in its Accelerated Program. The Bank agreed to accelerate the Project because of (a) the role of housing sector reforms in supporting the CAS strategy for macro-economic recovery, (b) the advanced state of sector dialogue with the Government, (c) the impressive policy reforms that the Government had already undertaken, (d) and the agreement by USAID to provide US$ 10 million in Project preparation and technical cooperation support. The relationship of the Project to the CAS is presented in Chapter 2, Section B: Bank's Lending Strategy for Housing.

B. URBANIZATION

1.7 Russia is a highly urbanized country with 74% (108.8 million) of its 1991 population of 146.8 million living in urban areas. It has the fourth largest urban population in the world; only China, India and the USA have larger urban populations. During the post-war period, the Soviet Union experienced the highest rate of urbanization among the nine main UN demographic regions of the world. Urbanization has continued in recent years. Between 1979 and 1989, Russia's urban population increased by 14% (14.1 million), while its rural population dropped by 10% (4.3 million). The distribution of urban population differs from that of most market economies. In Russia there is less concentration in large cities. Only 26% of the urban population live in cities of over a million people, nearly 40% of whom live in Moscow and St. Petersburg. Population shifts

2/ See housing surveys in project cities (Annex 1.4).

are likely to increase as the country moves toward a market economy, as restrictions on places of residence are lifted[3], and as migration from other republics of the FSU to Russian cities continues.

C. OVERVIEW OF THE HOUSING SECTOR

1.8 In general, Russians are dissatisfied with their housing conditions. Since 1990, the Government has moved decisively to initiate far-reaching reforms in the housing sector to confront this dissatisfaction. Political pressure was only part of the reason for this. There were compelling economic reasons for the Government to make housing reforms a national priority. Housing is a large part of the economy; it accounts for 20% of national reproducible assets (as compared to 29% in the US and 43% in France); and large construction organizations employ 15% of the labor force. Lack of housing severely constrains labor mobility -- preventing enterprise closure and restructuring -- and inhibits resettlement of soldiers and migrants from other republics. In addition, housing places an inappropriate economic and managerial burden on enterprises; and its subsidies have a large and increasing impact on already strained local government budgets.

1.9 The early stages of the transition have been difficult. Budgetary resources for construction of new housing have contracted sharply, leading to a drop in production. Housing production in 1992 of 28 million m^2 of floor space (about 490,000 units) represented only 60% of the 1987 peak.

1.10 During 1993, the fundamental restructuring in the housing sector began to be reflected in production figures. Housing is now the first sector to stabilize in the Russian economy: while 1993 production is slightly higher than 1992 up from 4.9 million m^2 in 1992 to 5.6 million m^2 in 1993, much more important has been the shift in the financial flows through the sector. The recovery is being led by small-scale private enterprise and individual household production, rather than through revival of old-style government building programs.

1.11 Residential construction could be one of the counter-cyclical industries to lead Russia out of recession because inputs are simple, small firms should be able to enter easily without much capital, construction labor is readily available, and there is major pent-up demand. This demand is demonstrated by evidence that some new housing sells for up to tree times its production cost and twenty times average household incomes -- extreme figures of shortage by world standards. The key bottlenecks that the Government has identified are: (a) government land and construction monopolies exacerbated by infrastructure shortages; (b) undeveloped financial systems; (c) shortages of appropriate building materials for low-rise and single family housing; and (d) unclear property rights.

1.12 This Chapter focuses on the issues traditionally considered within the ambit of the housing sector. For a more detailed discussion of private sector development and banking sector restructuring within which housing reform operates, reference should be made to the Staff Appraisal Reports of the Enterprise Support Project (ESP, Report No. 12953 R) and the Financial Institutions

3/ Although the internal passport ("propiska") officially has been abolished, some local jurisdictions (including Moscow) have continued to enforce restrictions.

Development Project (FIDP, Report No. 12707 R). The Housing Project has been developed in close cooperation with these Projects and reinforces the policy framework that they have developed.

D. LEGACY OF THE SOCIALIST HOUSING SYSTEM

1.13 Centralized Housing Sector. Russia inherited the most centralized housing sector of any reforming socialist country. It also had one of the most severe housing shortages of any country at its level of development, and little tradition of individual ownership of land and houses. Before 1989, the State owned and maintained 84% of the housing stock--compared with 67% in China, 56% in Poland, 33% in Romania, and 25% in Hungary. In Moscow and St. Petersburg almost 100% of the stock was owned by the State. Municipalities or state enterprises allocated units to households from waiting lists that now include over 23% of households. Public construction monopolies ("kombinats") built most housing, but had little incentive to economize or improve designs: the heavy, concrete-panel high-rise apartment units that they typically produced were of low quality, poorly located, and energy inefficient. Before 1990, these kombinats executed 90% of new construction in major cities.

1.14 Sources of Finance for Housing. Three features of the Russian financing system are important. First, the overwhelming share of housing investment funds has always come from the State under the central planning process. Until recently, up to 85% of new housing construction was financed directly from the budget or by state enterprises. Now these budgets are being drastically reduced. There is no tradition of banking services for housing finance. Therefore, construction organizations have had no reason to differentiate between *housing finance* i.e. banking loans to be repaid at competitive market rates and *housing subsidies* i.e fiscal grants originating from the State. Second, enterprise funds played no role in financing housing until the enterprise reforms of 1987 which gave more leeway to enterprises to use their investment funds for housing. By 1992, however, enterprises had become dominant source of housing finance. Third, the direct financial contribution of the population has always been (and remains) low. The *dachas* on which many Russian families lavish so much care and energy are considered seasonal residences. Their year-around use is also prevented by a lack of utilities, no social services and poor access to work.

1.15 Starting in the mid-80's the Government recognized that funds for housing should be mobilized increasingly from the population. During the last years of the Soviet regime, the Government: (a) permitted construction of new individual housing (until 1985, the production of new individual housing was illegal in cities with over 100,000 residents.); (b) revived a system of housing cooperatives; and (c) allocated (usually poorly located and unserviced) suburban lots to families on the waiting list for housing. Housing cooperatives in Russia are designed to mobilize more funds from the population on waiting lists. However, cooperatives neither select nor supervise designers and contractors, nor do they handle maintenance in their own buildings. Raising the population's share of funding for housing investment and maintenance is a priority objective for the Government and is one of the key features of its 1993 Housing Reform Program (see para. 1.25-1.30).

1.16 Monopolies in the Building Industry. Under the administrative-command system, state monopoly over financing, reinforced by state monopolies over land and over access to building materials, led to a highly monopolistic construction industry in every urban region. To worsen

matters, state monopoly over local production became a managerial goal in the early 1980's under the concept of "one client, one designer, one builder" across the 150 largest cities.

1.17 Types of Housing. The housing product that resulted from construction under state monopoly consists primarily of high-rise apartment blocks of heavy, reinforced-concrete large panels. This assembly line housing technology is not liked by most occupants. It is low quality and energy inefficient, yet it constitutes now over 60% of the national housing stock. Alternative technologies, designs, skills, and materials have been neglected. The rate of innovation has been extremely low in Russia and was often blocked by building regulations. The incentive structure motivating construction organizations has been based on square meters produced regardless of quality or customer satisfaction. Deferred maintenance is an endemic feature of the system. Once a building has been delivered to its intended owner, repair and rehabilitation of the existing stock are usually neglected, in part because of poor design, frequently poor construction and finishings.

1.18 Limited Real Property Rights. Certain aspects of housing policy in Russia have shown a remarkable amount of continuity over the past several hundred years. In particular, Russia has never had a strongly developed notion of individual land ownership. The second decree passed by the new revolutionary government in October 1917 abolished all private ownership of land. Before the year 1917 was over, all large residential buildings in cities had been nationalized. Also, Russia has long limited freedom of movement and settlement with institutions ranging from serfdom in medieval times to the "propiska" residency permit system of the Communist Era. At the time of the 1917 Revolution, Russia was the least urbanized and most backward European economy with a level of urbanized population of only 16%. Today Russia's urbanization is essentially completed and its system of cities has developed without any reference to private individual property, market mechanisms, or private financing -- and without the institutions associated with them. The legal continuity of real estate property rights through various rural and urban uses is yet to be developed in Russia.

1.19 Weak Local Governments. Russia is the largest country in the world with one of the most diverse geographic and cultural regions. The success of its housing policy will rest on local governments provided with a sound national policy framework, appropriate autonomy, and adequate resources. With the dominance of central-level and sectoral planning over local and spatial planning, cities always had inadequate resources and limited power to control their own decisions. Oblast-level governments and line ministries usually prevailed over local preferences and better knowledge of local conditions.

E. CURRENT CONDITIONS IN THE HOUSING SECTOR

1.20 Restructured Financial Flow. Rapid changes are restructuring the flow of funds for housing. There are four main types of changes: (a) the reduction of the share of central budget financing in state funding; (b) the sharp contraction in overall state funding of new production; (c) the large cuts in subsidies to housing maintenance and the rising burdens of local governments; and (d) the emergence of (state or private) employers as the dominant source of financing for new housing. This new dominant role of employers is reinforced by the sharp fall in real household incomes and the deteriorating household income distribution.

1.21 Reduced Funding and Inflation. Changes in the sources of funds coincide with a major contraction of the flow of funds for housing investment, and maintenance as well. Due to preferential treatment by the Central Plan, the construction of new housing had been increasing in the late 1980's when many other types of investment were being reduced. However, by any measure, the residential building industry in Russia is in crisis today. (a) In terms of *total housing stock*, in 1990, floor area per person in Moscow was 17.8 m^2 and in Russia it was 16.4 m^2, compared with typical floor areas per person in developed Western countries of 30 to 45 m^2. (b) As viewed through the *production of new housing*, production of new dwellings declined at an accelerating pace between 1990 and 1992, dropping from 61.7 million m^2 in 1990 to 28 million m^2 in 1992, before stabilizing in 1993. This level of new output barely matches the traditional volume of removals from the existing stock of dilapidated units, which is low by international standards. (c) *Construction costs* have experienced considerable increases with price liberalization partly because the monopolistic production and distribution of materials and supplies has remained in place. Inflation in *construction and building material costs* was extremely severe in 1992 and 1993; for example, the cost per square meter for large-panel buildings rose from 900 at the beginning of 1992 to more than 800,000 roubles in July of 1994. (d) *Construction delays* are endemic because of interruptions in flows of state financing and lack of incentives for kombinats to start new projects rather than finish existing works.

1.22 Housing Demand and Affordability. Along with contraction of traditional mechanisms for housing supply, there have been major shifts in the structure of housing demand. Transforming a predominantly state-financed housing system to a housing market where households pay full price for their housing is a difficult transition at best. Low wages constrain sales of new units to individuals, leaving diminished opportunity for savings and development of housing finance systems. Nevertheless, housing privatization offers a major remedy. Rapid and ongoing housing privatization is putting an asset in the hands of many households. This asset can both better withstand inflation and be traded if and when needed. However, pending wage reforms and economic recovery, private demand by new households will remain constrained and enterprises that can afford it will continue to offer housing to their employees.

1.23 The Restructuring Challenge. The Russian housing system is now in a state of flux. So far, the traditional mechanisms of central planning have been breaking down faster than market mechanisms have been emerging. A whole society has to learn and adopt the conditions of a demand-driven housing market. High inflation, rapidly-shifting relative prices, and the contraction of output in the sector do not facilitate the transition to markets. This transition has two main dimensions: restructuring of the existing stock, and encouraging the emergence of a competitive, market-based production of new housing. Given the economic conditions prevailing in Russia, continuing rapid and voluntary privatization of the housing stock is a high priority. For the production of new housing, the transition to markets has many legal and institutional requirements. In summary, this means moving from needs-based, state-financed housing construction to demand-based, private financing of real estate development.

1.24 The New Housing Market, Despite these problems, 1993 will be remembered as the year in which the housing market took off. Sufficient housing already has been privatized to create an active secondary market. New demand by final users is starting to change the type of building technology being used. New consumers want greater control over quality, design, and prices. These

changes have started a shift away from the large panel, high-rise buildings and towards more attractive low-rise buildings. Consumer demand should also lead to a better distribution in housing unit prices, more in line with the purchasing power of the population. Diversified financing will encourage diversified technologies and materials for low-rise and individual housing construction. The share of large-panel industrial housing in total output is expected by the Ministry of Construction (Minstroi) to fall from 52% in 1991, to 42% in 1992, to a combined share of large-panel industrial and related technologies of approximately 20% by 1995. One effect of the 1992 price liberalization has been to reveal clearly that this capital and energy intensive housing technology delivers a mediocre and expensive product. Detailed surveys of the housing market were conducted in participating cities for the project. A brief overview of the major recent developments in the housing market that were recorded by these surveys are presented below (See Annex 1.4).

a. Privatization and Development of Secondary Housing Market. The year 1993 saw a major breakthrough in the development of the Russian housing market. This surge in housing privatization sparked a rapid growth of the secondary housing market. A substantial increase in the volume of real estate transactions, including sales and exchanges, was recorded in all major urban centers. According to the survey estimates, the number of housing units that were for sale in 1993 equalled on the average 12% of all privately-owned housing stock in the cities studied.

b. Privatization and its Impact on Housing Prices. As demonstrated in the surveys the substantial growth in the number of tradeable units has had a moderating impact on housing prices. Prices remained at the same level in real terms throughout most of 1993, though they jumped by about 20%-30% in the first quarter of 1994. Prices also reflected increased differentiation according to quality and location of dwelling units.

c. Macroeconomic Impacts. Early signs of a positive macro-economic impact of the evolving housing market were detected, for example in increased residential mobility; the surveys documented an average of 3.1% in residential mobility across the five cities. The development of a competitive secondary housing market seems to have absorbed some of the inflationary demand pressure in the housing sector and in the economy as a whole.

d. Availability of Market Information. Despite alleged difficulties in obtaining adequate market data about real estate transactions, the surveys documented the ability of buyers to obtain good market knowledge. Major progress has been made in developing new sources of market information and in enhancing existing ones. The creation of real estate market data networks and the increasing variety and sophistication of real estate publications and services are among important signs of this progress.

e. Decline in Housing Construction. In 1993/94 the volume of new housing construction declined, mainly due to the reduction of subsidies and finance from the public sector. Privately financed construction cannot yet compensate for the drop in

public construction. The surveys emphasized five factors that currently hamper private construction: (i) lack of construction finance; (ii) competition from the secondary housing market; (iii) high construction costs due to excessive local government fees; (iv) a complex and uncertain regulatory environment; and (v) an unreliable system of title registration.

f. Lack of Construction Finance. There are four principal sources of construction finance (listed in order of importance): (a) advances from legal entities, such as enterprises; (b) developers' equity and/or installment payments from future buyers; (c) public housing subsidies from local governments and subsidized enterprises; and (d) construction loans from commercial banks.

g. Availability of Land to Private Developers. Land distributed earlier to enterprises for employee housing has become an important source of building sites for developers. As many of these enterprises are unable to develop these sites themselves due to a shortage of funds, they are passing on the development rights to private developers. Some developers also have access to municipal land. The payment for development rights on municipal land is often a proportion of the completed units (usually 10-50%), and/or in the form of extra infrastructure built at the developer's expense.

F. RUSSIAN GOVERNMENT'S RESPONSE TO THE HOUSING CHALLENGE

1.25 The Process of Housing Sector Reform. By initiating far-reaching reforms in housing policy, the Russian Government has made significant progress in confronting the immediate need to restructure the housing sector. In fact, the Government regards housing reforms as one of its key structural reform priorities and major areas of success. The Bank has contributed to this evolving policy framework through the Technical Cooperation Project, the Housing Sector Report and preparation of this Project. Technical cooperation has also been provided by USAID, and bilateral help from Canada, Finland, France, Germany, the Netherlands and others. Thus far reforms have introduced key concepts such as housing and limited land privatization at the federal level. However, the Government stresses that further developments in basic legal rules, implementing regulations, and administrative and judicial institutions at the federal and local levels are needed to create a fully functional urban legal system. The transition from a system of well-established socialist rights to a market-oriented housing system is neither a simple nor linear process.

1.26 Recognition of Housing as Macro-economic Priority. The Government's June 1992 "Program for Stepping Up Economic Reform" and the August 1992 Decision 602 placed housing as one of Russia's top five structural reform priorities. In December 1992, the Parliament passed the "Law of the Russian Federation on the Basic Principles of Federal Housing Policy," intended by the Government to be a "Housing Bill of Rights" that provides the legal foundation for a market economy in housing, including introducing the concept of real estate, broadening housing privatization, allowing condominiums and private housing maintenance, and establishing the principle that rents will be increased to cover costs. In June 1993, the Government approved the State Targeted Program "Housing," (Council of Ministers Resolution 595), which includes (a) creating a market-oriented legal framework; (b) decentralizing housing policy; (c) increasing private housing

construction; (d) accelerating housing privatization; (e) demonopolizing housing construction and maintenance; (f) developing private housing finance and reducing subsidies; (g) encouraging new construction technologies; and (h) reorganizing Government ministries to support the private sector. The Program is broadly consistent with World Bank housing policies.

1.27 Housing Privatization. The Law on Privatization of Housing was passed in July 1991. It establishes the right of a registered tenant occupying a state unit to become its owner with fully guaranteed property rights. The December 1992 amendments to the Federal Privatization Law were designed to speed up privatization. In 1991, about 1% of the public stock was privatized. By the end of 1992, according to the State Committee on Statistics (Goskomstat), 2.55 million apartments were privatized, 10.2% of the total publicly-owned housing stock. The rate of privatization increased in 1993; about 25% of housing units state units nationwide by the end of 1993 have now been privatized and 55% of the total housing stock is in private hands.

1.28 Land Privatization. The privatization of land has been a highly debated issue in the Russian Federation. A USSR law on private property passed in March 1990 formally ended the principle of state monopoly on ownership of land. Yet this law had many flaws for both agricultural and urban economies. In December 1992, the Parliament passed two amendments to the previous Constitution that are fundamental to housing reform. The Amendment to Article 12, Part 3 removed the restriction on the right to freely possess, use and dispose of land plots owned by individuals, but only if the land remains in residential use. An amendment to Article 58 changed the Government's obligation to provide state housing to households. A "Law on the Right of Citizens to Acquire As Private Property and to Sell, Land, Dachas, and Individual Housing Units" (December 23, 1992) also introduced private property of land in urban and rural areas. The 1992 "Law on Pledge" establishes the concept of mortgage, but does not improve the legal procedures to enforce a lien, which remains inadequate.

1.29 A Presidential Decree primarily aimed at agricultural land and entitled "On the Regulation of Land and the Development of Agrarian Reforms" was published on October 28, 1993. This decree allows all landowners, whether corporate or individual, to dispose of land at their own discretion through sale or purchase, bequest, gift, as mortgage collateral, wholly or in part, and in this respect represents a step toward the privatization of land in all its uses. In addition to changing the perspective on land privatization, the decree has also the direct benefit of facilitating land use conversion by permitting local authorities to transfer the use of land from agricultural to commercial use. However, even this decree does not clearly and unequivocally establish the right of corporate entities to own land, or the right of individuals to own urban land for purposes other than housing and gardening. It is also important to note that this decree is temporary and will only be in force until the new Parliament passes more permanent legislation which might differ in content.

1.30 The new Russian Constitution approved on December 12, 1993 marks a historical turning point by clearly and broadly recognizing the right to private ownership of land. Its impact on improving land use and supporting the emergence of urban land markets, rural land markets, and rural-urban land conversion will remain to be seen over time as implementing regulations are put in place at the local level, and as local governments gain experience in facilitating market transactions in land.

G. HOUSING SECTOR REFORM ISSUES

1.31 Housing reform is not an event, it is a process. There is widespread public support to break away from the administrative-command system which has lead to such unsatisfactory housing conditions. However, the housing stock of Russia represents a major share of national wealth. To move from today's system to a market-based system where housing will be predominantly private, significant well-coordinated changes are necessary. These changes are necessary on both the demand and supply sides, at both the federal and local government levels, and in the existing stock and new production. This section excerpts from the detailed reform strategy discussed in the Executive Summary of the Green Cover Housing Sector report and presented in Annex 2.1, a strategy that the Government has been implementing through its State Targeted Program.

1.32 Given the Russian situation, the comprehensive reform strategy discussed with the Government addresses ten key areas where the Government has an important role in facilitating the emergence of housing markets and regulating them soundly:

a. Supply-Side Reforms, including (1) building industry restructuring and privatization; (2) land use and urban regulation; and (3) municipal finance and residential infrastructure provision.

b. Demand-Side Reforms, including (4) the basic framework of property rights; (5) housing privatization from state to individual ownership; (6) rent reforms and housing allowances; (7) related issues of maintenance and management of public housing; (8) housing finance systems; and (9) fiscal reforms including taxes and subsidies.

c. Institutional Reforms, including (10) new institutions at the central and local levels able to manage private housing markets.

1.33 In every one of these areas the Government has already taken major actions; considerable experimentation to find solutions suited to local conditions is taking place at the city level. A short-term action program to support implementation of Government reform in housing should have four main thrusts described below.

a. New Construction. Improve resource mobilization to finance new housing construction: (a) allow unrestricted private ownership of land in cities in order to reclaim the much needed real estate wealth lost under industrial "fallow land"; (b) develop the legal framework for lending to the housing sector (mortgage law, foreclosure rules); and (c) develop workable transitional financing to make feasible the construction and sale of new housing for households below the very highest income brackets.

b. Transformation of the Building Materials Industry. Use on-going and new building projects to support the rapid privatization and restructuring of the building and

building materials industries and prevent avoidable losses in valuable skills following the sharp output contraction in the sector.

c. Housing Privatization. Encourage continued rapid and voluntary privatization of the state housing stock under appropriate regulations. Pass a sound condominium law to stabilize operating conditions after privatization.

d. Restructuring of Implicit Subsidies. Downsize and restructure subsidies in the rental sector through the creation of autonomous public maintenance companies, rent reform, and a social safety net clearly targeted on the most vulnerable groups.

1.34 These four reform objectives are consistent with the framework of the CAS, the ESP, and the FIDP. The Government notes that it has recently taken extensive steps in areas (c) housing privatization and (d) restructuring implicit subsidies. For example, in September 1992, the Government issued an important decree establishing a timetable for raising rents in the social housing sector and creating a housing allowance program that would change subsidies from the supply side to the demand side, by targeting poor households directly. Similarly, the Government recently issued a decree that further separates subsidies from the financial system by eliminating interest rate subsidies. Both these reforms were strongly supported by the Bank because they make the budgetary costs of the housing sector more explicit, and easier to target needy households without damaging the banking system. The Government has requested continued policy dialogue with the Bank in these areas, but does not want the first Bank lending in the sector to focus on the social housing area.

1.35 Instead, the Government has requested that the Bank's first Housing Project focus on experimental approaches to creating housing markets and private property rights through (a) the production of new housing and (b) the restructuring of the building materials industry. The Government recognizes that a revival of the housing sector based on reforms can contribute both to economic recovery and to modernization of the sector itself. The Government has stressed its objective to demonstrate local implementation of market mechanisms in projects that (a) implement federal reforms on the ground, (b) can achieve full financial cost recovery, and (c) advance the reform dialogue by treating housing as an important economic sector. The proposed Project addresses these reform and investment objectives directly through a flexible mix of investments, policy dialogue, technical cooperation, training, and studies.

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

II. BANK LENDING EXPERIENCE AND STRATEGY

A. BANK EXPERIENCE

2.1 The Housing Project will be among the Bank's first investment operations in Russia. Project design incorporates the experience of other Bank projects in Russia such as the Rehabilitation Project (WB Loan No. L3513) and the First Oil Rehabilitation Project (WB Loan No. L3623); and uses lessons from recent housing projects in other economies in transition, including Albania, Algeria, Armenia, China, and Poland. In addition, the Project can draw on the Bank's broad experience with urban sector lending .

2.2 Russia Loans. The lessons learned from the First Oil Rehabilitation Loan and from other on-going or pending loans to Russia include: (a) the challenge of identifying a consistent counterpart team with sufficient authority to move the Project forward; (b) the difficulty of coordinating among interested parties (ministries, agencies, and levels of government); (c) the importance of early detailed attention to procurement, on-lending, and other implementation issues; (d) the importance of including local consultants and institutes in project preparation and implementation, giving early attention to (i) the Government's procedures for loan signing and effectiveness after Board approval and (ii) setting up PIUs early in the Project with experienced advisers to facilitate procurement. These issues were discussed in Moscow in September 1994 at the first Country Portfolio Performance Review to discuss countrywide implementation issues.

2.3 Housing Loans. Recent Bank housing loans in reforming socialist countries suggest a range of lessons. The Poland Housing Project (Loan No. 3499), which became effective on May 6, 1993, focused on housing finance -- which is premature in Russia. The Poland Project has shown that: (a) establishing apex or banking mechanisms is difficult in an unstable macro-economic climate; (b) introducing new instruments for housing and construction finance is a complex undertaking; (c) local Project Units can be helpful in introducing new lending mechanisms and in mobilizing new reform constituencies; (d) maintaining flexibility throughout project preparation and implementation is important in an environment of changing economic and development priorities; and (e) it is important to have a strong counterpart to speak for the Project in executive and legislative debates. The Armenia Earthquake Reconstruction Project (IDA Credit No. 2562-AM), signed on February 18, 1994, shows the importance of having the Bank take an activist role in project preparation in countries that are not accustomed to market mechanisms and Bank procedures. It also shows that providing seminars on procurement to potential local contractors can motivate increasingly responsive local bids. As a group, these projects show the importance of broadening the counterpart beyond Ministries of Construction to include reform constituencies such as the Ministries of Finance and Economy, State Land Committees and other ministries and levels of government.

2.4 Policy and OED Work. Finally, the Bank has carried out extensive policy and evaluation work in the urban sector around the world. In particular, the recent Urban and Housing Policy

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Papers provided the sectoral framework on which policy and lending dialogue in Russia has been based. OED evaluation work on the urban and water sectors stresses that cost recovery is important but unlikely to be achieved unless careful attention is given to the sustainability of key sectoral institutions. It also points out that city-wide regulatory reforms are crucial so that land development projects do not become isolated enclaves.

B. BANK'S LENDING STRATEGY FOR THE HOUSING SECTOR

2.5 Objectives of CAS. The priority objectives for the Bank's Country Assistance Strategy are to (a) support the development of a *market oriented economy* based on private sector initiatives; (b) encourage *redirection of public sector involvement in the economy* toward the establishment of open and competitive markets and the provision of physical, social, legal, and institutional infrastructure not normally provided through the private sector; (c) establish *the Bank as a trusted and reliable development partner* through financing of high priority public sector investments and policy advice on key economic and sectoral issues. The CAS for Russia recognizes the need to provide assistance to certain key sectors such as infrastructure, housing, and energy, which will have a direct and fundamental impact on the success of macroeconomic reform. The CAS places high priority on preventing further collapse of the *infrastructure base* and expanding the *legal and institutional framework* for private sector activities.

2.6 Relationship of Housing Project to CAS. The Government's housing sector reform has been a major success over the last three years and should be sustained and deepened by assisting its practical implementation at the local level through demonstration projects. The proposed Housing Project directly supports the CAS goals by: (a) financing an investment project in an area where reforms have been rapidly achieved; (b) supporting Government initiatives to re-conceptualize housing as a key economic sector, realign the sector along market lines, and to rationalize and reduce subsidies to the sector; (c) implementing federal housing reforms at local levels; (d) demonstrating practical ways of having markets produce housing; (e) mobilizing foreign direct investment; (f) improving environmental and energy approaches in the sector; and (f) institutionalizing new regulatory and administrative procedures on land privatization, use, and registration in participating cities.

2.7 Bank support. The Bank's involvement in Russia to date consists of a mix of rehabilitation, technical assistance, and investment operations. The portfolio is expanding rapidly. As of December 30, 1994 the Board had approved 12 loans for Russia totalling US$ 3.04 billion with cumulative disbursements of US$ 664.4 million. In addition, the Bank has undertaken a comprehensive Technical Cooperation Program (TCP) that addressed key sectors for reform, including housing, municipal finance, and intergovernmental fiscal relations. The TCP in Housing was initiated in December 1991, and formed the basis of successful policy dialogue in the sector. The findings and recommendations in housing were reflected in the work program of the Government, and emerged over the past two years through sector laws, decrees, and regulations.

2.8 Strategy for Future Operations. A comprehensive reform strategy for the housing sector in Russia has been presented in the Green Cover Housing Sector Report. (A detailed matrix of recommendations is presented in Annex 2.1) The guidance for future projects in the sector will be

provided by the Government's Housing Policy, the sector reform strategy, the CAS, and the empirical capital created during the preparation and implementation of the present project.

2.9 The Government of Russia, with assistance from the Bank and bilateral donors, has instituted an impressive array of sectoral reforms and programs in a very short time, such as (a) allocation of housing stock by price mechanism, (b) privatization of housing maintenance, (c) rent reform, (d) targeting housing allowances to low-income households, with equity among similarly situated households, (e) stimulation of the private construction industry, (f) restructuring of building materials industry, and (g) mortgage finance. In general these reforms support the development of market economy, and are consistent with the CAS, and should be supported by future sector operations. The dynamic and unstable nature of the economic and political situation in the country makes the determination of an optimal sequence of operations somewhat difficult. The swiftly changing political and regulatory environment will necessitate flexible responses through a range of operations in the sector, as opportunities present themselves.

2.10 Investment Operations Will Leverage Policy and Institutional Reform. As is the experience in the present Project, the Bank's future operations will require the institution of a number of enabling regulations to ensure the success of these interventions. Although the Government of Russia has implemented an impressive list of regulations in a short time at the federal level, these new regulations need to be transferred and reinforced at the local level, while a host of new regulations still remain to be established. As in the present project, future investment projects in the sector can provide the leverage to implement the critical policy and institutional reforms necessary for housing sector reform as outlined in the sector strategy, while addressing the immediate operational problems in the sector.

2.11 Interventions in the Housing Sector will be Multi-sectoral in Nature. Reform in the sector will be closely related to the improvement in other institutions and sectors of the economy. For instance the success of financial sector reform will be crucial to the development of housing finance, construction finance and the private housing market. Increasing the efficiency of the energy sector will have an immediate positive impact on the housing sector. In Russia where land, utilities and a large proportion of the housing stock is still under public ownership, efficient management of municipal finance will be critical to provision of public services such as heat, water, electricity and others. Due to such strong correlation with other sectors, operations in housing sectors must by necessity address issues that are multi-sectoral.

2.12 Bank's First Russia Housing Project. The proposed Housing Project is envisioned as the first in a series of projects over the next 5-10 years that will support the creation of housing markets. The Project is designed to respond in a timely manner to Government's housing reform actions, and the sector reform strategy, and the CAS. The Government has requested that the first Project demonstrate tangible benefits of moving to markets, while future projects should address long-term housing finance, urban infrastructure, and social safety net issues when macroeconomic conditions permit. Therefore, the Bank's strategy for the first Project is to demonstrate practical market approaches to stimulating housing production in five cities that are willing to implement fundamental federal reforms. The Project would implement the Government's reforms by financing sub-projects that (a) break up a government monopoly by rapidly introducing government owned land into the market, (b) stimulate private investment in new housing construction in cities willing to implement

sector reforms, and (c) encourage the establishment and growth of private builders and building materials producers. Simultaneously -- following the Bank's housing sector analysis and the Government's request -- the Project would undertake demonstration efforts to help alleviate supply-side bottlenecks by (a) clarifying the practical framework of property rights at the local level, (b) creating an enabling framework for implementation of market oriented land use and urban regulations, (c) stimulating private investment in housing construction, and (d) catalyzing the private construction industry.

2.13 Future Operations in the Sector. Future sector operations could include projects in the following areas:

a. Enterprise Housing. The Soviet government increasingly relied on enterprises to provide housing and social services to the local population. By 1992, enterprises were responsible for financing and managing about 40 percent of the entire housing stock in the country. Following privatization of enterprises, ownership of housing technically passes to cities, but enterprises generally have been required to retain responsibility for maintenance. The associated management and financial burden on enterprises has emerged as a significant impediment to restructuring. Because often only 20-40 percent of the tenants of buildings work for the enterprise that maintain it, enterprise housing has also begun to suffer from a stewardship limbo that has led recently to a rapid decline in the quality of maintenance. The size of the enterprise housing stock, as well as its effect on enterprise restructuring, argue for an early intervention to facilitate enterprise housing divestiture.

At the request of the Government, the Bank is currently identifying a project that would support the divestiture process in several cities. The project would finance energy efficiency and other investments designed to reduce the cost of maintenance, which is rising rapidly as utility tariffs are adjusted to reflect world energy prices. The project would leverage a number of policy reforms at the federal level, including passage of the (a) Housing Code, and (b) Condominium Law and Model Charter. At the local level, the project would stimulate higher cost recovery (accompanied by targeted allowances), require the development of private maintenance organizations, and encourage the formation of condominiums.

b. Infrastructure Development. The provision of heat, water, electricity and other basic services will remain an important function of the local governments in Russia. The inefficiency of these utilities, however, places an enormous financial burden on the municipalities, while reducing the availability and quality of services provided to the households. Projects designed to address these deficiencies through infrastructure and institutional development will have a high economic rate of return for the economy and a high financial rate of return to the municipalities and households, and contribute directly to the sustainability of housing sector reforms.[1] One such project (Gas Distribution) has been

1/ The Enterprise Housing Project will address the issue of utility rationalization on an apartment/building basis. But a broader project dealing with residential infrastructure and utility rationalization will have sector wide benefits listed above.

prepared and is ready for negotiations. Two additional local infrastructure projects (District Heat and Water and Sewerage) are in the lending program.

The proposed interventions would (i) improve efficiency and reduce the cost to municipalities for providing the services and subsidies, (ii) improve technical and financial capabilities of the utilities, (iii) improve the quality of services and their availability to households, (iv) as the government succeeds in its rent reform and utility costs are transferred to the households, such an operation would directly benefit the households by increasing their affordability of improved services, (v) improve billing and cost recovery from individual households, (vi) develop and restructure institutions involved in provision of basic services, and (vi) would directly result in improvement of environmental condition of the cities.

Such operations would provide leverage for supporting and instituting reforms such as (a) rent reforms and the housing allowances program, (b) privatization of housing maintenance, (c) rationalization of local government finance, (d) reform of building standards and regulations, and (e) initiate the institutional reforms for privatization of utilities.

c. Inner City Rehabilitation. Central cores of many cities have great economic, historical, and cultural significance. Much of the housing stock is located in the city centers. Inner city housing is typically in poor condition with inadequate infrastructure. The infrastructure serving the inner cores is typically old and has deteriorated over time. Projects targeted towards addressing inner city housing, infrastructure and environmental problems would provide benefits similar to those of infrastructure development. In addition, such an operation will have benefits such as (a) development of the economic base of the cities, (b) increase in commercial space, (c) improvement of living standards of existing families, and (d) stimulation of the private real estate development industry. Such a project will be feasible in an environment of improved efficiency of the housing market and financial mechanisms. To the extent involuntary resettlement of households is an issue, it can be taken care of within appropriate guidelines provided by the existing regulatory framework.

The institutional and regulatory reforms that may be leveraged by such an initiative will be (a) rationalization of municipal finance, (b) clarification of property rights, including commercial property rights, (c) development of institutional innovations of infrastructure financing, such as public private partnerships, and (d) development of the basis for property taxation in the cities.

d. Housing Finance. Although the Government has instituted a number of reforms to make housing finance available to households, given the inflationary environment, larger scale housing finance initiatives are premature. Nonetheless, the timely introduction of housing finance instruments will be critical to the development of the private housing sector and therefore, the economy at large. When the economy has stabilized and inflation has declined, the Bank should provide assistance to the government in initiating a sustainable housing finance system. The present Project has developed a TOR for conducting a study on a future Housing Finance Initiative.

C. PROJECT PREPARATION

2.14 Starting in May 1993, the Bank and the Government moved rapidly to identify and prepare the Project. Funding of US$10 million from USAID has made this intensive preparation possible. These funds include: (a) a US$2 million trust fund for Project preparation administered by the Bank; (b) additional funds of US$1.5 million for Project preparation that USAID administers in accordance with scopes of work drafted by Bank missions; and (c) US$6.5 million for Project related capacity building and technical cooperation. The USAID preparation funds have financed consultants, studies, travel, other expenses, and a Project Review Unit (PRU) in Moscow. The Project Review Unit is an extension of the Bank's operations division. During Project preparation, the PRU has a staff of five full time expatriate consultants (two urban planners, a financial analyst, a banking specialist and a building materials industry specialist) and several Russian professionals and support staff. Offices and furnishings have been provided by Minstroi, and equipment purchased under the AID preparation funds. The PRU has permitted a continuous Bank presence in Russia to discuss and review Project preparation with Central and local Government officials, commercial banks, Russian enterprises and other donors in Russia. The number of expatriate staff in the PRU has decreased recently, as the PRU begins the transition to Project implementation. The funds provided by USAID for capacity building technical cooperation has been used thus far to sponsor a series of seminars on land use models, title registration, building codes and permits, construction finance, and demand analyses. In addition to USAID's help, other donors have provided generous assistance. Canada is financing a major training exercise in construction management and techniques in Tver; the Government of Netherlands is sponsoring a related pilot project in Tver; Finland is implementing a restructuring study of a large construction organization in St. Petersburg and has agreed to sponsor a major Bank conference on housing in Russia; and France has financed the drafting of Operating Manuals for the lines of credit. Five major missions and several smaller missions reviewed progress in preparation and appraised the Project. In addition, separate studies have been conducted on site layouts, infrastructure engineering, housing demand, and environmental analyses.

2.15 Policy Dialogue. Since the beginning of the Technical Cooperation Project in Housing Reform and Privatization in 1991, there has been a close, productive policy dialogue between the Government and the Bank. The strength of this dialogue was illustrated by the Government's informal endorsement of the draft sector report and a request from the First Deputy Prime Minister in October 1993 that the Bank provide an Action Plan on priority decrees to create land and housing markets. A preparation mission in October, together with the Resident Mission, also produced an Action Plan on Commercial Real Estate, in response to the Government's request. During April 1994, a mission jointly sponsored by the Bank's Legal, Agricultural, and Housing teams for Russia produced a draft law on land registration, following the Government's request. Presently, Bank consultants are helping the Government review drafts of the Land, Housing, and Urban Planning Codes, the Mortgage Law, and related decrees and regulations.

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

III. THE PROJECT

A. PROJECT OBJECTIVES

3.1 Main Goal of the Project. The main goal of the Project is to support the Government's efforts to develop housing markets with choice for consumers and competition among private suppliers. The Project will implement national policies in receptive cities, demonstrate practical ways that markets can produce housing and generate employment, and institutionalize the new principles and practices employed during Project preparation and implementation.

3.2 Project Objectives. The Project objectives are associated with each of the Project Components and Sub-components. The principal objectives are:

a. Housing Market Development

Land Development Sub-Component. To break up the present Government monopoly on supply of land by assisting selected municipal governments in auctioning sites suitable for residential development.

Construction Finance Line of Credit. To demonstrate that the private sector can produce housing that is more efficient and appealing than that provided by the "Kombinats". To this end this Sub-component would encourage the banking community to increase the volume of medium-term lending for private sector housing construction.

b. Transformation of the Building Materials Industry

Equity Matching Line of Credit. To encourage the establishment of industries to produce modern and more efficient building materials.

c. Technical Cooperation

Technical cooperation would be designed to implement national regulatory reforms at the local level and reinforce each of the components by instituting principles and procedures necessary to implement the Project.

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Pgs 19-20

3.3 Government Objectives. These objectives respond to the Government's request that the first sector loan:

a. Encourage private property for housing by:

1. Breaking up government land monopolies;
2. Building housing for private ownership;
3. Clarifying the practical framework of property rights at the local level; and
4. Selecting cities willing to implement sector reform.

b. Increase the stock and reduce the cost of housing by:

1. Encouraging private builders;
2. Initiating competitive bidding for land, infrastructure and housing construction; and
3. Facilitating the development of new types and styles of housing and building materials.

c. Promote efficiency and preserve employment in the construction industry by:

1. Stimulating private investment in housing construction and rehabilitation;
2. Creating market mechanisms to finance sub-projects for residential infrastructure, construction and building materials enterprises; and
3. Promoting investment, technology transfer, and efficient management in the building materials industry.

3.4 Link to Policy Dialogue. The Project would not include national policy conditionality because adequate legislative actions have been taken in the last few years to promote reforms. Instead, the Project is designed to implement reforms at the local level that the national Government has already established as its policy.

3.5 Local reforms will be concentrated on three areas that facilitate private sector construction for sale on the housing market: (a) *property rights development* -- including land and property title registration (b) *urban regulatory reforms* -- such as land privatization; land allocation through competitive procedures; and urban planning, building, environmental, and permitting procedures; and (c) *pro-competition policies for the building industry* -- including public procurement rules and construction management.

3.6 **Each Participating City, listed in paragraph 3.11 below, has adopted a Regulatory Action Plan (RAP) for its implementation** (para 7.1.a.2). Because of the remaining gaps in legal and institutional frameworks that are necessary to address overall housing sector development, the Project will concentrate on narrow but transitional issues, such as increasing the land available in private real estate market through auctions. An overview of the RAPs and a summary RAP is included in Annex 3.3. **The following elements of the RAP's will be conditions of effectiveness for Loan Agreements between the Government of Russia and Participating Cities: a) the city has adopted a regulation on registration of title, including transactions in land and real estate,**

acceptable to the Bank; and b) the city has adopted procedures, acceptable to the Bank, on auction and competitive tender for land on project sites being disposed of by the city (para 7.1c2). Progress in implementation of RAP's will be a basis for reallocating loan proceeds among cities during annual reviews.

B. OVERVIEW OF PROJECT COMPONENTS

3.7 The proposed Housing Project consists of three components -- (a) Housing Market Development, with two Sub-components -- Land Development and Construction Finance Line of Credit; (b) Transformation of the Building Materials Industry -- through an Equity Matching Line of Credit; and (c) Technical Cooperation. The Project will support demonstration sub-projects to rapidly introduce land into the private real estate market, build housing and infrastructure, and to develop new enterprises for building products. The Project would also support preparation of future housing projects, including a study on housing finance alternatives.

3.8 Flexible Sub-Project Pipeline. During the period of project implementation, it is important that the Government have the flexibility to emphasize different types of sub-projects drawn from a larger menu of allowable sub-project types in order to meet the changing needs of housing market development. Annual project reviews will be held in order to program investments, technical cooperation and reforms for the following year among sub-project types. The initial allocation of the US$758.7 million estimated Project cost among the components is proposed as follows:

Table 3.1: Project Components

1.	***Housing Market Development***	569.8
a.	Land Development Sub-component	*339.6*
b.	Construction Finance Sub-component	*177.5*
2.	***Transformation of the Building Materials Industry***	
	Equity-Matching Sub-component	143.3
3	*Technical Cooperation and Training* (including cadastre, training and the preparation of the next housing project)	33.1
	TOTAL	758.7

3.9 Table 3.2 below summarizes eligibility criteria for location of the sub-project, sub-borrowers, final-borrowers, types of investment and special provisions under the three investment Sub-components:

Table 3.2: Eligibility Criteria

Component	Housing Market Development		Building Materials Industry
Sub-component	**Land Development**	**Construction Finance**	**Equity Matching**
Location	Participating Cities	Participating Cities and Moscow	no restriction
Sub-borrower	Municipalities	Commercial Banks accredited by FIDP	Commercial banks accredited by FIDP
Final-borrowers	Municipalities[1]	Private Housing Developers	Private Building materials enterprises
Types of Investment	Land development (Infrastructure and community facilities)	Housing and commercial development, on-site infrastructure and community facilities;	Facilities for production of building materials
Special Provisions	All sites to be approved by CPIU. Oblast to guarantee sub-loan.	Maximum dwelling unit and loan sizes apply. Bank environmental and relocation guidelines apply.	Equity contribution by qualified investors.

C. HOUSING MARKET DEVELOPMENT COMPONENT

3.10 Overview. This component would develop US$517 million of sub-projects to increase the supply of residential land and new housing. Sub-components would include: (a) Land Development -- financing of public infrastructure for land auctioned, or to be auctioned, to private developers, and (b) Construction Finance -- commercial bank financing to private developers of new housing and (c) Institutional Development -- creation of enabling frameworks for implementation at city levels.

3.11 Participating Cities. During May 1993, the Bank and the Government agreed on a set of criteria for evaluating possible Participating Cities. These criteria stressed reform orientation, housing market development, and overall economic conditions. Following evaluation visits by the Government and the Bank to over 20 cities in July, the Government selected cities that ranked high in the evaluation of agreed criteria. The Housing Market Component will be undertaken in five cities: Barnaul , Nizhny Novgorod, Novgorod, Tver, and St Petersburg. Moscow will participate only in the Construction Finance Sub-component. Additional cities that meet the city selection criteria (reform orientation, housing market development, overall economic conditions) and fulfill program conditions (promulgation of Declarations of Committment and Regulatory Action Plans, selection of qualifying housing sites) may be added during project implementation, if funding permits. One such city, Rostov on Don, submitted three candidate sites during project preparation,

1/ The Federal Government will make loans directly to municipalities for this subcomponent. There will be no further on-lending beyond the municipal level. Municipalities are therefore both the sub-borrowers and the final-borrowers.

but the present moratorium on housing development, which in turn is a function of limitations in the city's sewage treatment capacity, has meant that these sites cannot be appraised. The city selection process is described in Annex 3.1 and the underlying city data are available in the Project files.

(1) LAND DEVELOPMENT SUB-COMPONENT

3.12 Summary of Sub-component. This Sub-component will support lending from the central government to local governments for demonstration sub-projects that would increase the supply of residential land for new housing.[2] Serviced, partially serviced, or raw land will be auctioned off to private developers for construction. Private developers would have the option of constructing the infrastructure on the sites. Subloans to Local Governments would help finance public provision of on-site infrastructure to the extent it is required for site development and off-site infrastructure that is needed to provide on-site services. Local Governments would take the credit risk associated with the loan and will recover the costs through the sale of the land. Specifically, subloans would finance (a) some off-site infrastructure linked to project sites, and (b) infrastructure to connect parcels to be auctioned and land sub-division (See Attachment A of Annex 3.2 for definition of terms). In addition, technical cooperation and the design of the Sub-component will institutionalize the basic practical framework necessary for a market-oriented land management system, such as pilot land registration systems, land allocation system through auctions, and market-based land development regulatory approval processes.

3.13 Sub-Objectives. Within the overall Sub-component objective of rapidly breaking Government monopolies on land supply, the Land Development Sub-component has the following specific sub-objectives:

a. Rapidly introducing land into the private real estate development market;

b. Introducing the concept of land as an asset;

c. Introducing cost-recovery mechanisms through land auctions that enable repayment of loans and replication of the development processes;

d. Establishing a transparent system of land allocation and transfer of ownership from local governments to the private sector;

e. Stimulating competition by giving equal access to both small and large home builders;

f. Introducing new market oriented planning processes at the city and oblast levels including feasibility analyses, land pricing mechanisms, flexible site design and development orders with due regard to social, economic and environmental concerns.

2/ Sub-loans would be made from the Central Government to Municipalities with the guarantee of the Oblast.

3.14 Economic Rationale. The primary justification for the component is based on public goods arguments: government involvement in land development will be limited to provision of infrastructure and services that the private housing markets cannot easily provide. Financing sub-projects will demonstrate the possibility of breaking up the present Government monopoly on urban land by quickly putting on the market a large number of plots with full property title that are ready to be auctioned to private developers for development. To qualify for funding, cities will have to implement a range of appropriate land development policies so that price may determine the highest and best use of land. Policy reforms will be furthered by the implementation of local action plans, which will be designed and further developed as part of the Project's technical cooperation program (see Annex 3.3 for a description of Local Regulatory Action Plans, and Annex 3.7 for Technical Cooperation plan). Monitorable indicators and annual reviews will ensure compliance with agreed local action plans.

3.15 Types of Investments. The Land Development component will finance roads, water, sewer, electricity, gas and district heating networks necessary to connect the parcels to be auctioned, as well as providing essential social infrastructure. It will also finance the primary off-site infrastructure, which is needed to support these sites, including infrastructure networks such as major roads, pumping stations, and electricity substations. Investments in primary infrastructure would focus on incremental service demand associated with Project-funded housing. However, in some cases, these first infrastructure investments, can start to address the primary infrastructure backlog accumulated over several decades. For instance in St.Petersburg, the city has identified a need of US$20 million in primary infrastructure investments that would not only address the water and sewage infrastructure needs for a few of the sub-project sites, but also address a city-wide backlog in infrastructure. Off-site roads, community facilities, parks and open space will also be financed under the Land Development component.

3.16 Eligibility Guidelines. Local governments have prepared the first pipeline of sub-projects according to an explicit set of guidelines that the Project Team developed with the Participating Cities during Project Preparation. These guidelines, which constitute (a) site selection guidelines, (b) planning and marketing guidelines, (c) environmental and relocation guidelines, and (d) cost recovery and loan repayment guidelines, are detailed in Annex 3.2, Attachment B. For example, the site selection guidelines suggest that sites (a) have all necessary utilities nearby, (b) have ready access to public transportation and existing community facilities, (c) not require extensive site preparation, (d) require no involuntary relocation of existing residents, and (e) be under municipal control and be generally compatible with existing master plan use. These guidelines will also govern the inclusion of further projects by the CPIU beyond the initial sub-projects already appraised. Emphasis for design of sub-projects will be placed on development of modest housing through planning guidelines -- such as limits on lot sizes, construction of walk up apartments etc (Annex 3.2).

3.17 Status of Sub-Project Preparation. Local governments have identified vacant urban sites for future development. They evaluated the financial feasibility of these sites by using a computer model that relates land development parameters and costs of infrastructure to the selling price of land, developed in accordance with the guidelines. The first series of sub-projects is satisfactory in terms of site selection criteria, quality of design and detailed information, including densities, salable land ratios, cost estimates, and technical, financial, environmental, and social feasibility; and responsiveness to the market. To date, the Project Review Unit in Moscow has appraised a pipeline

of 16 sites in the five cities totalling 574.3 ha. Four other sites were proposed but rejected before appraisal based largely on their failure to meet cost recovery requirements. Some of these may be revised to satisfy the guidelines and appraisal criteria, and could be considered as part of a longer-term pipeline. The sites that have been appraised are designed to accommodate 31,497 dwelling units and 432,500 m of commercial space. Portions of six of the appraised sites, including two sites in St. Petersburg and one in each of the other cities, have been identified as First Phase sites that will begin implementation in the first year of the project. Preliminary design and engineering has been completed for the selected sites. Types of housing include single-family, town houses, and walk-up apartments. All housing would be privately owned.

Table 3.3: Summary of Pipeline of Appraised Land Development Sub-Projects

City	Site	Gross Area (Hectares)	Residential (Dwelling Units)	Commercial (Net of floor area)
St Petersburg	Yugo-Zapadny W	33.8 ha	1898 DU	13970
	Yugo-Zapadny E	08.4 ha	597 DU	4210
	Severnaya Dolina	34.6 ha	2241 DU	75430
	SevernaPrimorskaya	22.7 ha	2528 DU	27140
	Kolomyagi[3]	19.8 ha	1702 DU	25580
	Kamenka[3]	14.2 ha	1639 DU	25970
Novgorod	Pskovskaya[3]	81.0 ha	2566 DU	19440
Tver	Youzhny D[3]	34.9 ha	716 DU	42000
	Batino	39.2 ha	2528 DU	18000
Nizhny Novgorod	Bughri	55.0 ha	1256 DU	8800
	Beshentsevo 1	73.8 ha	3942 DU	72290
	Beshentsevo 2	20.4 ha	375 DU	0
	Novopokrovskaya	32.5 ha	1422 DU	19520
	Delavaya[3]	22.0 ha	2881 DU	21600
Barnaul	Solnechnaya Pol. E[3]	40.0 ha	3828 DU	52940
	Solnechnaya Pol.W	42.0 ha	1378 DU	5610
	TOTAL	574.3 ha	31497 DU	432,500

3.18 Implementation Concept. Sites will be auctioned under procedures acceptable to the Bank to private developers willing to develop them in accordance with the contractual agreements with the cities. The contract with the private developers will stipulate agreements on the level of infrastructure that will be provided by the developers -- while the remaining will be provided by the local government (para 4.3). Infrastructure may be constructed either (a) by the contractors themselves, or (b) by the cities, or (c) part of it may be constructed by the contractors and the rest by the cities. The loan under the Land Development Sub-component will be available to cities only. Financing for private construction of infrastructure will be available to developers under the Construction Finance Sub-component. The site development will follow Town Planning Orders

3/ First Phase site.

developed by the cities. The Town Planning Orders will essentially describe the broad planning parameters of land-use, density, building type, etc., but allow some flexibility so that developers may build according to their assessments of the market (See Annex 3.2 for detailed development sequence of the sub-projects).

3.19 Land Disposal Procedures. Land disposal procedures have been designed to maximize the local government's return from the sale of the land while minimizing the financial risk of infrastructure expenditures which may not be recovered. (See Annex 3.2 for a detailed description of the procedures). The principal guidelines for the auctions are: (a) that the auctions or competitive tenders are advertised; (b) a reserve price as per cost recovery guidelines (Annex 3.2 Attachment B) is established providing developers with the opportunity to propose construction of connecting infrastructure themselves; (c) holding auctions before awarding infrastructure contracts; (d) requiring payments in cash.; and (e) allowing developers to propose extended payment terms.

3.20 Environmental Assessment. International engineering consultants performed an environmental review of all originally proposed sites (see Annex 3.9). The proposed sites are environmentally safe. Based on this environmental review, the Government decided to: (a) eliminate or postpone Rostov-on-Don's participation in the project, based on primary infrastructure deficits, (b) include a US$25 million package of urgent water and sewer investments in St. Petersburg, as part of the environmental mitigation initiative, to create the capacity needed for future project housing inhabitants and to begin to address the backlog, (c) change the phasing of site implementation in order to address mitigation needs on certain sites, (d) require thorough testing of soils to Western standards to award contracts. Bank missions will review soil tests before providing the Bank's no objection to contract award.

3.21 Cost Estimates. For appraised subprojects, the estimated cost of connecting on-site infrastructure is US$93.7 million and off-site infrastructure is US$79.2 million (excluding aquisition , taxes and interest). The first phase program (to start in the first year) is estimated to cost U$$67.6, inclusive of US$25.0 for the environmental package in St. Petersburg. The estimated cost for the entire Sub-component is US$339.6 million. This includes both projects that are already appraised and an allowance for future projects.

(2) CONSTRUCTION FINANCE SUB-COMPONENT

3.22 Summary. The project would use the emerging commercial sector to finance and implement construction at their risk. To do this, the Government would on-lend Bank funds for construction finance to Participating Banks (PBs) in the project cities. In order to qualify, the PB must also participate in the Bank's Financial Institutions Development Project (FIDP). Private developers would apply to the PBs for construction finance for sub-projects that meet the agreed eligibility criteria. Housing projects situated on the sites developed under the land development sub-component would qualify, as well as those situated elsewhere in and around the participating cities. Demonstration sub-projects in Moscow would also be eligible. Discussions with PBs and developers in the participating cities have revealed a considerable demand for construction credits that could absorb many multiples of the US$80 million allocated under the Loan. The component could support the construction of about 3,100 housing units of different types.

3.23 Sub-Objectives. Within the overall objective of encouraging PBs to enlarge to volume of medium-term lending for private housing construction, this component has the following sub-objectives:

a. to build the construction finance capacity of the PBs by providing technical assistance in real estate underwriting (through the technical cooperation component);

b. to encourage the private housing sector (banks, investors, developers, designers and contractors) to diversify housing supply;

c. to target benefits at the lowest possible income group that can afford commercially produced, non-subsidized housing;

d. to encourage new types of housing and more cost and energy-efficient construction methods and materials;

e. to provide the means for completing unfinished construction;

f. to demonstrate the feasibility, profitability and affordability of these new approaches in a non-subsidized market environment;

g. to support the emergence of private, smaller-scale builders (developers, contractors).

3.24 Economic rationale. This component would complement the land development component by completing the housing development cycle. Given its small size, it is best conceptualized as a demonstration effort to catalyze commercial real estate lending and support the emerging private housing sector. Proposed terms and conditions for on-lending to commercial banks are harmonized with those of the ESP.

3.25 Status of Preparation. A survey of banks and developers in the Participating Cities has produced a pipeline of 173 potential sub-projects, representing 47,800 dwelling units and a total value of US$1,344 million (Details on these sub-projects are available in the Project Files and Annex 3.4). Many of these sub-projects would not meet the lending guidelines, which have been formulated to demonstrate production of modest, energy-efficient units. However, they provide concrete proof that a sufficient supply will exist to utilize the line of credit.

3.26 Lending Guidelines. These have been developed in consultation with developers, PBs and Minstroi, to ensure that sub-projects correspond to the objectives of the sub-component. (See Annex 3.4) The same channels and lending terms used for the ESP and FIDP will also apply to the credit lines in this Project. **At negotiations, the Government agreed on specific guidelines for the Construction Finance Line of Credit. They also agreed that these guidelines would not be changed without prior agreement of the Bank** (para 7.1.a.4). Guidelines specify that: eligible

sub-projects must: (a) be within 15 Km of participating cities (plus Moscow for demonstrations),[4] provided that an RAP has been agreed with the relevant jurisdiction (except Moscow); (b) comply with environmental requirements; (c) meet site design, housing type, and maximum plot and floor requirements, (d) meet thermo-resistance standards.. The construction of residential and commercial space and community facilities up to a maximum of 30% of the project's total floor area, as well as on-site tertiary and secondary engineering infrastructure, would be eligible for construction credits. Credit limits are 75% of the current average construction cost per square meter of gross usable floor area for residential, commercial and community facility purposes, and 75% of the current average cost of on-site infrastructure per square meter of site area. Average costs will be tracked and updated periodically by the CPIU.

The tables below summarize maximum size and credit amount requirements

Table 3.4: Maximum Size and Credit Amount Requirements for Residential, Commercial and Community Facilities.

Type of construction	Maximum plot size (m^2)	Maximum gross floor area per unit (m^2)	Maximum credit amount per m^2 of floor area (August 1994) (US$)	Maximum credit amount per unit (US$)
Apartment (new or reconstructed)	NA	80	285	22,800
Apartment (completion or rehabilitation)	NA	80	215	17,000
Town house	200	120	285	34,200
Semi-detached single-family house	300	150	285	42,750
Small detached single-family house	400	150	285	42,750
Community facilities and commercial space	See "Site design"	30 % of total eligible floor area	285	30 % of total building construction credit

4/ At the request of the Government, private housing developments in and around Moscow will be allowed to use a portion of the $40 million initially allocated to the non-site specific construction finance Sub-component. Demonstration projects in Moscow would be appraised by the Bank on an individual basis to assure that they illustrate new and advanced market housing techniques. Moscow is especially suited for demonstrations due to its high visibility and frequent visits from outsiders.

Table 3.5: Maximum Size and Credit Amount Requirements for On-site Engineering Infrastructure.

Type of construction	Maximum credit amount per square meter of site area (US$)
On-site (secondary of tertiary) engineering infrastructure not including utility hook-ups or district heating & hot water for single-family housing	18.75

3.27 Type of Sub-loans and Final-borrowers. Most of the *developers* interested in the line of credit are new private companies with diverse backgrounds and motivations. Among them, privatized former kombinats probably account for no more than 20 percent. Diversification being a necessity for new enterprises emerging in the risky business environment of Russia, most developers combine real estate with other activities. Some are subsidiaries of industrial enterprises that build housing for their staff but sell part of the production to outsiders. Some enterprises have branched out in real estate to keep themselves alive. Others developers have started in trade and are investing their handsome profits in housing and other real estate, turning it into another lucrative activity. Still others are successful businessmen with a piece of land trying their hand at something new. Developers may be large or small, they may be contractors themselves with their own labor, or they may hire contractors. Certain of the new private developers, in order to ensure reliable access at reasonable prices to building materials (which are in short supply and therefore priced speculatively), have chosen the path of vertical integration and are acquiring or setting up brick factories and other building materials plants. Construction subloans would cover the construction itself. Inputs are mostly working capital consisting of materials and labor. Labor might be contracted or not, and materials might be purchased by the sub-borrower, manufactured by the sub-borrower, or derived from sub-borrower stockpiles.

3.28 Relationship to Other Lines of Credit. The sub-component has been developed in close cooperation with the Financial Institutions Development Project (FIDP) and the Enterprise Support Project (ESP) and would complement their activities in the real estate area. The Project team has proposed a reserved, unsubsidized, construction finance line of credit through potential ISB banks for Project cities. It is an important part of a tightly integrated package of interventions in the real estate development cycle. To meet Project objectives, sub-project financing must be available in an appropriate quantity, place, and time, and within an viable institutional and technical assistance setting. Lending channel and terms and conditions would be harmonized with the ESP,[5] except that maturities to final borrowers would range from six months (to reflect developer's need for gap financing) to four years. Commercial banks are required to recycle repayments for additional construction finance sub-loans during the first two years of project implementation.

5/ ESP also provides for co-financing from EBRD under somewhat different terms and conditions.

(3) INSTITUTIONAL DEVELOPMENT

3.29 Summary. Institutional Development would accompany and reinforce the housing market development component. The costs of this institutional development are included in the Technical Assistance and Training Component (para 3.38). The main objective of institutional development is to create a practical framework for implementation of the component. In addition, institutional development will make the institutional and regulatory changes introduced by sub-project implementation sustainable in the long term in the participating cities. In order to create this enabling framework for Project implementation, the project will include training and technical assistance on policy and institutional aspects to personnel directly responsible for implementation of the sub-projects as well as larger groups of Russian experts and decision makers involved in the Project. For instance, assistance will be provided for the first land auctions held under the Project, and Participating Banks will be provided with guidelines and training for real estate lending. A detailed description of the training and technical assistance program is presented in Annexes 3.7 and 3.8.

3.30 Technical Cooperation Initiatives Undertaken to Date. In preparation for implementation of the Land Development sub-projects, in each participating city, an Affordability Model has been introduced to assess the financial feasibility of the projects. Local Regulatory Action Plans (RAPs) have been developed which address key policies to be implemented in advance of sub-project funding. A number of seminars and workshops have been held in the Participating Cities on project finance and development, land allocation and title registration systems.

3.31 Suggested TORs. Terms of References (TOR) in support of the Land Development and Construction Finance Sub-components, presented in Annex 3.9, include: (a) general consultant for project implementation; (b) a pilot title registration system; and (c) development of building materials, housing codes regulations; and a land development regulatory audit. These studies will help develop standards and norms in land management and planning processes such as zoning and land-use regulations, introduce system cost sharing between public and private entities, and systems for administrative control over these processes.

D. TRANSFORMATION OF THE BUILDING MATERIALS INDUSTRY

(4) EQUITY MATCHING SUB-COMPONENT

3.32 Summary. The Equity Matching Sub-Component would extend subloans to Russian building materials enterprises that attract substantial new equity from qualified investors. The Government would on-lend the Bank loan through participating commercial banks (PBs), which would assume the commercial risk. PBs must also participate in the FIDP in order to be eligible. Subloan amounts would be up to double the amount of new cash equity contributed by qualifying investors. Conservative guidelines have been established to delimit qualifying investors (i.e., venture capital funds and private companies with experience in producing or distributing modern building materials), equity and products in order ensure that this experimental component is financially prudent and will help to restructure the building materials industry.

3.33 Sub-Objectives. Within the overall objective of encouraging the establishment of industries to produce modern and more efficient building materials, the main sub-objectives are to:

a.. Support an active restructuring of the Russian building materials industry;

b. Encourage the inflow of new direct foreign investment, technology and management expertise for domestic Russian value-added production; and

c. Help introduce new building materials that are suitable for small-scale and self-help construction and that would provide environmental and energy benefits.

3.34 Economic Rationale. The Bank's counterparts in Minstroi, the Ministry of Finance, and the Ministry of the Economy view transformation of the vast building materials industry as the highest priority for this Project. The Russian building material kombinats produced materials for an inefficient production technology that is energy and input intensive, and is linked to serious environmental degradation. These materials are not appropriate for demand led housing construction, and especially unsuitable for self-help and small, private contractors. While there are thousands of potential industrial investments in this sector, most of those proposed by the Government are not easily bankable. Among bottlenecks to active restructuring is the lack of mechanisms with market incentives to pick the best from a pool of potential investments. The Equity Matching component would provide such a mechanism by having commercial banks provide loans to enterprises supported by equity, management, and technical expertise. The presence of matching private equity would be a powerful screen to ensure the viability of proposed investments, reduce commercial lending risk, de-politicize lending decisions, and ensure cost recovery.

3.35 Status of Equity Matching Component Preparation. (a) *Government Support*. The Project team has detailed the eligibility criteria, financing channel, and implementation criteria for this channel with the Interministerial Group, with international venture capital firms representing over US$850 million in equity capital earmarked for Russia, and with many private sector enterprises. (b) *Sub-Project Pipeline*. Discussions with venture capital funds have yielded a pipeline of sample sub-projects that are ready for immediate investment. Initial estimates with fund managers suggest that the proposed US$80 million experimental Equity Matching component would be drawn down fairly quickly.

3.36 Eligibility Criteria. **At negotiations, the Government agreed to guidelines for subloans under the Equity Matching Line of Credit. They also agree that these guidelines would not be changed without the prior agreement of the Bank** (para 7.1.a.4) A copy of the Guidelines is available in Annex 3.5. (a) *Summary*. In order to maintain the highest assurance of full cost recovery, and to discourage fraud, the initial criteria have been tightly and conservatively defined as described in Annex 3.5. The line of credit will fund investment projects of eligible enterprises that produce eligible products or services, with equity participation by eligible investors. Equity must be for new, legally and financially distinct ventures; be in cash rather than other in-kind

contributions; be for private ventures as defined in the ESP;[6] be motivated by value maximization; and be subject to due diligence and ongoing monitoring. (b) *Eligible Investments*. Eligible investments will be buildings, machinery, equipment and incremental permanent working capital used in the production or distribution of eligible building products or provision of eligible services. (c) *Products*. Eligible products would be building materials which may be incorporated in the permanent physical structure of residential housing or services to support the production and distribution of these materials. Eligible building materials could include bricks, lumber, windows and insulation. Standard fixtures (e.g. furnaces and plumbing fixtures) that are attached to the structure would also be eligible. Eligible services could include leasing of equipment, provision of retail and wholesale distribution networks, and creation of storage warehouses. (d) *Investors*. Qualifying investors would be limited to certified venture capital funds and private corporations with demonstrated experience in producing modern building materials or which provide services that support the production or distribution of such products. Corporations must produce at least three years of unqualified audits from auditors satisfactory to the Bank that their accounts are maintained in accordance with generally accepted accounting principles and that financial statements reflect fairly the financial condition of the company. Venture funds must have a technical partner with experience in the building materials industry. (e) *Equity*. Qualifying equity would be limited to cash to avoid difficult valuation issues. Sub-borrowers would be subject to ongoing financial oversight, including annual formal audits and quarterly reviews. Covenants in the sub-loan agreements would impose restrictions on dividends, capital transfers, issuance of new debt, or other measures to assure that capital is maintained at adequate levels.

E. TECHNICAL COOPERATION AND TRAINING

3.37 The Project would incorporate an extensive technical cooperation (TC) program that would reinforce each of the components. The Government requested that loan funded Technical Cooperation program be limited to US$25 million; however, an allocation of US$23 million should be sufficient to cover requirements. In addition, the commitment from USAID and other donors are expected to amount to US$8 million. This program would have the following aims:

a. *Implementation Assistance and Programming for Future Projects*. This portion of the TC program would be primarily related to funding directly involved in implementing investment sub-projects, including design and engineering, staff, consultants and equipment for the central and local Project Implementation Units (PIUs), particularly in the areas of procurement and construction inspection.. (See Annex 3.8 for the TOR for a General Consultant). In addition, the program includes extensive support to cities to implement the Regulatory Action Plans. Help in formulating follow-on projects for Bank financing would be subsumed into this sub-component.

b. *Housing and Construction Finance*. In close coordination with the FIDP, participating ISBs would be provided training in underwriting, accounting, and supervision of real estate lending. The TC program would also support a study of

6/ A "private" Russian investor is defined consistent with the July 3, 1991 Russian Law on Privatization of State and Municipal Enterprises, which requires 75% private ownership.

housing finance alternatives for possible future Bank lending in the housing sector. (See Annex 3.8 which provides a TOR for the Housing Finance Study) Banks, designers, developers and local authorities would be provided with technical assistance in design of alternative types of housing, appropriate construction technologies, construction management, as well as standards and regulations relative to housing development.

c. *Land Registration*. The TC program includes hardware, software, and training for pilot real estate registration systems in the districts where the land development sites will be located.

d. *Building Materials*. The TC program would support work with Minstroi in revising building materials standards and codes to bring them in line with market practices. The TC program would provide information to building materials enterprises about technical help available under other Bank and donor supported operations, as well as introductions to potential investors. (See Annex 3.8 which provides a TOR for the Revision of Building Materials Standards)

F. PERFORMANCE INDICATORS

3.38 The project has developed performance indicators to measure the achievement of policy, project and component level objectives (see Annex 5.3). The Project is designed to be flexible, allowing funding shifts to more successful components and cities. The project should be considered successful in its demonstration effort if the practices and principles instituted by the Project have resulted in market oriented housing development outside the Project. These may be measured by an increase in (a) use of competitive auction and tendering procedures for introducing public land into private housing market; (b) percentage of city area properties registered in Unified Real Estate Cadastre; (c) percentage of housing transactions to overall privately owned housing stock; (d) percentage of new housing construction by private developers to total housing stock; (e) increase in volume of lending to private parties from commercial banks for construction financing; and (f) increase in production of non-traditional building materials by private building materials industries.

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

IV. COST ESTIMATES AND FINANCIAL ASPECTS

A. COST ESTIMATES

4.1 The total estimated cost of the Project is US$758.7 million. Costs include taxes and duties and the value of land donated by local governments.[1] Total cost, net of taxes and duties, is US$710.5 million. The foreign cost of the Project is difficult to estimate, but it is likely that expatriate contractors will have a significant role in the land development component due to the scale of these proposed contracts.[2] Costs were estimated in January 1994 prices and include a 15% physical contingency. Price contingencies are estimated at 2.5% per year for the life of the Project. For the civil works components, construction cost estimates were based on quantities from feasibility studies carried out during Project preparation. The estimated cost of individual Project components and cost categories are detailed in Annex 4.1 and summarized in Table 4.1.

Table 4.1: Project Cost Estimates (US$ million equivalent)

Sub-component	Local	Foreign	Total	Foreign as % of Total
Land Development				
Civil Works	84.2	84.3	168.5	50%
Land Donated by Cities	89.4	0.0	89.4	0%
Acquisition Expenses	6.6	0.0	6.6	0%
Taxes on Civil Works	38.7	0.0	38.7	0%
Interest During Construction	0.0	36.4	36.4	100%
Total Land Development	218.9	120.7	339.6	36%
Construction Finance Line of Credit	106.7	71.1	177.8	40%
Equity Matching	0.0	143.3	143.3	100%
Technical Cooperation Component	8.3	24.8	33.1	75%
Base Cost	333.9	359.9	693.8	52%
Physical Contingencies	18.4	18.1	36.5	50%
Price Contingencies	16.5	11.9	28.4	41%
TOTAL	368.8	389.9	758.7	51%

4.2 Costs were estimated in US dollars with the implicit assumption that increases in local costs would be reflected in changes in the Ruble/dollar exchange rate. Price contingencies of

1/ Land values are derived with a financial model used for appraising the feasibility of proposed land development sites. Land values comprise the difference between the expected sales prices of houses minus the cost of infrastructure and other charges.

2/ If local contractors win the bids for infrastructure development, direct foreign expenditures would range from 5-20%, depending on the site. If foreign contractors win, foreign expenditures would be much higher. A figure of 50% foreign was adopted as a best compromise between the two estimates.

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2.5% per annum compounded were applied to civil works costs expressed in US dollars according to the average annual price increase projected by the World Bank between 1994 and 2002. The physical contingencies were assumed to be 15% of base costs for civil works and equipment which is somewhat higher than Bank practice for similar projects worldwide because of the unfamiliarity with the Russian construction environment. If there are major shifts in relative prices during project implementation, the amount of infrastructure construction loans and loans to building materials enterprises might be increased or decreased in line with the new costs.

B. FINANCING PLAN

4.3 The Bank would finance US$400 million, which is 53% of Project costs. The Bank would finance 95% of civil works (net of taxes and duties)[3], 70% of technical assistance and the entire cost of subloans to enterprises and housing developers under the equity matching and construction finance Sub-components. The Bank loan to the Russian Federation would have a maturity of 17 years, including 5 years grace, at the Bank's prevailing variable interest rate. The Government, through the Ministry of Finance would on-lend Bank funds to the Participating Cities for civil works; to Participating Banks for qualifying construction finance loans, and to Participating Enterprises and Participating Banks to match qualifying equity investments. Local governments would finance the remainder of civil works costs including payment of applicable import duties and taxes, such as VAT for the public sector components and sub-components, interest during construction, and force accounts for miscellaneous small works. With respect to the construction financing line of credit and the building materials equity matching line of credit, the Bank would finance up to 75% of the costs for construction finance and 67% for equity matching, with private developers and businesses financing the rest. The proposed financing plan is presented in Table 4.2, Detailed Project Cost estimates are presented in Annex 4.1.

3/ Disbursements will cover 80% of civil works including taxes and duties. This is equivalent to 100% net of taxes and duties. A percentage of 95% is included here because it is expected that local governments may prefer to finance some works through force account. This would not be eligible for Bank disbursement.

Table 4.2: Proposed Financing Plan by Institutions
US$ million equivalent including Contingencies

Financing Plan by Financiers (US$ Million)							
	Aid and Donors	Local Gov't.	Private	IBRD	Total	Foreign Exchange	Local
Land & Housing Market Development Component							
Civil Works		12.0		201.0	213.0	101.0	112.0
Land Donated by Cities		93.1			93.1		93.1
Acquisition Expenses		7.1			7.1		7.1
Taxes on Civil Works		46.0			46.0		46.0
Interest During Construction		45.1			45.1	45.1	
Total Land Development Sub-component Total	*0*	*203.3*		*201.0*	*404.3*		
Construction Finance Sub-component Total	*0*		*98.5*	*80.0*	*178.5*	*71.4*	*107.1*
Transformation of Building Materials Industry Component							
Equity Matching Sub-component Total	*0*		*44.7*	*96.0*	*140.7*	*140.7*	
Technical Cooperation & Project Management Component Total	*8*	*2.0*		*23.0*	*33.0*	*27.6*	*5.4*
Total	*8.0*	*205.3*	*143.2*	*400.0*	*758.7*	*389.9*	*370.7*

4.4 Retroactive Financing. Retroactive financing of US$30 million will be permitted for all components of the project in order to encourage municipalities and banks to start financing sub-projects in time for the 1995 construction season. Funds will also be used to set up the PIU's and for final design and engineering in order to initiate project administration in a timely manner.

4.5 Counterpart Funds. The feasibility of the Land Development Sub-component depends, to a large extent, on the availability of budgetary resources to finance local costs. Because counterpart funding for the land development component will be a local government requirement, financial analyses of both the sub-projects and the local governments have been completed. **In addition, the setting up and initial funding of a Project Account in each city will be made a condition of effectiveness for the Federal Government's loans to each Participating City. The amount of funding should cover cash flow needs for the first quarter of project implementation.** For the other two components, the private developers and enterprises will be responsible for counterpart contributions.

4.6 Cofinancing. Training and technical assistance components are about 4% of the total Project cost. USAID has already committed to providing US$6.5 million in a Technical Cooperation Program; other bilateral donors (Canada and France) have committed about US$1.5 million for construction industry training, including pilots. If the Government is successful in obtaining other

bilateral grants for this purpose, then the use of Bank funds would either be reduced correspondingly or reallocated to other components following appropriate review and approval by the World Bank.

C. SPECIAL ACCOUNT

4.7 A Special Account (SA) would be maintained in a commercial bank selected by the Government under competitive bidding, acceptable to the World Bank. The amount of the authorized allocation to be deposited into the SA would be $3 million.[4] This is equal to about 4 months of project expenditures to be financed by the Bank through the SA. The SA would be administered by the CPIU which will send requests to the World Bank for replenishment of the SA. These requests would be accompanied by detailed monthly bank statements of the SA up to the prior month. The Special Account would increase the efficiency of disbursement mechanisms, because it would permit reimbursement claims to be grouped and disbursed more quickly.

D. FLOW OF FUNDS

4.8 The proceeds of the loan would be channeled in two ways: (a) funds for the land development Sub-component would be channeled to local governments; (b) for the construction finance Sub-component and Equity Match component, funds would be channeled to Participating Banks using the mechanism established for the ESP.

4.9 Land Development Channel. The Government would on-lend the funds to participating municipalities with the guarantee of participating oblasts. Each of the five participating municipalities and their participating oblast has signed a Declaration of Commitment in which they obligate the municipality to carry out the land development Sub-component in accordance with the policies and procedures established at negotiations and described in the Declaration. These Declarations of Commitment would become legally binding upon the execution of Participating City Loan Agreements between the Federal Government and the Participating Cities. Funds would be disbursed directly to contractors after certification of invoices by representatives of the local governments and the General Consultant (para 5.1). In most cases, the payments would be made to the contractors from the Special Account. In some cases, the Bank will disburse directly to the contractor. If local governments first make eligible payments from their own funds, they will be reimbursed. Local governments will be responsible for repayment of the loan.

4.10 Construction Finance Channel. The Government would on-lend hard currency to the banks subject to the same prudential provisions established under the FIDP. The commercial banks would be at risk for loans they issue under this channel and would charge developers interest rate spreads sufficient to cover their risks.

4.11 Equity Matching. The subloans under this channel would be made through participating commercial banks (PBs) that are also accredited under the FIDP. The PBs would ensure that proposed sub-projects meet the eligibility criteria, have adequate and credible financing plans, follow

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4/ The $3 million deposit will be made after $5 million has been disbursed from the loan account. Until that point, the deposit into the special account shall be limited to $1 million.

required procurement and environmental guidelines, and are secured by adequate collateral. PB's will take the commercial risk on subloans; and thus will need to repay the Government whether or not their sub-borrowers pay them.

E. ON-LENDING TERMS

4.12 The prevailing macroeconomic instability makes it very difficult to devise appropriate rouble-based lending terms for any of the Project components. Therefore the Ministry of Finance has requested, and the Bank has agreed, that the subloans would be in US dollars. The interest rate and maturities to sub-borrowers and, in the case of lines of credit, to final borrowers would depend on the particular component as summarized in Table 4.3 below. In general, the interest rate to sub-borrowers would be floating, and would be based on the interest rate charged by the Bank to the Government, plus a margin of up to 2.5% to cover administrative costs and the cross-currency exchange and default risk. Subloans to commercial banks on which the PB takes the credit risk would be set at an interest rate that matches the rate for the ESP. Interest rates to final beneficiaries under both the Equity Matching and the Construction Finance Lines of Credit would be set by the PBs. Maximum maturities to sub-borrowers for each component would vary depending on the component, and would be: 5 years for subsidiary loans to municipalities for the land development component, and 12 years to the PB's. Loans from PB's to final borrowers would be for maturities of 6 months to four years for construction finance, and 2 - 8 years for EMLOC. Until subloans are repaid in Land Development Sub-components, local governments will be allowed to use the proceeds of land sales only for counterpart funding of approved sub-projects, interest payments, or repayment of the loans.

Table 4.3: Summary of On-Lending Terms and Conditions to Sub-Borrowers

Component	Housing Market Development		Building Materials
Sub-Component	**Land Development**	**Construction Finance**	**Equity Matching**
Sub-Borrower(SB)	Local Government	Participating Banks	Participating Banks
SB Interest Rate	Cost of Funds to Government plus up to 2.5%	Cost of Funds to Government plus up to 2.5%	Cost of Funds to Government plus up to 2.5%
SB Maturity	5 years	12 years	12 years
SB Grace Period	3 years	Flexible	up to 2 years
Final Borrower (FB)	Local Government	Private Developer	Qualifying enterprise
FB Interest Rate	Not Applicable (SB is final borrower)	Determined by PB	Determined by PB
FB Maturity	N.A.	6 months-4 years	2-8 years
FB Grace Period	N.A.	Determined by PB	Up to 2 years
Assumes Credit Risk to FB	Government	PB	PB
Loan amount to FB	80% of Civil Works contracts, 100% of goods (foreign) and 80% of goods (local), 100% of TA	Up to Fixed Amount per Dwelling Unit (Representing a maximum of 75 % of average investment cost per square meter for modest housing.	Up to twice the amount of new cash equity.

4.13 Since the amount outstanding and the repayment would be in US dollars, the foreign exchange risk between the US dollar and ruble would be borne by the sub-borrowers. However, the Government would bear the cross-currency risk between the basket of currencies in the Bank loan and the US dollar. The principal amount of the financing given for a subloan would be calculated in US dollars on the basis of the current exchange rate, on the date of payment of each eligible expenditure. Repayment of principal and interest would also be made in US dollars or in the rouble equivalent based on the foreign exchange rate prevailing on the repayment date. The foreign exchange risk would be borne by the sub-borrowers. Interest would accrue from the date of disbursement and repayments would be required on a quarterly basis. Repayment of principal and interest would be made by the sub-borrower to an agreed account in the agency bank or in a local bank to be designated by the MOF.

4.14 Summary of Loan Conditions concerning On-lending. **At negotiations, the following conditions regarding on-lending arrangements were agreed: (a) the Federal Government will sign Participating City Loan Agreements with at least three local governments as a condition for effectiveness of the Bank loan to the Federal Government; (b) Subsidiary Loan Agreements will be signed with at least two PBs as individual conditions of disbursement for the Construction Finance and Equity Matching Sub-components; and (c) the following will be made conditions of effectiveness of each Participating City Loan Agreement between the Federal Government and each Participating City: (i) establishment of a Local Project Implementation Unit (LPIU); (ii) adoption of a regulation on title registration; (iii) adoption of procedures on auction and competitive tender of land on project sites; (iv) establishment and funding of a project account (para 7.1.C).**

4.15 Use of Reflows to Central Government. The Central Government will receive repayments of the subloans before it needs to remit the funds to the World Bank. Since the Project is not intended to provide free foreign exchange to the Government, land development sub-component reflows will be used for similar purposes prior to their repayment to the Bank. **Specifically reflows from local governments to the central government must be used to repay Bank loan or to fund similar land development project in the participating cities or in other cities. The Government would use reflows from the commercial banks for re-lending to commercial banks under terms identical to those of the Enterprise Support Project (WB Loan No. 3763-RU). The commercial banks may use these additional sub-loans either for the general purposes permitted under the ESP or for financing additional construction loans (para 7.1.a.3).**

F. COST RECOVERY

4.16 The proposed Housing Project will finance activities in the public and private sectors. The Land Development Sub-component may account for up to half of the loan proceeds; the other two components would each account for about one quarter. Despite the difficult economic environment, the Government insists on the need to develop lending components that will implement market principles and ensure full cost recovery. Establishing the principle of cost recovery will be essential in creating an efficient and sustainable housing sector.

4.17 Land Development Sub-component For the land development Sub-component, local governments have concurred in their Declarations of Commitment[5] that rights to all land would be sold to the private sector in a form of tenure that secures to the developer the right to mortgage the land rights, construct the housing, and dispose of the housing to purchasers. The local governments have further agreed that they would convey full ownership of the land to housing purchasers, either individuals or condominium associations, on demand and without additional change of price. To the extent that local government would provide infrastructure, the subloan for such infrastructure would be recovered by auctioning or competitive tendering of the rights to the serviced plots to private developers for housing development. In order to assure that loan recovery would occur, a number of guidelines have been followed, such as: (a) an initial selection of sites that require minimal off-

5/ Declarations of Commitment will be legally binding once the Federal Government has executed Participating City Loan Agreements with the Participating Cities.

site infrastructure, (b) limiting disbursements to 80% of the expected volume of sales revenue forecast for the site even if construction costs might call for higher disbursements, (c) holding auctions before infrastructure contracts are signed and (d) allowing developers bidder to propose and construct infrastructure. Market and financial analyses indicate high sales revenues for the serviced sites, given the current premium paid by the private sector for serviced, developable land with clear property rights. **At negotiations, the Government and representatives of the Participating Cities accepted a subloan ceiling for each site, which is not greater than 80% of the expected revenues from that site (para 7.1.a.5).** In addition to direct cost recovery from sales of sub-project sites, the local governments would offer additional guarantees of repayment to the Government. If cities do not recover the required funds from the sale of land, they will meet the debt service from their own revenues. This should be possible given their resources. The Central Government has also requested additional assurances of repayment, including the guarantees of oblast governments pledged to back local borrowing.

4.18 Annex 3.2 provides detailed guidelines for preparation of sub-projects under the component with regard to the cost recovery potential of individual sites. These were developed on the basis of analyses carried out for the first pipeline of land development sub-projects. First, cost coverage and loan coverage ratios were developed for each potential site. The cost coverage ratio is the ratio of the site's infrastructure cost to its estimated selling price. The loan coverage ratio is the ratio of the loan to the expected sales price. Second, a sensitivity analysis was conducted on critical assumptions made regarding cost recovery. This analysis covered the following: (a) selling prices of individual houses, row houses, apartments, and commercial space; (b) cost analysis of construction costs relative to other cities and relative to selling prices; and (c) whether the percentage of commercial space appears justifiable given the location of the site and the availability of competing facilities. The benefits of these analyses were to show municipal officials and urban planners the cost and benefit of decisions regarding site locations, infrastructure and community facilities standards and space allocations. Based on the analysis, some sites were dropped or postponed, and others were redesigned. However, there is a sufficient pipeline of sites that meet cost and loan recovery requirements to undertake the program.

4.19 Construction Finance Sub-component. For the construction finance component, accredited banks are fully liable for loans they make to final users. Cost recovery from the bank to the Government is credible because this component adopts wholly the prudential regulations built into the FIDP which limit the risk exposure that will be allowed to any of the accredited banks. Interviews were conducted during Project preparation with developers and banks in all the Project cities. These discussions reveal that banks have been very conservative thus far in managing the limited amount of lending that they offer for construction finance. They require collateral unless the developer has a stream of income from other sources domiciled at the bank. Typically, the banks lend for only a small percentage of the cost of the construction project, and monitor investment progress closely. Banks presently lend at short terms for high rates of interest (35-40% in US Dollars) though it is hoped that interest rates will come down. Both bankers and developers admit that housing is profitable. Housing units typically sell at twice their development costs and sometimes as much as three to four times their development costs. Technical assistance and training will be offered to assist the banks in improving their ability to evaluate, monitor and service construction loans.

4.20 Equity Matching Component. Similarly, for the equity matching component, subloan risk is reduced by a combination of the presence of new cash equity, conservative eligibility guidelines, including collateral requirements, the requirement that the loan be senior debt, and the rigorous appraisal of sub-projects by the PB. PB's would take the lending risk on these sub-loans. In addition, commercial banks are subject to the prudential regulations of the FIDP.

G. MUNICIPAL FINANCE

4.21 Project Requirements. The cities are faced with two types of financing requirements for the Project: debt service and counterpart funding. Debt service would be paid from the proceeds of land sales. In addition, cities have other substantial resources to cover debt service, in the event that land purchasers do not reply in a timely manner. There appears to be little competing long-term debt because of the fact that it was not necessary for cities to borrow in the past. However, cities do appear to be incurring short-term debt in the form of unpaid bills. Because of the inadequacies in current accounting systems, it is not possible to determine exactly how much of this type of debt is outstanding. Annex 4.2 presents a detailed analysis of the local governments financial status, and financing plan for the Project.

4.22 The cities will take steps to limit their financial risk under the Project. They will be required to hold land auctions before they award construction contracts. The various land disposal alternatives available to the cities are presented in Annex 3.2. In addition, the cities will phase the projects so that if land sales expectations are not realized, the Project can be curtailed or modified to limit the financial exposure. Annex 3.2 presents a detailed phasing plan proposed by the cities for the first year's pipeline of sub-projects.

4.23 Counterpart funding will require a significant share of the capital program in some cities, but funds appear to be available since each of the cities has indicated that the Project will be considered a high priority. In addition, the proceeds from the sale of land from the initial phases will be available for counterpart funding in the period between the time that the land is sold and when debt repayments are due.

4.24 Table 4.4 shows maximum[6] debt service requirements for each of the cities in comparison with 1993 adjusted revenue. None of the cities would be required to pay more than 6% of their revenue for debt servicing.

6/ This is based on the assumption that all land development sub-projects in the pipeline as of June 30,1994, would be financed and cities will not obtain sales revenues for their use prior to basic infrastructure construction. This is unlikely to occur, as the cities will realize some proceeds from auction of raw or partially serviced law, and will reduce the size of the sub-projects if the proceeds do not meet expectations. It is illustrative, however, of the substantial borrowing and repayment capacity that the cities have in excess of Project requirements.

Table 4.4: Maximum Debt Service Requirements Per City

City	1993 Adjusted Revenue (Millions US$[1])	Debt Service (Million US$)	% Debt Service Revenue	Loan Amount (million US$)	Land Sales Forecast (million US$)
St Petersburg	1645	13.6	0.8%	75.4	141.9
Nizhny Novgorod	313	9.0	2.9%	49.7	99.7
Barnaul	155	2.4	1.6%	13.4	22.8
Tver	61	3.1	5.1%	17.3	40.9
Novgorod	42	2.5	5.9%	13.8	17.9
Total Loan	2216	32.1	1.4%	169.6	323.2

The loan amount shown in this table is less than the total loan available as the initial pipeline of sub-project costs are less than the total available.
[1]Adjusted 1993 Revenue is 1993 Revenue adjusted to December, 1993 prices.

4.25 Table 4.5 below shows counterpart funding requirements for the first phase of the Project. The cities are likely to take at least two years to complete this phase of the Project so the average requirement over a two year period is shown. Except in Barnaul, the amount is a small proportion of the total capital program. The krai administration in Barnaul has provided assurance that it will provide necessary funding to the city. The phasing of future project sites would be planned with the cities based on their continuing commitment to the Project and their willingness to assure counterpart finance.

Table 4.5: Counterpart Funding Requirements
Phase I (1995-6)
US$ Millions

City	Estimated Counterpart Funding Requirement for Project		City Budget: Total Estimated Capital for 1994
	First Phase	First Year	
St Petersburg	13	7	200
Nizhny Novgorod	5	3	140
Barnaul	1	.5	3
Tver	1	.5	12
Novgorod	3	2	12

4.26 Local Financial Authority. Local governments have access to major revenue sources but they do not control the amount of revenue that they will receive from those sources nor do they control spending responsibilities. Under the Russian system, most revenues are shared with the Central Government and the oblast level government, and major revenue decisions are made by these authorities. Higher level authorities also determine spending responsibilities. The recent tendency has been to increase spending responsibilities at a faster rate than increases in revenue. Nevertheless, the revenue sources that are available are diversified and sensitive to inflation so the cities have the potential for a solid revenue base. Revenues include corporate income taxes, personal income taxes, and payments for land, property, and privatization. Cities have a major source of potential revenue in the property tax. However, in order to realize these benefits, major work will have to be undertaken. This includes property registration systems as well as the tax systems themselves. The Project will initiate some of this work through pilot schemes for land registration on Project sites, and through fulfillment of action plans agreed with the local governments. Local governments can also exercise discretion in deciding how to allocate funds among their responsibilities.

H. PROCUREMENT

4.27 Major Project elements, their estimated costs and proposed methods of procurement are summarized in Table 4.6 below. All works, goods and technical assistance to be financed with Bank loan funds will be procured in accordance with relevant Bank procurement *Guidelines* and, as appropriate, will be based on the Bank's Standard Bidding Documents, as supplemented or modified with approval of the Bank. Annex 4.3 contains a summary procurement schedule and other details of procurement administration.

Table 4.6: Summary of Proposed Procurement Arrangements
(US$ Million)

PROJECT ELEMENT	PROCUREMENT METHOD				TOTAL COST
	ICB	LCB	OTHER	N.B.F.	
1. Civil Works					
a. Housing Infrastructure	114.1	3.1	- -	26.7	143.9
	(114.1)	(3.1)		- -	(117.2)
b. Utility Improvements	75.2	3.5	- -	30.3	109.0
	(75.2)	(3.5)		- -	(78.7)
c. Land, Acquisition, Interest Costs	- -	- -	- -	145.3	145.3
2. Goods					
a. Utility Systems Equipment	2.6	1.1	1.4	0.9	6.0
	(2.6)	(1.1)	(1.4)[a/]	- -	(5.1)
b. Office Equipment, Vehicles & Spares	0.8	- -	0.4[b/]	0.1	1.3
	(0.8)	- -	(0.4)	- -	(1.2)
3. Lines of Credit					
a. Construction Finance	- -	- -	80.0	97.8	177.8
			(80.0)	- -	(80.0)
b. Building Materials Industry	- -	- -	96.0	47.3	143.3
			(96.0)	- -	(96.0)
4. Technical Assistance					
a. CPIU/LPIU and General Consulting Services	- -	- -	13.5	2.5	16.0
			(13.5)	- -	(13.5)
b. Design and Engineering Services	- -	- -	6.0	1.0	7.0
			(6.0)	- -	(6.0)
c. Technical Studies, Training, Fellowships and Evaluation			2.3	6.5	8.8
	- -	- -	(2.3)[c/]	- -	(2.3)
TOTALS	192.7	7.7	199.6	358.4	758.4
	(192.7)	(7.7)	(199.6)	- -	(400.0)

NOTE: Amounts are rounded. Figures in parentheses are the respective amounts financed by the Bank loan.

NBF: Non-Bank Financed, includes counterpart funding for land/acquisition, local taxes, private contributions, and U.S. government grant financing of technical cooperation, staff training and evaluation.

a/ Direct Contracting upgrades of proprietary dewatering centrifuges (US$.9 million) and International Shopping for off-the-shelf instrumentation componenta (US$.5 million) for water treatment.

b/ Local Shopping (LS) for office furniture, equipment and supplies (US$.4 million).

c/ Includes procurement of small value training services by individuals and fellowships($.7 million) which will be procured in accordance with the Bank's Guidelines for the Use of Consultants.

4.28 Civil Works. The five participant communities have proposed a total of 16 sites for new housing developments, which range from 14 hectares to 88 hectares in size, averaging approximately 36 hectares per site. Additional sites would also be proposed during project implementation. Civil works will comprise on-site and off site infrastructure including: landscaping, leveling, storm drainage, roads, potable and waste water conduits, heating supplies, electrical and telephone services, utility substations, and other site development works. These civil works improvements will support the construction of single family houses, town houses and walk-up apartment buildings by contractors and land developers. Site development designs also include community facilities and some commercial structures.

4.29 All civil works contracts above $1.0 million shall be through ICB, and above $0.3 million through LCB. A total of 49 construction contracts for housing with an estimated value of US$189.3 million, infrastructure and utility improvements, are proposed to be tendered under ICB, as outlined in the Bank's *Guidelines*, and financed by the Bank loan. These contracts are estimated to be between US$2 million and about US$14 million, with an average value of about US$5.6 million. These contracts are expected to cover the major infrastructure works for each development parcel and utility improvements in the regions. LCB will be used for some utility upgrades and small works. The threshold below which use of LCB bidding procedures acceptable to the Bank will be used in procuring for these civil works is US$1.0 million. Approximately fifteen contracts with a total estimated value of US$6.6 million are expected to be tendered under LCB. Locally bid contracts are estimated to range in size from approximately US$300,000. up to US$1.0 million, with an average size of US$440,000. Relatively small scale infrastructure for small groups of houses and some separate utility installations are identified as potentially suitable for LCB contracting. In addition to possible subcontracting opportunities under ICB contracts, these small jobs will provide opportunities for domestic contractors to participate in the Project.

4.30 Civil works contracts will be tendered using the Bank's Standard Bidding Documents (Large and Small Works). Works packages above US$500 thousand, and resulting contracts and amendments, if any, would be subject to the Bank's prior review. In addition, the first two LCB contracts per city would be pre-reviewed. The remaining packages will be subject to post-review. Prior reviews will thus cover about 95% of the monetary total of civil works financed by the Bank. US$10 million will be the threshold above which the Bank's Large Works Standard Bidding Documents will be used. For LCB contracts, the borrower will use Regional Standard Bidding documents for works through LCB issued in July 1994. Of the 34 expected ICB bidding packages, three are identified as being potentially above the US$10 million threshold. ICB and LCB solicitations are expected to be divided into four main packages of 7, 12, 18 and 12 contracts each and are expected to be awarded within a twenty-four month period after the Bank loan becomes effective. The civil works implementation period is expected to extend over five years. However, several factors will have an impact on this timetable, such as the relatively short Russian construction season, which only extends from April to September in some areas. Phasing of construction at some sites will be necessary to coordinate infrastructure and other housing development activities.

4.31 Contractors interested in bidding under International and Local Competitive Bidding procedures will be prequalified. Contractors will be expected to comply with customary civil works standards regarding experience, payment terms, and guarantees. During prequalification, financial

statements of foreign and domestic contractors, participating as either independents or in association with other firms, will be examined to establish their financial capacity. In the prequalification, potential bidders would be qualified to bid for and perform one or more contracts, up to an acceptable portion to be appraised by the PB of their respective net financial and operational capacities. The ability of contractors to provide performance and advance payment guarantees is an issue for domestic firms which will be examined carefully during the prequalification reviews.

4.32 Equipment and Goods The loan will finance about US$6.3 million in equipment and materials. Contracting for goods with contract values estimated to be in excess of US$300,000 equivalent will be procured by International Competitive Bidding (ICB), i.e., an estimated six contracts, averaging US$567,000 and totaling US$3.4 million, or approximately 54% of goods procurement. These purchases will include US$2.6 million in utility inputs: e.g., substation switchgear, valves, pressure reducers, etc., and about US$800,000 for construction inspection vehicles and equipment, including spare parts. The Bank's Standard Bidding Documents for the Procurement of Goods will be used and these contracts will be subject to prior Bank review. For ICB bid comparison purposes, Russian suppliers will be allowed a preferential margin of 15% or the existing customs duty that a nonexempt importer would have to pay, whichever is lower, over the competing price of imports, provided its domestic value-added is at least twenty percent. Direct Contracting procedures are envisioned for two contracts for dewatering centrifuges and spare parts (US$900,000) to upgrade existing wastewater treatment equipment in St. Petersburg. These contracts will require prior Bank review. International Shopping (IS) will be used for purchases of utility components that are between US$50,000 and US$300,000 per contract and have specifications that would be of interest to external suppliers. The LCB purchases, totaling US$1.1 million, will constitute about seventeen percent of the goods contracts. These are for replacement on items purchased originally from the Russian Federation. They are expected to number five transactions and average about US$220,000 each. LCB purchases will follow procedures acceptable to the Bank and will be advertised in local media. The borrower will use Regional standard bidding documents and the Bank will pre-review the first contract. Bidding will be open to all qualified bidders, make use of bidding documents in Russian, and spell out how to bid and how bids will be evaluated. Awards will be to the lowest evaluated bidder. They will be subject to post-review by Bank staff.

4.33 Smaller value purchases of instrumentation for water treatment and office equipment, e.g., photocopiers, facsimile machines, computers, printers, and supplies will be made using International Shopping and Local Shopping procedures. Purchases of items available from international sources under US$300,000 per contract will be procured using International Shopping procedures (four actions estimated at about US$125,000 each). Small value purchases for office furniture, etc. that would not be of interest to international suppliers (under US$50,000 per contract) will be procured via Local Shopping procedures, i.e., nine actions averaging about US$44,000 each. These thirteen smaller value IS and LS procurement actions will be implemented in accordance with solicitation, evaluation and award procedures acceptable to the Bank. Local Shopping will involve a comparison of at least three quotes from different eligible suppliers; International Shopping will require at least three quotes from suppliers in at least three different Bank-member countries. International and Local Shopping transactions will together constitute about fourteen percent of equipment purchases and will be subject to post-review by Bank staff.

4.34 Procurement for Equity Matching Line of Credit. Purchases of equipment and incidental services financed by subloans under the US$96.0 million Equity Matching (Building Materials Industry) component of this Loan will be patterned after procurement procedures authorized for the Bank's Enterprise Support Project (ESP). In particular, individual EMLOC investor purchases under US$ 250,000 would be carried out on the basis of Local Shopping, i.e., obtaining and comparing quotations from at least three different local suppliers. For investor purchases that will exceed US$ 250,000 but be less than US$ 4.0 million, procurement will be in accordance with the International Shopping procedures, i.e., obtaining three quotations and comparing quotations from suppliers from at least three different Bank-member countries. Both of these categories of purchases would be subject to post-review of the normal commercial documentation, as retained in the banks' or borrowers' files. Expected EMLOC contracts that would exceed the US$4.0 million level would be procured using the Bank's ICB procedures. Each of these ICB contracts would use the Bank's Standard Bidding Documents for Goods and be subject to Bank prior review of documentation, awards and contracts/amendments. Since potential EMLOC equity matching proposals are only in preliminary stages of development, it is not possible to estimate the breakdown of ICB and IS categories within this US$ 96.0 million component. However, it is expected that most construction materials industry investments would consist of the importation of new advanced-technology manufacturing equipment and, possibly, accompanying spare parts and incidental installation and support services. As with the ESP, the participating banks would monitor purchases and investment actions of EMLOC sub-borrowers to ensure their procedures and documentation are consistent with World Bank requirements. The CPIU and LPIUs would have General Consultants (with procurement expertise) available to help the PB's with their oversight work and to provide specific procurement advice as needed.

4.35 Procurement for Construction Finance Sub-component. Sub-loans for housing construction would be disbursed by PB's in stages against completion of works, as certified by an engineer hired by the PB and spot checked by the General Consultant. The subloans will cover expenditures for housing construction. The correctness of the estimate submitted by the developer/contractor will be checked by the PBs as part of their regular subloan appraisal process in accordance with the approach agreed with the Bank which would reflect the economic construction of housing. The definition of construction phases and the percentage of disbursement permitted would be spelled out in the Subsidiary Loan Agreements with PB's. It is far more practical to monitor procurement by PB's for construction loans in the same way as for their normal loans to the local housing construction industry i.e., indirectly. Instead of tracking individual sub-borrower purchases of materials or services and disbursing against invoices (which are not necessarily generated for all housing development transactions and can easily be falsified), commercial banks prefer to make construction finance loan releases on the basis of actual work performed and materials installed, i.e., as a percentage of overall sub-project completion. With this method of managing subloans, commercial banks are able to correlate physical installation and construction accomplishment at a site with requested "progress" disbursements. It is a normal practice that commercial banks request their borrowers to confirm purchases of inputs by periodically presenting invoices for materials and labor, but the PB is most interested in the degree of successful completion of housing units or facilities at a site as a basis for tranched subloan releases. This makes sense for loan management, since sub-loans are usually a percentage of estimated housing completion cost and not tied directly to the contractor's purchases of inputs. There should be no concern that payment of subloans against physical progress at average (rather than actual) construction rates will lead to overpayment, because

each subloan will be limited to only approximately 75% of the estimated total construction cost. (See Annex 3.4). The PB's project engineer will provide it with a capacity to ensure constructed elements are consistent with the sub-loan plan and of proper quality before the tranched disbursements are released.

4.36 In light of the recent development that has taken place within Russian building industry, developers would be expected to follow commercial practices. Sub-loans for the construction finance sub-component would be used to finance the construction of housing by a wide variety of small and large private developers and contractors (see para 3.28). The inputs to construction are mainly working capital comprised of a large number of separate types of materials, labor (both contracted and self), equipment, fuel etc. Developers and contractors may either purchase labor through contracts or use their own workers; and they may purchase materials or make their own. Developers and contractors purchase inputs from reliable suppliers whom they can trust. Price is an important consideration, but may be complemented by factors such as quality differences, availability and supplier trustworthiness. Larger contractors (who would borrow for larger loans up to $10 million) are more likely to manufacture their own materials and have a staff of permanent workers. Under the circumstances and given the variety of large and small developers that might participate in the sub-component, following specific procurement rules would be difficult. Such requirements would potentially discourage both smaller and larger developers and therefore hamper the creation of a truly competitive market. Also, the services being procured under this line of credit are distinctly different from the goods being procured under other Bank projects such as the ESP or under the EMLOC component. Contractors are operating in a competitive environment which will encourage them to obtain the best price and arrangement for securing needed goods and services.

4.37 Technical Assistance for Procurement. Consultants will be required to assist participating communities and their Local Project Implementation Units (LPIUs) with staff training and the development of tender documents and bidding procedures acceptable to the Bank. Consulting services will also be needed to support the LPIUs with contract management functions and the supervision of construction works. Contract periods for such services are likely to be short-term (up to 6 months) to long-term (possibly four years for construction supervision services). Consultant selection would follow the Bank's *"Guidelines for Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency", dated August 1981.* The Bank's Standard Form of Contract for Consultant Services will be used. Short lists, bidding documents, evaluation results, and contracts and amendments will receive prior review and Bank approval for all contracts with firms expected to be over US$100,000 each. All Terms of Reference, regardless of size, will be subject to prior Bank review. It is estimated that about US$21.8 million will be funded by the loan for consulting services and training. The program envisions a General Consulting Services contract to cover engineering inspection, procurement, project accounting and reporting activities. In addition, there will be approximately twelve contracts for engineering designs and services, averaging about US$500,000 per contract. There is expected to be about ten contracts with firms and individuals for staffing key positions in the PIU, studies of sites, technical analyses, training, fellowships and evaluations. However these will be smaller and probably will not aggregate to more than US$2.3 million. Contracts and all related documentation for services by consultant firms over US$100,000 and by individuals staffing key positions in the PIU's above US$50,000 per contract, as well as Terms of Reference for all consultancies, will be reviewed in advance by Bank staff, with

"No-objections" issued as required. Contracts with firms and individuals under these levels will be monitored on an ex-post basis during supervision missions.

4.38 Among their procurement functions, CPIU consultants will advise the five LPIUs and Project participants on the preparation of standard bidding documents in conformity with Bank requirements and also help set up activity accounts and confirm construction invoices for disbursement. Bank staff will conduct prior reviews of approximately ninety-five percent of construction contracts, seventy percent of equipment purchases, and ninety percent of technical assistance procurement.

4.39 Procurement Reporting. Procurement information would be collected and recorded as follows:

a. reporting of contract solicitation, award and amendment information by local communities or their Project implementation units (LPIUs) would be aggregated by the CPIU and forwarded through Minstroi to the Bank.

b. comprehensive quarterly reports by LPIUs (as guided by CPIU staff), indicating: (1) overall procurement progress and Project costing, including current estimates of allowances for physical and price contingencies; (2) revised cost estimates for individual contracts and amendment actions, if any; (3) revised schedules of procurement actions, including advertising, bidding, contract award, disbursement progress and completion times for individual contracts; and (4) compliance with prior reviews and aggregate limits on specified methods of Bank-financed procurement.

I. DISBURSEMENT

4.40 The proposed Project is the first investment project in the housing sector for Russia; therefore standard disbursement profiles for this country and sector are not available. The Equity Matching Sub-component uses the same disbursement profile as the ESP. The construction finance component is based on this but a longer disbursement period is used to reflect the reservation of funds for the Land Development Sub-component. The Land Development Sub-component is based on the cities' planning estimates modified by the experience of Bank staff and experience in other urban development projects in Eastern Europe. The estimated disbursement schedule and chart are given in Annex 4.4. Table 4.7 gives the categories and amounts to be financed out of the IBRD loan, and the percentage to be financed in each category. Final engineering designs are expected to be completed on time and **appointment of consultants for Project management will be a condition for effectiveness (para 7.1.b.2).** Given the advanced state of sub-project design on the land development component, and the relatively simple implementation arrangements for the construction finance and equity matching components, the proposed disbursement schedule is considered realistic.

Table 4.7: Estimated Disbursements (US$ million equivalent)

Category	Amount of Loan Allocated	Percent of Expenditures to be Finance
1. Civil Works	150	80% of expenditures for land development (including taxes)
2. Equipment and Machinery	15	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally.
3. Lines of Credit		
a. Equity Matching	95	100% of Sub-loans
b. Construction Finance		
(1) for Construction on Land Development Sites	40	100% of Sub-loans
(2) for Construction on land development or Other Sites	40	100% of Subloans
3. Technical Cooperation, Studies and Training	20	100%
4. Unallocated	40.00	
Total	400.0	

4.41 Bank financing would follow normal Bank disbursement procedures as summarized in the Disbursement Handbook. Loan proceeds would be disbursed against eligible expenditures either directly to suppliers, by means of special commitments to support letters of credit issued by borrower's bank in favor of foreign suppliers of goods and services, or by way of reimbursement to participating private enterprises/agencies where expenditures have already been incurred.

4.42 Disbursements would be made for eligible Project expenditures for: (a) 80% of total expenditures on civil works associated with land development; (b) 100 % of foreign and 80% of local expenditures for goods associated with land development; (c) 100% of eligible subloans associated with construction finance and EMLOC components and (d) 100% of eligible technical cooperation consultant services, studies, and training.

4.43 Disbursements under the Project for the Land Development and EMLOC Sub-components and for training and technical assistance, would be made against standard documentation except for goods, consultants, and civil works contracts each valued at less than US$50,000 equivalent which may be claimed under statements of expenditure (SOE) with related documentation retained by the

CPIU for review by Bank supervision missions. Disbursements for construction sub-loans of US$4 million equivalent under the construction finance Sub-component also may be claimed under SOE with related documentation retained by the PB for review by Bank supervision missions.

4.44 Disbursement Conditions. **At negotiations, The Government agreed to the following special conditions of disbursement: (a) For land development and construction finance subcomponents in a particular city, [7]Government to provide evidence of validity of Participating City Implementation and Loan Agreements; (b)For construction finance and EMLOC, (i) effectiveness of FIDP loan and (ii) Subsidiary Loan Agreements signed with at least two banks for EMLOC component and two banks for construction finance Sub-component (para 7.1.c).**

J. REPORTING

4.45 Quarterly progress reports covering all components will be prepared by the CPIU and sent to the World Bank within one month of the end of the quarter in a format to be agreed with the Bank. The main purpose of the reports will be to provide managers with timely information on implementation of Project components. It will be the responsibility of the CPIU to set up reporting guidelines and deadlines so that it receives timely information from the LPIUs and the participating banks and financial agents in order to prepare the report. The first report will be issued before the first supervision mission. The quarterly reports will include, inter-alia:

a. progress achieved against agreed implementation and disbursement schedules, and key performance indicators;

b. the status of all contracts;

c. work programs and proposed expenditures for the coming quarter;

d. status of compliance with covenants and major agreements under the Project, including objectives of the regulatory action plans;

e. a description of issues and problem areas along with recommended corrective actions; and

f. a description of progress in resolving previous problems and addressing earlier recommendations.

4.46. The CPIU will also prepare a Project completion report in accordance with Bank guidelines.

7/ Except for Moscow

K. ACCOUNTING AND AUDITING

4.47 The Government has agreed that Project expenditure accounts will be maintained in accordance with procedures acceptable to the Bank. Qualified independent auditors, acceptable to the Bank, will annually audit the following:

a. a financial statement detailing all expenditures under the Project;

b. statements of expenditures (SOE) against which disbursements have been made, or are due to be made, out of the loan proceeds; and

c. the special account to be established under the Project.

4.48 Audits will be carried out in accordance with Bank guidelines. The Bank will receive certified copies of the audit reports no later than six months after the end of each fiscal year of the borrower. In addition to the Project audits to be submitted to the Bank, the Financial Agent for the Equity Matching Component would require and review annual external audits and quarterly reviews of the financial statements and accounts of the enterprises receiving subloans under the component.

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

V. PROJECT ORGANIZATION AND MANAGEMENT

A. PROJECT MANAGEMENT AND SUMMARY

5.1 CPIU, Interministerial Group, Local Project Implementation Units and General Consultant. The Housing Project requires a strong project management unit for successful implementation of sub-projects that involve multiple agencies at the federal and local levels, commercial banks, and private enterprises. The proposed Project will be administered by a Central Project Implementation Unit (CPIU) that will report to the Minister of the Ministry of Construction and Architecture (Minstroi), on behalf of the Interministerial Group on Housing Reforms (IMG)[1]. The Interministerial Group will provide policy level oversight and guidance for the Project, particularly on issues that will require interministerial coordination and intervention. Local Project Implementation Units (LPIUs) in each local government will be responsible for implementation of the land development Sub-component. The CPIU will be formed out of the currently existing Project Review Unit (PRU), a Bank-supported group attached to the MINSTROI that has been assisting MINSTROI and the cities with project preparation and reviews. The IMG already exists and has guided project preparation. The General Consultant, reporting to the CPIU, will handle the technical functions of the CPIU, including providing assistance with procurement, project administration, and construction inspection for the Land Development Sub-component accounting & reporting, as well as assistance in the promotion and administration of the lines of credit. The costs of staff and equipment for the CPIU, the LPIUs, and the General Consultant would be financed under the Project.

B. PROJECT ORGANIZATION

5.2 CPIU Functions. The CPIU will report directly to the Minister of Minstroi and will be empowered to: (a) recruit and monitor the General Consultant (GC); (b) establish administrative procedures; (c) open and operate accounts in foreign and local currency; (d) supervise professional consulting services; (e) review and evaluate proposed land development sub-projects; (f) monitor compliance and, on an ex-post basis, the eligibility of construction subloans; (g) provide training and advice on and oversee procurement administration; (h) recommend disbursements; (i) hire auditors and account for Project funds, including accounts of LPIUs; (j) guide the technical cooperation and training program. The detailed organizational structure, functions, staffing plans, recruitment of staff, operational procedures, and authority of the CPIU and the terms of reference for the General Consultant are presented in Annex 3.8.

1/ The same Interministerial Group that guided preparation would also be responsible for policy oversight during Project implementation. The IMG was established pursuant to Decree #595 of the Council of Ministers of June 20, 1993.

5.3 CPIU Staffing. The CPIU will have a small staff headed by a Project Director with overall responsibility for Project coordination and administration. The Project Director will be selected by Minstroi. Deputation from the civil service will be allowed for specific assignments. All key CPIU staff will be expected to have a working knowledge of spoken and written English. The local CPIU staff would be supported by individual foreign advisors, as appropriate. Most CPIU staff will be hired under individual consultancy contracts.

5.4 The General Consultant will provide staff support services to the CPIU and technical assistance to the LPIU's and PB's. The General Consultant will report to the CPIU. Specific responsibilities include the following: a) supervise the disbursement and collection of subloans; b) set up an office including physical place, personnel and complete administrative, communication, accounting and report systems; c) promote all components of the Project to the Participating Cities, Participating Banks, private developers, private enterprises, international investors and international housing technology purveyors; d) identify and resolve implementation problems; e) assist the cities in procurement and advise on contract supervision; f) Evaluate the progress on the project and RAP's; f) propose program modifications to redirect resources into the most effect programs; h) assist the CPIU in managing funds, and in reviewing documents supporting the use of funds by PC's and PB's; i)certify payments under the land development sub-component; j) cooperate with supporting technical cooperation efforts for maximum program impact; and k) provide reports to the Government, local governments, PBs and the Bank. The General Consultant will be selected in accordance with Bank procurement guidelines. The terms of reference are ready and the Government is preparing a short list. The General Consultant should be in place by mid 1995.

C. PROJECT IMPLEMENTATION

5.5 Land Development. Local Project Implementations Units (LPIUs), administratively attached to each of the Participating Cities, will be directly responsible for implementing the land development Sub-component. The CPIU will provide guidance and technical assistance to LPIUs as outlined in Annex 5.2. In cities where all land development sub-projects are within city boundaries, the LPIU will report to the mayor. In cities where there are sub-project sites in both the city and the oblast or krai the LPIU will report to the chairman of the Local Coordinating Committee (LCC). The LPIU's would provide requested information to the local governments, CPIU, LCC's and the Bank.

5.6 *Local Coordinating Committee.* LCCs have been established in each Participating City and will be responsible for: (a) approving the work plans of each LPIU; (b) recommending to the CPIU, any alterations to the Land Development component; and (c) coordinating the various entities which will be involved in implementing the Project at the local level.

5.7 *Local Project Implementation Unit.* The Project implementation functions of the LPIUs will include the following: (a) project management, including supervision of detailed sub-project planning, infrastructure design, environmental analysis, contracting for civil works and construction supervision; (b) coordinating the implementation of land auctions and land marketing; (c) monitoring the implementation of regulatory action plans; (d) coordination of local technical cooperation and training activities; (e) supervision of disbursements from local budgets and loan funds; (f) accounting, audits and reporting. The LPIUs will require a full-time staff. Some staff may be hired under consultancy contracts financed by the project. **At negotiations, it was agreed that the**

establishment of a Local Project Implement Unit with adequate staff and the establishment funding of a project counterpart account would be a condition effectiveness of the Participating City Loan Agreement between the Federal Government and each Participating City (para 7.c.1). **The General consultant for project management must be hired as a condition of effectiveness of the Bank loan to the Government (para. 7.b.2).**

5.8 Construction Finance. Implementation management and arrangements will be the responsibility of the GC. They will track those of the ESP, except that CPIU of the Housing Project will take on the functions performed by the Ministry of Finance CPIU in the ESP. Banks eligible to participate in the component will be limited to those that remain accredited by the Bank Review Unit of the FIDP. The CPIU, with the assistance of the General Consultant, will (a) administer Subsidiary Loan Agreements with the participating banks on behalf of the Government; (b) monitor the procurement and disbursement aspects of the component, which includes providing training and advice, as needed, to the participating banks and sub-borrowers; (c) submit to the Bank subloan proposals and other documents requiring their prior approval; (d) monitor, on an ex-post basis, the eligibility of subloans below the free limit; (e) prepare a yearly review of the lending guidelines and on-lending arrangements for discussion with the LPRC (see below), the IMG, and Bank; (f) help the LPIUs and PBs to promote and advertise the line of credit to housing developers; (g) provide regular reports to Government and to the Bank, and prepare the portion of the Project Completion Report for the Construction Finance component; and (g) coordinate technical assistance and training to developers and banks. The IMG plans to appoint a working group, the Loan Policy Review Committee (LPRC) to review subloans above the free limit ($5 million or a loan greater than 10% of the bank's capital) and the first two subloans prepared by a commercial bank.

5.9 Equity Matching. The CPIU, with the assistance of the General Consultant, will (a) contract with the PBs and monitor the performance of the subloans; (b) coordinate technical cooperation and training; (c) oversee the implementation of audits, accounting and reporting requirements by participants; and (d) provide ongoing review of building materials standards. The Interministerial Group (IMG) will provide policy review and management of the Sub-component. The LPRC (a) approve initial subloans and subloans above the free limit; (b) monitor the performance of the credit line; and (c) in cooperation with the World Bank, review and revise sub-borrower eligibility criteria, as necessary. Sub-projects above the minimum qualifying loan size of US$500,000 and below the free limit of US$5 million that are favorably appraised by the PBs would be forwarded to the World Bank for disbursement authorization. Sub-projects above US$5 million will be forwarded to both the Loan Policy Review Committee (a working group set up by the IMG) and the Bank for final approval. Following subloan approval, the PB would finalize documentation, handle disbursement requests, reimburse sub-borrowers for qualifying expenses, assure that capital contributions are made on schedule, monitor the adequacy of collateral, remit repayments to the Ministry of Finance, ensure that loan agreements are enforced and report periodically to the CPIU on the status of the component.

D. IMPLEMENTATION SCHEDULE

5.10 To begin construction during the 1995 construction season, design and engineering contracts have been supported from USAID project preparation funds. In addition, design contracts may be eligible for retroactive financing, provided they meet Bank procurement requirements. Additional

design contracts will be awarded upon loan effectiveness. The Project schedule indicates that following loan effectiveness both LCB and ICB contracts will be awarded for the 1995 construction season. Project Review Workshops that bring together key members of the Interministerial Group, the CPIU, LPIUs and local contractors will be held periodically to assess progress in implementation. For construction finance, start-up activities will focus on training programs in coordination with the FIDP activities. With equity matching, a Project Launch Workshop will be held within three months of loan effectiveness. The workshop will bring together key members of the Interministerial Group, CPIU, and potential investors to discuss the procedures for participation.

E. SUPERVISION PLAN

5.11 The Project supervision plan is shown in Annex 5.4. The plan includes the schedule for Bank supervision missions, the skill mix required, staff week input, and cost. During the first year of the Project, 3-4 Bank supervision missions would be required, followed by about 3 missions during each of the following years. **During negotiations, the Government agreed to hold annual reviews of the Project, sub-project, action plan and related off-site infrastructure implementation in order to program investments, reforms, and technical cooperation for the following year. The program for the following year should be submitted to the Bank for its approval by September 30 of each year** (para 7.a.1.) One of the supervision missions each year would be available to work with the Government on these annual reviews. The CPIU will prepare reports for discussion with the Government and the mission and will provide evidence of necessary budgetary allocations to carry out the planned work for the coming year.

5.12 Benchmarks for measuring progress in implementation will include the following: (a) the establishment, staffing and reporting by the CPIU and LPIUs; (b) the hiring of the General Consultant; (c) the implementation and disbursement progress of land development sub-projects, construction finance subloans, and equity matching subloans; (d) the passage of regulations and achievement of specific steps promised under the local Regulatory Action Plans and; (e) the initiation and implementation of the Technical Cooperation and Training Programs; (f) the holding of the annual review of progress and the programming for the following year. Annex 5.3 provides details on specific indicators that will be used to track progress on the sector, city-wide housing market development, and on the project.

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

VI. PROJECT JUSTIFICATION AND RISKS

A. PROJECT BENEFITS

6.1 Summary of benefits. The principal benefits would be to reinforce the sector policy dialogue by: (a) providing tangible evidence to Russians about the value of Government's policy to move towards competitive housing markets; and (b) demonstrating the range of financing, regulatory, and institutional tools used to develop real estate in market systems. Specific components would also: c) break the Government land monopoly; (d) create a transitional mechanism that will catalyze new direct investment, technology, and management to increase the availability of building materials for self-help and small scale construction; and (e) develop financial sector capacity in real estate. Finally, the Project will: (f) increase employment in private construction and building materials enterprises, (g) increase labor mobility and opportunities for military resettlement and (h) help relieve pressures on the Government to direct unaffordable subsidies to the construction sector.

6.2 Land Development Sub-component Benefits. This Sub-component will consist of rapidly introducing land previously under public ownership into the private housing market, and working with city governments to develop appropriate policies for land. The essential task will be to release land to private sector builders and developers on a competitive basis without rigid development constraints, while at the same time preserving basic land use mechanisms that assure that the sites meet safety, health, welfare and environmental needs of the community. The Sub-component (along with the Construction Finance Line of Credit) will give particular consideration to development of real estate property rights, including, for example, real estate registration and titling systems. It will also introduce a process of transferring land to the private sector that is transparent, and beneficial to the general public interest. The residential plots will have secure property title and be ready for immediate residential construction. In addition, the Project will develop fiscally sound finance mechanisms for providing public sector infrastructure for real estate development. Finally, conservative loan-to-value ratios in both this Sub-component and in construction fiance, will mitigate some of the risk of relative price changes.

6.3 Quantifiable Benefits on Land Development Sites. Sub-projects with an expected cost of US$246.7 million have been reviewed by the Bank appraisal mission; and other sub-projects may be identified, prepared and appraised during Project implementation. The sub-projects already appraised would have benefits far in excess of their cost. Quantifiable benefit areas follow:

1. Land sales are expected to amount to US$323.3 million;
2. Housing construction is expected to be in the order of US$890 million; about US$40 million has been reserved in the construction finance sub-component to finance a portion of these costs[1];
3. Commercial space is expected to sell for an estimated US$411 million;
4. Taxes generated from housing sales alone are expected to amount to US$300 million;
5. The Project is expected to stimulate construction of over 22,000 apartments, 8,000 town houses, and 1,000 individual houses;
6. Construction of housing and commercial space is expected to generate more than 100,000 person years of employment[2].

In addition the indirect benefits expected under the Sub-component are:

1. Primary infrastructure developed under the Project will benefit other sites allowing for additional development;
2. Housing construction activity generated by the Project will provide a direct stimulus to the building materials industry;
3. Infrastructure development will generate employment;
4. Income of construction workers spent in the community will have an indirect yet positive impact on the economy of the cities.

6.4 Many benefits cannot be quantified. For instance, in order to qualify for funding, the cities will have to implement a range of policy and procedural reforms that will promote competitive land sales. This will educate and demonstrate to the policy makers and other professionals how the functioning of market based real estate development tools and procedures work. In the course of Project implementation, assistance will be provided in instituting market based land allocation mechanisms, where the market determines the highest and best use of real estate, along with the basic regulatory and practical framework necessary for the implementation of such procedures and practices.

6.5 Construction Finance Sub-component Benefits. This component will help build real estate financing capacity of the banking sector, promote new types of smaller private developers, and demonstrate the efficiency of the private sector in provision of attractive housing alternatives. Supported by the technical cooperation program, the Sub-component will introduce real estate appraisal and underwriting skills to the Russian commercial banking system. It will mitigate the existing medium term credit shortage and improve the stock of finished dwellings from which to choose. Smaller private developers who did not have the necessary funds to undertake and finance

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1/ Another US$40 million is expected to finance construction on other sites in the five cities plus a demonstration project in Moscow.

2/ The estimates of person-years are based on the estimates by Russian builders. The Russian estimate of person-years required for the construction of an average sized apartment unit is 4 person-years, for a town house it is 3 person-years, and for an individual house it is 5 person-years. An estimated 3 person-days are required per square meter of commercial space. The analysis presented above is based on 70% of the Russian estimates, on the assumption of increased construction efficiency.

an entire project will be better disposed to do so if they know that banks are organized to disburse dedicated funds. Training will help developers cope with the credit application procedure and project management. Lending guidelines would promote demonstration sub-projects that are particularly desirable from housing sector, energy efficiency, and environmental perspectives by emphasizing: (a) affordable housing for the middle class; (b) private initiatives in infrastructure; (c) new types of housing and materials; (d) completion of unfinished housing; (e) rehabilitation of existing stock; and (f) mixed use development. Moreover, the eligibility of construction finance sub-projects in each city will be contingent upon the implementation of the Regulatory Action Plan by the city. Construction finance to private developers will be available to build infrastructure as well as buildings. This will promote competition between private developers and municipally provided infrastructure, such as that financed during the land development Sub-component.

6.6 Equity Matching Line. The kombinats produced materials for an inefficient technology. These materials are notoriously energy intensive, use excessive amounts of other inputs, and can only be used by large construction organizations constructing high rise buildings on large sites. This component will leverage the private equity finance in sub-projects, particularly from foreign investors, that domestically produce and distribute commercially viable energy efficient materials. The reliance on equity and the assumption by commercial banks of the lending risk will depoliticize lending decisions while safeguarding full cost recovery. The requirement for domestic production will generate permanent jobs in domestic value-added industries.

B. ECONOMIC ANALYSIS

6.7 An Inefficient Housing Sector. While all sectors of the Russian economy are distorted and inefficient, the housing sector has been arguably among the worst. Land use is perverse, land supply is still government controlled, and queues for housing remain long. Russian households -- and the labor force -- are still captives of the remnants of central planning. Enterprise restructuring in Russia, and the closure of loss-making enterprises, will be politically and economically difficult until housing markets function at minimally acceptable levels, facilitating labor mobility.

6.8 Relieving Supply Constraints is First Priority. The Government is starting to liberalize housing demand by issuing vouchers to help households purchase a home of their choice. This is a desirable policy, for it shifts construction subsidies from housing providers to households themselves. However, policies that subsidize demand will prove unsustainable unless supply bottlenecks are also reduced. The Project aims to do this in a systematic way in a few cities. The proposed approach is to free land to its highest and best use, remove bottlenecks to the production of commercially viable building products, and facilitate a development process for construction and rehabilitation that responds to undistorted market demand.

6.9 Wealth Distribution. The proposed Project does not use housing production as an instrument of income and wealth redistribution -- a policy that inevitably distorts markets. Future projects supported by the Bank or others may address that issue. Relative to the level and distribution of wealth in Russia, there is a surplus of what may euphemistically be called "lower market" housing. Any new production built with western quality materials to western standards will, by definition, be considered better housing. The objective is not to produce more Khruschev-type boxes, but to build somewhat better -- though still modest -- housing of the type consumers demand in good locations.

The resulting vacancies will prompt desirable housing and employment shifts, creating wealth and income for all.

6.10 Production Cuts. The housing reforms have thus far decentralized land holdings and privatized building kombinats, while sharply curtailing budget subsidies. The reduction of subsidies has sharply cut publicly financed construction in particular and housing production in general. New private firms cannot fill the gap, partly due to the non-availability of credit from the still emerging commercial banking system. Unless alternative means are found to increase production, the Government will be tempted to issue inflationary credits to inefficient former state construction kombinats and building materials enterprises.

6.11 Competition is Important Now. Local governments still retain strong monopolistic control over development rights and access to all building resources. If competition is not introduced into land and building industries before the political power of monopolistic forces becomes entrenched, the opportunity for reform will likely be lost. In this context, the Project will emphasize competition by liberalizing the supply of developable urban land; by emphasizing a competitive private sector; by introducing competitive bidding for public works; and by developing a competitive building materials industry.

C. PROJECT BENEFICIARIES

6.12 The Project is designed to promote creation of housing markets and does not have a specific poverty alleviation focus. In transition to markets, the first priority is not to build new low-income housing, but to allow people to begin moving; thereby freeing up existing units for others. The Government has stressed in discussions that Russia has an oversupply of social housing suitable for low-income households, but a severe shortage of housing for those who have the resources to move out of the social housing stock and acquire better housing. The Government emphasized that the Project should focus on creating housing markets that would implement these reforms at a local level to help develop private property rights in real estate. In addition, the Government rejected the idea of constructing new social housing, because; it goes directly against the thrust of hard-won market reforms in the sector; relative over-supply of social housing exists; it would tend to revive the old-style building kombinats; and because it could not be done on a replicable basis with reasonable cost recovery.

6.13 As currently designed, the Project would target families below the highest income levels by using developer and underwriting caps-- e.g. maximum loan sizes and residential plot areas -- through both the land development and construction finance Sub-components. This Project would encourage the private sector to expand its activities by moving down the income scale, but it would not, in the short term, target genuinely poor groups. In proposing sub-projects, cities were not asked to target specific population or income groups, but they have generally understood the basic concept of satisfying market demand by configuring designs to keep infrastructure costs low and to encourage smaller units where the market has more depth.

6.14 Affordability Analysis for Land Development Sub-projects. A detailed Affordability Analysis was carried out, for housing proposed under the Land Development Sub-component, based on data from households surveys. The Affordability Analysis is presented in Annex 3.2, Attachment D; the

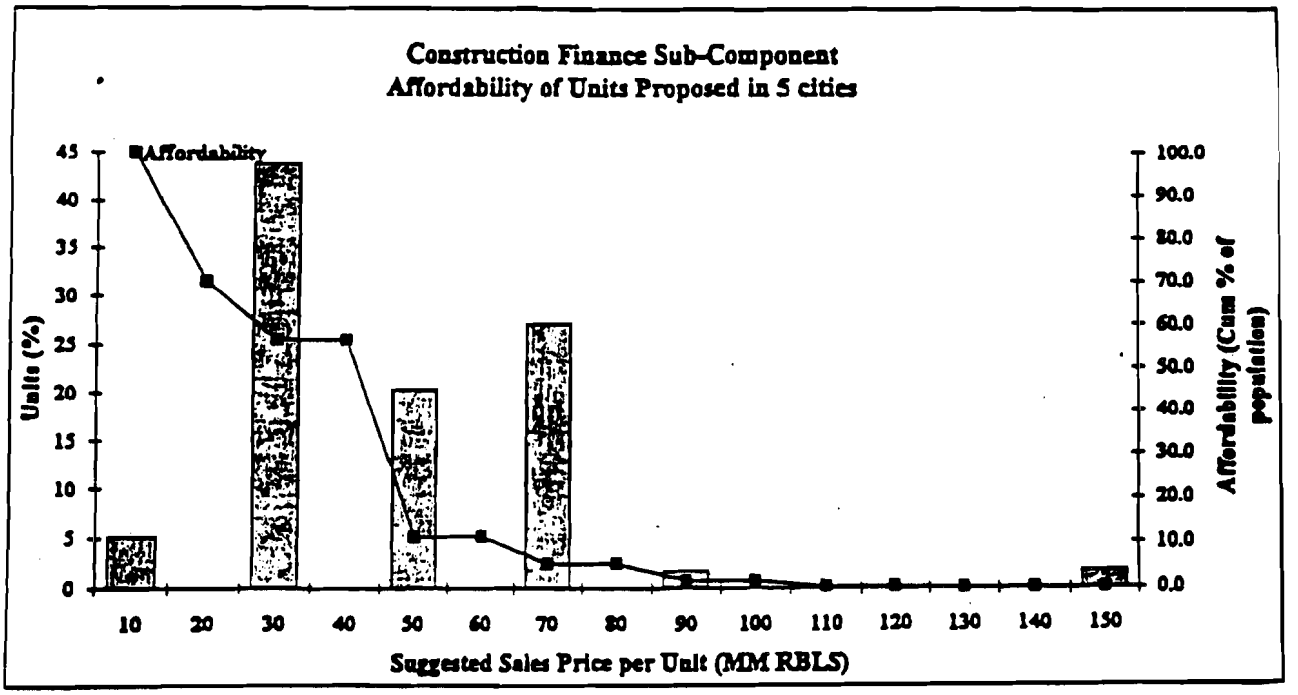
results of the surveys are summarized in Annex 1.4. The surveys found that substantial demand exists for the housing that will be built under the Sub-component. Following are the summaries of findings under the Affordability Analysis:

1. Apartments, which are 70.3% of total number of dwelling units proposed, will be affordable to 10%-40% of the household population across the five participating cities; town houses, which are 26.3% of total number of units proposed, will be affordable to 0.5%-30% of the same number of households, while the single family houses, 3.4% of total number of dwelling units proposed in the first pipeline of sub-projects, are affordable to 0.1% - 0.6% of households that can privatize their apartments across the five participating cities.

2. A large number of houses will be affordable to an acceptably large segment of the population. The median dwelling price ($32,000) is affordable by 20% of families in the five cities, and the median apartment price ($28,000) will be affordable by 30% of families.

3. When compared with the percentage of market that the dwelling units will constitute, its apparent that families that will occupy the Land Development sites will represent less than 5% of the universe of those that could afford them. In other words, the project is reaching out to a fairly large segment of the population, in terms of their ability to afford such housing. In addition, the number of units financed in the project will in no way constitute an oversupply in the expected price ranges.

6.15 Affordability of Units Financed Under the Construction Finance Sub-component. The figure below shows affordability of units proposed in the initial pipeline of the Sub-component.



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The guidelines for construction finance eligibility provide caps on the size of units (e.g. 80 M^2 for apartments, 120 M^2 for town houses, and 150 M^2 for both detached and semi-detached single-family houses.) There are also caps on the maximum credit amounts per unit. In addition, guide-lines cover efficiency requirements in terms of lot sizes, percentage of marketable area on sites etc. These guidelines will direct the use of Bank support for a wide range of dwelling types, but such dwellings must be modest to qualify. The use of construction finance for completion of unfinished housing will result in housing that is particularly affordable to households of most income. In addition, the construction finance sub-component provides support for rehabilitation of existing housing, though this is not the principal focus of the sub-component. An analysis of the pipeline of new sub-projects presented by the developers in the five cities (see Annex 3.4, Attachment A and B), shows that proposed sub-projects are affordable to a broad segment of the population in the cities with at least 50% of the units proposed in the initial pipeline of sub-projects, being affordable to at least 57% of the population. The figure above shows the pipeline in relation to income distribution.

D. ENVIRONMENTAL ASPECTS

6.16 The Project is rated in Category B. An Environmental Review (ER) assessments of proposed land development sites in the initial pipeline have been carried out. A summary of findings of this ER appears in Annex 3.9. The ER has been made available to the Public Information Center of the Bank. The main environmental concerns on the land development side would relate to the infrastructure deficits and a lack of comprehensive information on soil conditions. As a result of such concerns, construction in Rostov was dropped from the Project due to infrastructure deficits and a construction moratorium. Water and sewer infrastructure in Rostov would be reviewed by Bank missions as the subject of a possible separate Bank infrastructure project. In addition, due to the already over-stressed water and wastewater systems in St. Petersburg, the Government has agreed to a mitigation plan costing some US$25 million that would improve small but discrete portions of the water and sewer system serving all of the sites in the northern region of St. Petersburg.[3] The St. Petersburg authorities have written a formal letter to the Bank expressing their willingness to finance these facilities from the loan and indicated that they do not need to immediately finance this package with some of the US$250 million of off-site infrastructure which was previously requested as part of the loan. This responds to the concerns expressed by the Bank that mitigation plans be prepared to assure that the housing constructed under the Project will not reduce treated water supplies to existing population nor increase pollution in the Bay of Finland. Progress in carrying out the intentions of the St. Petersburg authorities would be part of the annual evaluations of project implementation and would influence decisions on whether to proceed for the following offer's program. Regarding soils issues, international engineering consultants have examined each of the sites and determined that there are no obvious problems with regard to soils. Bank missions also were provided with certifications on the safety of soils by relevant Governmental officials. Despite these assurances, given the possibilities of pre-existing issues in industrialized areas of the FSU, missions insisted on reviewing detailed data on soils. These data would be provided during the course of detailed engineering, in accordance with detailed guidelines provided by Bank missions.

3/ Specific actions would include a) constructing a 6km water main; and b) completing capacity additions to the Northern Wastewater Treatment Plant and diverting raw sewage outfalls to treatment facilities.

Relocation of some 16 families is foreseen in Novgorod during the second phase of the project. This would be carried out in accordance with Bank guidelines.

6.17 Environmental guidelines for the construction finance and building materials components would be identical with the ESP, and would, in addition, give priority to environmentally-friendly new building technologies. The guidelines include a procedure for ranking potential sub-projects based on the expected scope of their environmental impact, and the completion of appropriate levels of environmental review and approval in accordance with the procedures established in the ESP environmental manual.

E. PROJECT RISKS

6.18 Summary. The Project is subject to a number of specific risks. The Bank's lack of experience with project implementation in Russia would be offset by careful sub-project preparation, emphasis on early procurement activities, and extensive capacity-building technical assistance. In addition, large physical contingencies would partially offset the difficulty of assessing costs in Russia's rapidly changing macro-economic environment. While the political risk that reforms will falter is endemic, the Government has shown sustained commitment thus far, particularly in housing sector reforms. Moreover, such reforms are supported by the population, and have a high probability of continuing. Special studies show that effective demand is strong in the five cities and would continue to be monitored throughout Project implementation. Moreover, should existing demand falter, the Project would have flexibility to move funds among components and among cities during implementation.

6.19 Land Development. More specifically, on *land development*, the principal risk is that there is no robust land market to provide market-comparable land valuations. By working through local governments, the Project could perpetuate the past planning failures. The Project has countered this risk through five separate and independent sources to verify the demand for the quantity, quality, location and expected price of the housing that will eventually be produced on the proposed sites. These verifications include: (a) housing market surveys[4] in each city supervised by an internationally recognized consulting firm; (b) separate surveys in St. Petersburg and Novgorod by a Russian consultant to determine the sources of funds to purchase housing; (c) a series of briefings with real-estate brokers, soliciting specific reactions to the proposed sites; (d) meetings with "at risk" private developers; and (e) an independent check on housing transactions, sales prices, income and capital assets conducted by a statistical economist employing recent and historic data. The second risk is that land remains a speculative store of value against inflation. Land prices could be highly volatile and cities could be encouraged to become land speculators, withholding supply. The Project is responding to this risk by focusing on land disposition policies as a prerequisite for financing. By using auctions for land and commercial banking finance for housing, the Project is designed to minimize the risk that local governments will treat the Project as a grant, not as a loan.

6.20 Construction Finance. On *construction finance*, the Project faces three principal risks. The first risk may be attributable to institutional weaknesses. Private commercial banks are new to

4/ Including a household survey, transaction survey, and developer survey in each of the proposed cities.

commercial banking functions and term financing would be an added element of risk for them. The FIDP would provide the general technical assistance related to commercial banking procedures. Specific technical cooperation in real estate appraisal and underwriting would be provided to the banks during Project implementation. The second risk stems from the considerable price distortions due to unstable macroeconomic situations and inflation in the housing sector itself. Some degree of alleviation is provided by the fact that the subloan will finance demonstration projects which will have a high advertising coverage and consequently will sell easily. The third risk associated with many lines of credit is a lack of loan demand due to procurement rules which are difficult for established developers (and newcomers alike) to apply. This risk has been substantially alleviated by allowing developers to undertake their procurement in accordance with established commercial practices in which disbursement is founded on the percentage of completion rather than reviewing specific subcontracts.

6.21 Equity Matching. On *equity matching*, the first risk is that reform will whither and barriers to competition from new entrances will be fortified. In this event, equity investors will not be interested, the component will not disburse, and funds allocated will be cancelled or used by the other components. The second risk is that the proceeds of the loan will flow to corrupt enterprises, resulting in the misdirection of funds. This risk is mitigated by the "due diligence" process in checking equity contributions and feasibility studies and also by requirements of eligible investors and shareholders. The third risk is the PBs would be unwilling to make the term loans (2-8 years) for the component. The risk is greater for the relatively longer term lending (4-8 years). If this happens, some otherwise viable ventures would not receive findings and the EMLOC sub-component would take longer to disburse. The Government is on notice that if the EMLOC is not 20% committed within one year of effectiveness, the Bank may exercise its privilege under the General Conditions to cancel the component and reduce the corresponding amount of the loan.

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STAFF APPRAISAL REPORT

RUSSIAN FEDERATION
HOUSING PROJECT

VII. AGREEMENTS AND RECOMMENDATIONS

A. PROJECT AGREEMENTS

7.1 Agreements and conditions would be as follows:

a. ***During Negotiations, agreement was reached on:***

1 Annual reviews to program investments for the following year (para 5.11);

2. Local implementation of action plans satisfactory to the Bank (para 3.6);

3. Reflows to be used for general lines of credit and construction finance to Participating Banks and for similar land development sub-projects in participating and other cities (para 4.15);

4. Guidelines for Construction Finance and Equity Matching Lines of Credit. Such guidelines cannot be changed without agreement of Bank (Para 3.26 and 3.36);

5. The Subloan amount for each site is limited to 80% of expected revenues from that site;

b. ***Prior to Bank Loan Effectiveness:***

1. CPIU established and director appointed (para 5.2)

2. General consultants hired for project management (para 5.7 and 4.0)

3. Participating City Loan Agreements signed by Federal Government with at least 3 local governments (para 4.12);

c. ***Prior to Participating City Loan Effectiveness***

1. Establishment of a Local Project Implementation Unit (para. 5.7)

2. Adoption of a regulation on property title registration and procedures on land auctions (para. 3.6)

3. Establishment and funding of a project account (para. 5.7)

d. Prior to Disbursement

1. Of Land Development and Construction Finance Sub-components in each city:

   (a) Corresponding Participating City Loan and Implementation Agreements effective.[1] (para 4.4)

2. Of Construction Finance subcomponent and EMLOC component:

   (a) FIDP loan effective (para. 4.44)

   (b) Subsidiary Loan Agreements signed with at least two banks for the EMLOC component and two banks for construction finance subcomponent (para. 4.44)

B. RECOMMENDATIONS

7.2 The proposed Housing Project constitutes a suitable basis for an IBRD loan of US$400 million equivalent to the Russian Federation for a period of 17 years, including a five-year grace period, at the Bank's standard variable interest rate.

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1/ Except for Moscow.

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION
HOUSING PROJECT

ANNEX 1.1
MAJOR LAWS, DECREES AND RESOLUTIONS RELATING TO HOUSING REFORM

A. INTRODUCTION

1. This annex presents a brief outline of the major laws, decrees and resolutions relating to housing reform. A summary of federal legislation is presented in the attached table.

B. CONSTITUTION

2. Constitution of the Russian Federation, December 12, 1993. Approved by referendum, it recognizes private, state, municipal and other forms of ownership over land, all with equal status under the law. It establishes the basic rights to land and housing and defines intergovernmental relations with respect to issues of land and housing.

C. FUNDAMENTAL LAWS

3. Civil Code of the Russian Federation (Part One) October 21, 1994. The recently enacted Civil Code contains extensive material on land and housing rights. The land provisions of the code (Section 17) are subject to enactment of the new land code.

4. Fundamentals of Civil Law of the USSR and the Republics, May 31, 1991; Reenacted by Russian Supreme Soviet July 14, 1992. Adopted prior to the dissolution of the USSR, this law was reenacted by the Russian Supreme Soviet as the fundamental principles of civil law for the Russian Federation.

5. The Civil Code of the RSFSR, June 11, 1964, as amended. The RSFSR Civil Code remains effective to the extent not contradicted by the Fundamentals of Civil Law, and addresses many of the same issues as the Fundamentals of Civil Law. A restatement of the Civil Code passed on its second reading in the State Duma in June, 1994 and awaits final enactment.

6. Code of Civil Procedure of the RSFSR, June 11, 1964, as amended. The Code of Civil Procedure addresses the procedural issues of enforcement of secured claims.

7. Fundamentals of the Housing Legislation of the USSR and the Union Republics, June 24, 1981. The basic housing legislation of the USSR survives and is one of the main sources of law for issues in the housing sector. This law will be replaced by the Federal Housing Code presently in development.

8. Land Code of the RSFSR, April 25, 1991. This Code sets out the basic rules for land ownership, use and disposition. A restatement of the Land Code is under consideration by the State Duma.

D. HOUSING

9. Presidential Decree On Measures to Provided for Completion of Unfinished Apartment Houses, No. 1181, June 10, 1994. Residential structures left incomplete in the past several years for lack of funds may be sold by the original developer at auction or tender to raise funds for completion.

10. Presidential Decree On Issue and Circulation of Housing Certificates, No. 1182, June 10, 1994. Permits registered housing developers to issue housing bonds to the public.

11. Presidential Decree On Approval of the Provisional Regulations on Condominiums, No. 2275, December 1993. This decree governs the creation and operation of legal entities called "condominiums" which are created for the purpose of building and managing jointly owned housing projects. The Decree requires that a law on condominiums be prepared by Fall, 1994.

12. Russian Federation Government Decree On Approval of the Regulations on Allocation of Allowances (Subsidies) Free of Charge for Construction or Purchase of Housing to Citizens in Need of Improved Housing Conditions, November 3, 1993. These regulations specify the procedures for allocation of subsidies for construction and purchase of housing to certain categories of citizens in need of improved living conditions (i.e., on the waiting list for new housing).

13. Decree of the Russian Federation Council of Ministers On Transition To A New System for Rent and Communal Services Payment and Procedure for Providing Compensation (Subsidies) for Rent and Communal Services Payments, No. 935, September, 1993; as amended by Council of Ministers Resolution On Addition to the Resolution of the Council of Ministers of September 22, 1993, December 23, 1993. This decree provides for gradual increases in rents and payments for communal services in social housing, and implementation of a housing allowance program.

14. Law on Fundamental Principles of Federal Housing Policy, December 24, 1992. This law sets out the main policy objectives and role of the federal government in the housing sector. It addresses such issues as housing allowances; increasing rents and utility charges; condominium and other common ownership structures; and rights of tenants in public and private housing.

15. Law On the Privatization of the Housing Stock in the RSFSR, July 4, 1991, as amended, by the Law of the Russian Federation On Introducing Changes and Amendments into the Law of the RSFSR On Privatization of the Housing Stock in the RSFSR, December 24, 1992. The Privatization law sets out the basic principles for privatizing state, municipal and enterprise housing.

16. Law on Ownership on the Territory of the RSFSR, July 14, 1990. The Law on Ownership is the basic law dealing with property rights in property of all types, including housing, and also addresses such issues as forms of joint and common tenancy and rights to pledge and mortgage owned property.

E. LAND

17. Presidential Decree On Modifying Land Laws of the Russian Federation to be in Accordance with the Constitution of the Russian Federation, No. 2287, December 24, 1993. This decree repeals many of the provisions of the 1991 Land Code as well as provisions of other minor land laws asserted to be in conflict with the principles of the 1993 Russian Constitution.

18. Presidential Decree On Tax Payments for the Sale of Land Parcels and Other Operations in Land, No. 2118, December 7, 1993. Taxes gains from land transactions as ordinary income.

19. Presidential Decree No. 1767 On the Regulation of Land Relations and the Development of Agrarian Reform in Russia, October 27, 1993. This decree was intended primarily to address the reallocation of agricultural land from the state and collective farms to individual farmers. It accomplishes that goal essentially by providing for the issuance of shares representing land interests to the collective farmers individually and permitting them to request an in-kind allocation of land or to trade the land shares among themselves. With respect to urban land issues, the new decree appears to clarify and restate some principles that can be found in earlier laws.

20. Presidential Edict On Additional Measures for Allotting Tracts of Land to Citizens, No. 480, April 23, 1993. This Edict reinforces the earlier decrees requiring local governments to make land available to citizens for private housing construction and garden plots in ownership, lease or life inheritable possession. Local governments are required to (1) inventory land available for distribution, (2) adopt systems for registration of land titles, (3) issue appropriate documents of title, and (4) re-register land rights granted prior to commencement of the land reform program.

21. Council of Ministers Resolution No. 503 On Approval of Procedure for Plots of Land Purchase and Sale, May, 1993. This decree regulates the private sale of land plots between citizens for individual garden plots, dachas and individual housing construction.

22. Law of the Russian Federation On the Rights of Citizens To Acquire As Private Property and To Sell Tracts of Land To Conduct Private Subsidiary Farming and Dacha Economies, Horticulture, and Private Housing Construction, December 23, 1992. This law permits the private sale of land plots which are used for garden plots, dachas, horticulture and private housing construction, provided the use is not changed. The form of land sales contract is to be approved by the State Committee on Land Resources and Land Management (Roskomzem).

23. Presidential Decree On Regulation of Lease and Privatization of Leased Property of State and Municipal Enterprises, No. 2249, October 14, 1992. Among other things, this decree establishes the State Property Committee as the lessor with respect to real property owned of state enterprises, and the Property Committee of lower levels of government as lessors of real property owned by enterprises of lower level governments.

24. Presidential Decree No. 631 On Procedures for Sale of Land Plots During Privatization of State and Municipal Enterprises, June 14, 1992. This decree is a refinement and elaboration of

Decree No. 301. It deals with the sale of land rights to owners of privatized State and Municipal enterprises and to citizens for business ("entrepreneurial") ventures.

25. Presidential Decree No. 301 On the Sale of Tracts of Land to Citizens and Legal Entities During Privatization of State and Municipal Enterprises, March 25, 1992. This decree authorizes for the first time the sale of land to privatizing enterprises and individuals engaged in commercial (entrepreneurial) activities.

26. Procedure for Estimating Land Tax Rates From Normative Land Cost, February, 1992. This procedure governs implementation of local land taxes and ties local taxes to normative land prices and tax rates established in the Russian Federation Law on Payment for Land.

27. Decree of the President of the Russian Federation On Urgent Measures to Implement Land Reform in the RSFSR, No. 323, December 27, 1991. This decree provides for the privatization of collective farms and the reallocation of surplus agricultural land for non-agricultural purposes. It includes a concept of local government land banks.

28. Law of the RSFSR On Payment for Land, October 11, 1991, as amended. This law provides formulas for determining the transfer price, annual tax or lease payment on land transferred to private ownership.

F. MORTGAGE LAW

29. Presidential Decree On Housing Credits, No. 1180, June 10, 1994. This decree sets out rules to encourage private sector mortgage lending to individuals and developers.

30. Presidential Decree On Development and Introduction of Non-Budget Forms of Investing Into the Housing Sector, No. 2281, December 24, 1993. This decree would (1) require the implementation of further regulations governing private mortgage lending; (2) establishes a new federal agency ("Federal Agency for Mortgage Lending") authorized to regulate the mortgage banking industry and engage in secondary market activities; (3) promotes local and regional housing development corporations ("Foundations for Housing Development"); (4) establishes a down payment assistance program; (5) and requires issuance of regulations governing "housing notes" or other types of housing securities now gaining favor in the Russian market.

31. Russian Federation Law on Collateral, May 29, 1992. This is the basic law on secured financing transactions of all types, including pledge, chattel mortgage and real property mortgage. It is a law of fundamental principles. A new law of real estate mortgage (hypothec) has been introduced into the State Duma by the Government.

G. PLANNING AND LAND USE REGULATIONS

32. Council of Ministers Decree On Approval of the Procedures for Exercising State Control Over the Utilization and Protection of Land in the Russian Federation, No. 1362, December 23, 1993. Among other things, allocates responsibilities for land use regulation among federal agencies.

33. Government Decree No. 346 On The Land Reform and Land Resources Committee of the Russian Federation, May 26, 1992. This decree describes the authority of The State Committee on Land Reform and Land Resources and Land Management (Roskomzem) and its local branches in the sphere of land allocation and land use regulation.

34. Russian Federation Law On The Bases For Urban Development in the Russian Federation, July 14, 1992. This is a law of fundamental principles which provides a general structure for urban planning activities of the federal and local governments and addresses the allocation of land by governments for private development enterprises. A new Code of Town Planning has been introduced into the State Duma.

H. LAND AND PROPERTY REGISTRATION/CADASTRE

35. Decree No. 2130 of the Russian Federation President On State Land Cadastre and Registration of Documents on the Rights to Real Property, December 11, 1993. This decree calls for the State Property Committee (GKI) and the State Committee on Land Resources and Land Management (Roskomzem) to jointly draft a uniform system for land registration. Roskomzem has already drafted a "Land Book."

36. Government Decree No. 346 On The Land Reform and Land Resources Committee of the Russian Federation, May 26, 1992. This decree outlines the role of Roskomzem in creating the State land cadastre.

37. Statute On the Management Order of the State Land Cadastre; Enactment No. 622 of the Russian Federation Government, August 25, 1992. This governmental decree is essentially an administrative order implementing the cadastral provisions of the Land Code. It includes the requirement to register information on the "juridical status" of land, including rights of ownership and lease and permitted uses. The actual work of creating and maintaining the cadastre is delegated to local government.

I. FEDERALISM/INTERGOVERNMENTAL RELATIONS

38. Russian Federation Law On Fundamentals of the Tax System, December 27, 1991, as amended by On Introducing Changes and Amendments to Certain Russian Federation Tax Laws, December 22, 1992. Describes basic tax concepts, types of taxes, and the allocation of taxing authority among the various levels of government.

39. Law On Kray and Oblast Soviets of Peoples' Deputies and Kray and Oblast Administration, March 5, 1992. The krays and oblasts are independent governments of general jurisdiction that are not Republics. This law addresses the same issues with respect to these governments as are addressed with respect the Republics' powers in the Federal Agreement, but also addresses rights of political participation and administrative procedure in these jurisdictions.

40. Law of the RSFSR On Local Self-Government in the RSFSR, July 6, 1991. The Law of Local Government is essentially a "home rule" enabling act and code of political rights and

administrative procedure applicable to municipalities and local governments in the Federation below the Republic, kray and oblast level.

STATUS OF PENDING LAWS AND REGULATIONS AT THE FEDERAL LEVEL AFFECTING HOUSING AND URBAN DEVELOPMENT IN THE RUSSIAN FEDERATION AUGUST 1, 1994

LEGISLATION	STATUS	ESTIMATED COMPLETION DATE
	PENDING FEDERAL LEGISLATION	
The Civil Code	The Civil Code is the major initiative in civil legislation. Its relevance to housing and urban development lies in its extensive provisions on fundamental property rights, including rights to land, buildings and housing; the definitions of forms of property tenures; as well as its civil law framework for the contractual relationships necessary for financial and property markets. Part One of the Code was enacted on October 21, 1994, but effectiveness of the land provisions of the code (Chapter 17) was made subject to enactment of a new land code.	Part One enacted October 21, 1994
The Land Code	The Land Code is a revision of the existing 1991 Land Code intended to bring the land law into compliance with changes to the Constitution and the accumulated changes to land rights made through Presidential Decree and other Federal Law since 1991. Competing versions of the Code have been introduced into the Duma by the State Land and Property Committees. If either of those drafts is enacted, the Code would firmly establish some of the conceptual progress of recent years, create several new rights, including the general right to own land for any entrepreneurial purpose and the right of juridical entities to own land, but would also retain many of the fundamental land concepts of the Soviet era, most particularly the peculiar forms of property tenure and extensive state control over the use of agricultural land. However, at this time a draft prepared by agrarian interests in the Duma, which is more conservative than the other drafts, appears to be the focus of legislative attention. In the opinion of some, the enactment of the agrarian draft would be a temporary setback for landed property rights.	End of 1994

The Housing Code	The Housing Code is a restatement of the existing 1982 Code intended to codify the many changes to housing law made since 1992 and begin to focus some attention of the law on the needs of private markets rather than the social housing sector. While considered important, the Housing Code is not a priority of the government, perhaps partially because the housing privatization and reform efforts have been proceeding so well under a combination of new federal laws, resolutions and decrees enacted in the past few years. Enactment of the Code is on the current legislative agenda but it is unlikely to be enacted before mid-1995.	Mid-1995
Law of Title Registration	The State Land Committee, State Property Committee and Ministry of Justice have been authorized under Presidential Decree 2130 to prepare the law and procedure for a national system of unified real estate registration. The bureaucratic conflicts between the Land and Property Committees over which agency will have control over the system have prevented action. Roskomzem prepared and delivered to the Property Committee in May, 1994 a complete draft of registration law and accompanying documentation, but this draft has not moved. While there is no law officially before the Duma, the Duma has through working committees taken up the issue on its own, and has prepared a draft law. Pressure is building to reach resolution of this issue in 1995, some of which is caused by the condition included in World Bank loan No. 3756-Ru, that an acceptable title registration system be adopted.	Mid-1995
Law of Real Estate Mortgage	The Ministry of the Economy has drafted and submitted to the Duma on behalf of the Government a draft Law On Real Estate Mortgage. The law is essentially a code that details the broad provisions on real estate mortgage found in the 1992 Russian Law On Collateral. It would clarify rights, forms, procedures, registration and enforcement. While it is on the President's legislative agenda, and considered a priority, the accumulated legislation to date, including the President's June 10, 1994 Decree On Housing Credits, may be sufficient for the time being. In any event, the law is likely to take a lower priority to the issue of title registration when that law ultimately is brought before the Duma. In October, 1994 an Interminsterial Committee was empaneled to resolve differences in drafting a mortgage law.	Mid-1995

Law on Urban Planning	The pending Law on Urban Planning would be a code detailing the 1992 Fundamentals of Town Planning and introducing several new concepts such as area wide zoning. Its intended purpose is to move away from federal control of local planning and land use, which has happened de facto in any case, and to establish more flexible planning principles to be implemented by localities. Prepared by Minstroi, as might be expected, recent drafts nevertheless retain significant federal involvement in planning and land use issues. A draft of the law was submitted to the Duma in June, 1994. It is of low priority, and it is possible that the issues will be addressed in a Presidential Decree before a law can be enacted. A related law on functional zoning of urban territories has been prepared by Minstroi and circulated in the government for comments.	Mid-1995
Law on Condominium	The February, 1994 Council of Ministers provisional Regulation On Condominiums was to be followed in September, 1994 with a national law and recommended form of condominium charter. The law is being prepared by Minstroi at this time. While it is unlikely to be enacted on schedule, it will likely be enacted in 1995. In any event, the absence of the law has not created any serious obstacles to progress, as many Russian cities are proceeding with condominium formation on the basis of the provisional regulation, their own regulations and legal documents of their own design.	Mid-1995
Regulation on Land Privatization	Several attempts have been made to enact a regulation governing the privatization of land by municipalities and regions through auction and competitive tender processes. A December 10, 1993 regulation issued by the Council of Ministers was revoked on December 24, 1993 by a Decree of the President. A new draft has been prepared by Roskomzem. As in other areas of the law, the importance of the regulation is unclear; some cities and regions take the position that the use of auction and competitive tender is already sanctioned under federal law and they proceed on the basis of regulations of their own design. Where there is a local will to proceed, the absence of this law has apparently not been viewed as an impediment.	End of 1994

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 1.2
APPLICATION OF LAWS AT THE LOCAL LEVEL

A. PROPERTY RIGHTS TO LAND AND HOUSING

1. This Annex contains a review of local regulatory actions including the current implementation status federal housing and land legislation. Also attached is a brief summary of local regulatory programs and pending laws in a table format.

2. Sale or grant of individual building lots to citizens for individual home construction is widespread and has been pursued to some extent in each of the cities in which the housing project will operate. The City of Nizhny Novgorod, for example, has conveyed several thousand individual construction lots into private ownership.

3. It has become commonplace in Russia for local governments and collective farms to convey land for subdivision to developers under right of lease, use or construction, with the expectation that upon construction of the housing the housing purchaser will apply to the local administration for ownership of the plot of land on which the house is located. The process is described in detail in Butler, The Legal Basis for Land Allocation in the Russian Federation, The Urban Institute, 1993.

4. Each of the participating localities has at least one experience of conveying land to domestic or foreign developer or investors for the development of private sector housing.

5. Most of the localities participating in the program have taken steps to create a process for allocation of land plots. The Oblast of Nizhny Novgorod, for example, has enacted a regulation on the auction and tender of land plots and has recently held two auctions of plots - the first of individual construction sites and the second of garden plots. The City of Nizhny Novgorod has prepared drafts of a municipal policy on land allocation and its own regulation for auction or tender of municipal land.

6. The City of Novgorod has also prepared draft local regulation on auction and tender of land plots as well as drafts of the necessary conveyancing documents such as contracts of purchase and sale of individual land plots and lease contracts for other land conveyances.

7. St. Petersburg has recently enacted its regulation (No. 585-r, June 6, 1994) on the auction and tender of municipal property, and has begun to dispose of municipal property under the supervision of the City Investment Tender Commission created under the regulation.

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B. REGISTRATION OF PROPERTY TITLES

8. Each of the participating localities has some system of registering titles to land and privatized housing. The systems now in place generally consist of registration of land interests with the local land committee and registration of interests in housing with the local Bureau of Technical Inventory ("BTI") or a specially designated housing registry. However, each of the cities is taking steps beyond the existing system of registration with designs for creating modern systems of juridical, fiscal and physical cadastre.

9. St. Petersburg. The City Land Committee has been working in cooperation with other local agencies, in particular the Tax Inspectorate, for over a year on implementing a unified system of title registration. The Land Committee has also worked with various foreign consultants o the development of appropriate hardware and software systems to create a unified system of juridical, fiscal and physical cadastre for the entire city. The system has been demonstrated and refined and now awaits implementation if and when the necessary funding becomes available.

10. Barnaul. The City of Barnaul has designated the local BTI to create and operate for the city a unified system of title registration that would register interests in land and structures. The system would collect data from the land committee on land rights and together with the data on rights to housing and other structures already held by the BTI create a unified, legally sanctioned title registry.

11. Novgorod. The city land committee and BTI have begun a program of consolidating registration data on land and structures with the aim of creating a single, unified title registry. A this time the two agencies are using the same registration software.

12. Nizhny Novgorod. The City of Nizhny Novgorod has created a City Cadastre Bureau with the mandate to experiment with the consolidation of real estate registration data into a single, unified legal registry. The city is presently drafting regulations and procedures for registration that will implement the unified registry by Fall of 1994.

13. Tver. The City of Tver has created a municipal working group to plan the creation of a single, unified title registry for land and structures.

C. MORTGAGE

14. Lending institutions throughout Russia are beginning to implement mortgage lending programs, primarily for individual home purchase or construction . In the participating localities, the Nizhny Novgorod Land Bank, in cooperation with the Oblast, which is providing home purchase down payment subsidies, and the local GAZ Motor Works, which is providing repayment guarantees for its employees, has begun a program of individual mortgage lending. Similar programs have been begun in Moscow by Mossbusinessbank and Menatep Bank for their own employees. There has been created an Association of Russian Mortgage Banks having over 50 members to act as trade association to promote private mortgage lending.

D. HOUSING REFORM

15. As of July 1, 1994, all of the participating localities have begun a program of increases in rents and communal services charges.

16. Under the authority of the Provisional Regulation On Condominium, several Russian cities, most prominently Ryazan and Yaroslavl, have begun aggressive programs of creating condominium associations in privatized buildings. To date, Ryazan has created approximately 15 operating condominium associations.

STATUS OF LOCAL REGULATIONS AND PENDING LAWS AFFECTING HOUSING AND URBAN DEVELOPMENT IN THE RUSSIAN FEDERATION		
LEGISLATION	**STATUS**	**ESTIMATED COMPLETION DATE**
	TITLE REGISTRATION	
Local Regulation	A condition of loan disbursement under the land development and construction loan components is that an acceptable local title registration system be in place prior to loan disbursement. In most cases at present this will require enactment of a local regulation to clarify the local system.	This work has begun in most of the cities and should be completed by June,1995.
Technical Assistance	Technical assistance in the design and implementation of real estate title registration systems will be provided under the USAID program of assistance to the Russian Federation. The five cities participating in the program are at different levels of sophistication in the design and implementation of their own systems. The technical assistance provided would be tailored to the needs of each city. Each city has prepared and submitted to the project staff a general outline of the program they wish to pursue and the types of assistance requested.	A significant seminar on title registration was held for the participating cities and federal officials in Moscow in January 1994. Ongoing consultations between the cities and project staff have continued since then. Further progress on these issues will depend upon the level of commitment made under the USAID technical assistance program. Assistance to at least two of the cities commenced in August, 1994.

Implementation	Implementation of the tile registration system has begun in one form or another in each of the cities. Most cities have at least a paper registration system for land and for housing privatization. Some cities have sophisticated computer models that are implemented at least on an experimental basis. The program anticipates that a satisfactory system of registration will be in place at least within the administrative district in which the projects are located in each city.	Implementation work has begun in all cities. Implementation in at least the project districts is anticipated by June, 1995. Implementation throughout the entire municipality will proceed in most cases based on the availability of budget resources or other sources of funding such as the USAID technical assistance program. The pace and quality of implementation will depend upon the level of commitment of the USAID program.
	LAND PRIVATIZATION	
	Each city is expected to have adopted its own regulation and legal documentation to dispose of land to the private sector through auction or competitive tender procedures. The regulation will be expected to apply at least to the project sites.	This work has already begun in most cities. St. Petersburg has a regulation already, as does Nizhny Novgorod. The city of Nizhny Novgorod has draft regulations. The necessary regulations are expected to be in place in each city by June, 1995.
Technical Assistance	The cities need technical assistance in the procedures of land privatization, including forms of regulations; legal documentation; site selection, planning and pricing; offering documents; advertising, bid selection and negotiation.	It is anticipated that technical assistance will be provided under the USAID program. Programs for the cities of Tver and Nizhny Novgorod are in the planning stage at this time under the auspices of the Urban Institute Shelter Sector Reform Project. Commencement of programs in the remaining cites will depend upon the timing and level of commitment of the USAID technical assistance program.
Pilot Demonstrations	It is proposed to take each city through a structured auction or tender procedure for one or more sites prior to the time when the project sites will be available.	The demonstration auction proceeding will be the culmination of the land privatization technical assistance program and is presently anticipated to occur no later than April, 1994

LAND USE REGULATION		
Federal Technical Assistance	Technical assistance has been offered to the Federal government to assist Minstroi and its technical institutes to review and modify federal building and construction regulations in accordance with internationally accepted standards.	Will be an on-going process.
Federal Regulations	Based upon the technical review of federal standards, modifications would be introduced into the present building and construction codes.	Will be an on-going process.
Local Technical Assistance	The cities need technical assistance to review and appraise present land use, architectural and building codes, particularly in light of the trend toward turning greater responsibility for these matters back to localities. Issues of interest to the cities include appraisal of the costs and efficiencies of present codes; consideration of the role of the master plan; alternative models of land use regulation; development of administrative procedures for land use approvals; and defining the role of the public and the emerging private sector development community in the land use approval process. Most cities have embarked upon their own reform program in this area, but it has low budgetary priority and progress will depend upon the availability of funding and other forms of assistance,	A broad program of aid in local land use regulations has been proposed to be funded under the USAID technical assistance program, beginning with detailed appraisals of the present local codes. Progress in these areas will depend upon the timing and level of commitment of the USAID technical assistance program.
Local Regulations	Modification of local regulations would follow the appraisal of local codes.	Will be an on-going process.

HOUSING REFORM		
Technical Assistance	All of the regulatory areas targeted by the program impact the pace and quality of housing reform in some way. The action program of the project presently focuses on two practical aspects of creating a truly private housing sector housing in an environment where most private housing will be of the multifamily type. The two areas of attention are creation of condominium associations and support for private sector building management capability.	The technical assistance to the project cities will be provided by the USAID/Urban Institute Russian Shelter Sector Reform Program. The program presently focuses on economic reform of the social housing sector; housing allowances implementation; common ownership and private building management; and retail housing finance. The program has agreed to include the project cities, with emphasis on the issue of creation of workable forms of common ownership and private building maintenance and management. A memorandum of understanding on technical cooperation has been signed with the Oblast and cities of Nizhny Novgorod, and preliminary missions have been made by housing advisors to St. Petersburg, Tver, and Novgorod. It is anticipated that the technical cooperation program in each of the cities will commence no later than September, 1994 and continue over a period of several years.
Condominium Regulation	The Federal Law On Condominiums is scheduled for the fall of 1994. It will likely require some local enabling legislation which the cities are being encouraged to enact.	Assistance will be available through the technical cooperation program to prepare necessary local regulations and legal documentation.
Condominium Demonstration	It is proposed that one or more individual buildings will be selected in each city for a demonstration project in the creation of a condominium association and intensive management training for the new owners.	Commencing October , 1994

Private Management Demonstration	It is proposed that the participating cities be assisted with the process of encouraging privatization of municipal building maintenance companies; developing the forms of legal relationships for private building management and maintenance of both social and private housing; and contract bidding and supervision.	Commencing October, 1994

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STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 1.3
HOUSING POLICY IN RUSSIA

A. INTRODUCTION

1. The following is a summary of the legislation and decrees that best describe the Housing Policy in Russia today. This statement of Housing Policy has been prepared by the Department of Housing Policy of Minstroi, on behalf of the Interministerial Group on Housing Reforms.

2. Since the summer of 1991, the Russian Federation has made significant progress in building the legislative foundation for private ownership for housing. The rights of private ownership and sale of residential property has been incorporated into the USSR and Russian Federation Laws on Ownership within the period before the reforms started (Laws of 1981 and 1983). The Law "On Privatization of the Housing Stock in the Russian Federation" enacted in 1991 and amended in December 1992, ("On Introduction of Changes and Amendments to the Law of the RSFSR "On Privatization of the Housing Stock in the Russian Federation," No. 4199-1), while primarily a vehicle for transferring state and municipal property to private ownership, has also established the rights to own and freely dispose of residential property (Article 3). The Law On Fundamentals of Federal Housing Policy (December 24, 1992, No. 4219-1) establishes the rights to own, use, dispose of and mortgage residential property (Article 6). Such rights extend not only to the individual owner, but to those natural or juridical persons who build housing for profit -- the "developers," as defined in the Fundamentals of Federal Housing Policy.[1] Combined with the private property rights to land for residential use, the ownership of a permanent or summer home in Russia today is taking the shape of the equivalent ownership rights as that existing in market economies.

3. A comprehensive statement describing the Russian Housing Policy must wait for the enactment of the restatement of the Housing Code. Until then the Law on Fundamental of Federal Housing Policy (December 24, 1993), "Housing" State Targeted Program (June 20, 1993) and a recent set of decrees and legislation describe the nature of Russian housing policy. This annex presents a summary adopted from the decrees and legislation that best describe the Housing Policy in Russia today.

B. A SUMMARY OF ENABLING REGULATORY FRAMEWORK

4. The New Civil Code. The Civil Code of the Russian Federation enacted on October, 1994, promises to have far reaching effects on all aspects of land and housing relationships. The new code deals in a fundamental way with issues of property rights of land and housing as well as contractual

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1/ However, developers, being juridical persons, do not have the right of absolute ownership of land. They are limited to use rights and leasing of land.

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relationships involved in purchase, sale, and mortgage of real estate. The law was enacted only recently, and is dependent on enactment of additional laws (including the land code, condominium, registration, and mortgage laws), so it is too early to assess its ultimate impact.

5. The New Constitution. The housing provisions of the new constitution (Article 25 on inviolability of a house and Article 40) reaffirms the right to housing and postulates that the federal and lower levels of government "encourage housing construction and create the conditions for exercising the right to housing." The final provision, however, gives the state the task to provide housing "free or at affordable cost to low-income and other citizens indicated in the law." This represents a shift from the amendments to the prior constitution a year earlier which provided all citizens who needed to improve their living conditions with a right to rent free housing within the norm. Article 40 reasserts state responsibility towards groups of law income citizens with special status and harkens back to the pre-perestroika constitutional guarantee of government provision of low cost housing to all citizens.

6. Housing Privatization. The law "On the Privatization of the Housing Stock in the Russian Federation" is one of the key policy initiatives in the sector. Enacted in July 1991, it lays the groundwork on reorienting the housing sector towards market principles. The law is built on the previous legislation and the ideas put forth in the preceding months by several cities. It was amended in December 1992 to accelerate the rate of privatization. One of the most far reaching changes implied by this amendment was to make free-of-charge privatization mandatory.

7. Law on Fundamentals of Federal Housing Policy. Enacted in December 1992, the Law on Fundamentals of Federal Housing Policy constitutes the basic law on housing rights. The Law lays down a general enabling framework for more specific pieces of legislation. The law defines (a) the concept of real estate and the rights of home ownership, (b) requires local governments to provide or sell to individuals and developers with plots of land for housing construction, (c) enables provisions for condominium associations, (d) calls for the gradual phasing out of subsidized rents, (e) introduces housing allowances for groups with special status under the law, and (e) lays the ground for mortgage finance by introducing the concept of eviction. These laws fundamentally alter the economics of the Russian social housing sector by increasing rents, utility and maintenance costs to market levels and basing housing subsidies on demonstrated financial need. To implement key provisions of the Law, the Government has enacted several Presidential Decrees. The salient ones among these are reviewed in the sections below.

8. "Housing" State Targeted Program. Approved by the Government on June 20, 1993, the program is the most comprehensive policy statement available for the sector as a whole. Although it is largely an amplification of the contents of the major pieces of legislation already enacted, but it also outlines new policy initiatives. For instance, the program introduces tax incentives for housing, recommends to establish the Agency for Mortgage Lending to act as a liquidity facility and regulator for long-term housing lending, and calls for a major shift in the housing production, away from heavy panel buildings to single-family and cooperative housing.

C. POLICIES RELATING TO SPECIFIC AREAS OF THE HOUSING SECTOR

9. Increasing Rents and Introducing Housing Allowances. The program introduced in the Fundamentals was implemented in the Council of Ministers - Government of the Russian Federation Resolution "On Transition to a New System for Rent and Communal Services Payment and the Procedure of Providing Compensation (Subsidies) to Citizens for Rent and Communal Services Payments" (No. 935, September 22, 1993). This regulation provided a phased schedule for eliminating subsidies to communal services organizations, authorized the local programs of housing allowances, and required public housing maintenance organizations to convert to contractual relationships with municipalities.

The five-year phased program anticipated by the Fundamentals and Resolution 935 was recently modified by Council of Ministers Resolution, "On Additions to the Resolution of the Council of Ministers of September 22, 1993, No. 935" (Council of Ministers Resolution No. 1329, December 23, 1993) which authorized localities to design their own timetable for rent and communal adjustments based upon their economic condition and ability to implement housing allowances, provided that the entire phase out process is to be completed by 1998.

10. Condominium Laws. In the private housing sector, Federal regulations on condominiums were enacted in Council of Ministers Resolution "On Approval of Temporary Provisional Regulations On Condominium" (No. 2275, December 23, 1993). This regulation provides the basic legal framework for creating condominium associations in privatized buildings. having three or more owners. Under the regulation, legal entities who are owners of housing, including municipalities are treated as members of the associations, participating and paying charges in proportion to the remaining units that they own. The provisional regulation calls for the enactment of a law on Condominium in September, 1994, along with promulgation of a model charter of foundation document for condominium associations. To date, neither of these documents have been enacted.

11. Housing Finance. The 1992 Russian Federation Law On Collateral establishes the legal support for mortgaging interests in land and other real estate[2]. The law is sufficient in itself for purposes of authorizing and describing the contents and legal implications of mortgages affecting interests in structures, but defers to the "land legislation" of the Federation with respect to mortgages of land. The land legislation of the Federation should properly be deemed to include the 1991 Land Code and the Presidential Decrees discussed above, particularly No. 1767 On the Regulation of Land Relationships and the Development of Agrarian Reform in Russia, which specifically authorizes owners to mortgage land (Para 2). While the Decree On the Regulation of Land Relationships appears to address mortgage of land only by "owners," a more recent Presidential decree, discussed below, speaks in terms of mortgaging any interests in land.

12. The right to mortgage residential property is explicitly recognized in the Fundamentals of Federal Housing Policy (Article 6). Moreover, the role of private sector mortgage lending is a

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2/ Mortgages on land and structural objects "closely connected to land" are described under the continental terminology of "hypothec," while the term "mortgage" is applied to security agreements affecting other types of collateral.

fundamental premise of the Decree of the President of the Russian Federation "On Developing and Implementing Non-Budgetary Forms of Investments in the Housing Sphere" (No. 2281, December 24, 1993). One of the main objectives of that Decree is to encourage private investment, including mortgage lending, in housing.

13. The most recent enactment on mortgage rights is found in the President's Decree On Housing Credits (No. 1180, June 10, 1994), issued pursuant to the "Fundamentals of Federal Housing Policy" and "On Developing and Implementing Non-Budgetary Forms of Investments." The purpose of the decree is to establish that legal entities and individual citizens of the Russian Federation will borrow the resources for housing construction and renovation, housing purchase,
and improvement of land on a commercial basis. The decree goes on to exhort the executive power bodies of the Federation to stimulate the allocation or sale of land plots for housing construction to citizens and legal entities. The decree "On Housing Credits" specifically authorizes (1) using interests in owned land plots, completed and uncompleted structures, or any other property rights to land and structures (e.g., right of use) as the collateral for mortgage agreements, (2) allocation of mortgage finance to developers, investors and contractors developing housing in the private sector, and (3) the right of a mortgage lender to foreclose.

14. A comprehensive law on mortgage has yet to be enacted in the Russian Federation. A draft Russian Federation Law On Mortgage was submitted for approval of Russian Federation Government on May 27, 1994, and upon approval will be submitted to the State Duma. The law would clarify most aspects of real estate finance, including legal rights and relationships, procedures for registration and enforcement. Moreover, further support for the concept of real estate mortgage is found in the pending Civil and Land Codes of the Russian Federation. While all of these laws are included in the President's 1994 legislative program, it is difficult to predict if and when they will be enacted.

15. Land. The December, 1993, Constitution of the Russian Federation is the law that clearly expresses the rights of Russian "citizens and their associations" to own, use and dispose of land (Article 36). That general assertion of rights is qualified by the limitation that the "conditions and procedures" of the use of land are defined on the basis of Russian Federal law (Article 36). The remaining legal framework that regulates land relations consists of the 1991 Land Code and a host of Presidential Decrees passed since December 1991. Land use is strictly regulated by local and regional planning bodies and zoning laws with designated land uses for nearly every land plot according to a master planning document that is often inflexible to market demands for land use.

16. Legislation enacted both before and since enactment of the new Russian Constitution further defines property rights in land. The history of Russian Federation land legislation since *perestroika* has been one of gradual liberalization. The earliest relevant Presidential Decree "On Urgent Measures to Implement Land Reform in the RSFSR" (No. 2, December 27, 1991), established the right of citizens to obtain land in ownership or lease from local administrations through competitive auctions, but placed significant restrictions on the right to dispose of the land. This was followed by several laws which have not only reaffirmed the right of citizens to own and use land plots for specifically defined purposes, primarily garden plots and individual residential construction, but have also eliminated restrictions on the right to freely dispose of those plots in market transactions.

17. Land ownership in the Russian Federation continues to be limited to the right of citizens to own, use and dispose of land plots for specifically defined purposes. Legal entities, including developers of land plots for residential construction, may obtain use rights or leases to the land. After construction, property rights in the structure are transferred from developer to citizen and then citizens complete a procedure with the local land committee for obtaining ownership rights in the land plot. As further evidence of the lack of full ownership rights of developers, in many areas, local administrations will revoke land rights from developers who do not begin construction within a designated time period (typically 2 years). The July Presidential Decree on privatization contains a provision which states that privatized enterprises own the land on which they are located. Its existence and possible significance should be noted.

18. Land Privatization Procedures. The Presidential Decree "On the Regulation of Land Relationships and the Development of Agrarian Reform in Russia" (No. 1767, October 27, 1993) is presently the key policy document in land transactions. Among other things, it (1) allows free disposition, including mortgage, of land owned by natural persons; (2) requires registration of land interests and issuance of certificates of title; (3) allows holders of lesser forms of tenure to upgrade their title to ownership upon request; and (4) establishes that localities may sell land through auction or other competitive procedures. This decree provides significant guidance on issues of title registration.

19. The 1991 Land Code was amended by Presidential Decree No. 2287 "On Bringing the Land Code of the Russian Federation Into Conformity With the Russia Constitution" (December 24, 1993), transfers much responsibility for land allocation from local soviets and places it in the hands of local governments. Presidential Decree No. 1767 also called for enactment of a Federal regulation governing such competitive land disposition procedures. Regulations to this effect promulgated by the Council of Ministers on December 10, 1993 were revoked two weeks later, on December 24, 1993, in Presidential Decree No. 2287. Consequently, no federal regulation governing competitive allocation of land presently exists. Many localities have accepted the proposition that local privatization through competitive procedures is generally authorized under the terms of Decree No. 1767 and are proceeding to prepare their own local regulations pending enactment of a federal rules.

20. Registration of Property Rights. With respect to registration of ownership and use of land, the governing law is Presidential Decree No.1767, "On the Regulation of Land Relationships and the Development of Agrarian Reform in Russia", which requires that ownership or right of use be registered with the local land committee by registration of a notarized contract. The land committee in turn is required to issue a certificate of title to each interest holder. In fact, this process of registration and issuance of title certificate is widespread in most localities at this time. The process occurs pursuant to provisional "land book" regulations and forms issued by the Roskomzem which is distributed to the local land committees.

21. Russian regulations distinguish between the land itself and structures located on land; the structures themselves may be owned and disposed of independently of rights to the land. The rights to the structures have been, and continue to be, registered by the local Bureaus of Technical Inventory ("BTI") under a collection of Soviet-era laws and regulations. The quality of the existing records of BTI is contingent upon location. However, where records do exist, they can be quite comprehensive.

22. The laws of housing privatization require that the "contract of sale" transferring ownership of an apartment from the municipality to the privatizing owner be contracted with local administration, enterprise or organization . In implementation, the result of this directive has varied among municipalities, with some designating the BTI as the registry and others designating a separate agency such as a housing department. In any event, a housing privatization registry is designated in most localities.

23. The housing laws do not specify registration requirements for secondary transactions in housing. However, the 1964 Civil Code of the Russian Federation, still in effect, requires that all transfers of residential property be registered with the local Soviet. (See Article 239). Although the local soviets no longer exist, this provision of the Civil Code is considered sufficient authority for local administrations to enact regulations requiring the registration of secondary conveyances of residential property. Like transfers of municipal housing to private owners, these secondary transactions are registered with either BTI or a separate designated housing agency.

24. With respect to mortgages of real property, the Russian Federation Law on Collateral is clear that mortgages are to be registered in the place where the property itself is registered (Article 11). Accordingly, mortgages on land itself will be registered in the local land committees, which have given attention to the registration of mortgages in their new land book procedures and forms, while mortgages of apartments and other residential structures could be registered in the local housing registry, most often BTI.

25. The laws affecting registration of property titles, for example, Presidential Decree No. 1767, On the Regulation of Land Relationships, sometimes make clear that where registration is required, the failure to register renders the transaction a nullity. Beyond this basic principle, the Russian laws of title registration do not yet clarify the legal processes and implications of registration and title assurance, either in the form of a title guarantee from the state or a private system of title insurance.[3] There are few details provided regarding, for example, the resolution of disputes among conflicting interests or the forms and procedures of registration necessary to provide assured protection. The absence of clear and comprehensive rules and procedures on registration of titles is compounded by the maintenance of dual registries for land and structures. For example, there is no indication of how inconsistency in information recorded in each system would be reconciled. Since under Russian law property rights to a structure automatically create rights to use the land on which it is located, it is clear how this dual registry system could give rise to conflicts.

3/ The Law on Collateral does provide that the mortgage registry is liable for any willful or negligent errors of registration, but no fund is identified to back up this liability. The registration of rights to structures or housing does not provide for indemnification by the registry. An informal system of conducting title searches has developed in many Russian cities. Documents from a number of sources (BTI, REU, Passport Office) are collected by the seller to demonstrate to the buyer that the seller has unencumbered title to the unit before sale. All documents are notarized by a notary who verifies the authenticity of the documents presented by the seller. Many buyers and sellers enlist the services of a broker to conduct this title search and gather the necessary documents. As assurance of the comprehensive of their title search, brokers also often offer some sort of compensation to buyers should the buyer's title later be successfully challenged. This compensation ranges from appearing as a witness on behalf of the buyer in any court proceedings to relocating the buyer in another comparable unit at the expense of the broker.

26. Propiska System. In some cities, the propiska, or internal passport system, is a significant factor affecting property rights. Used as a tool to strictly regulate mobility during the Soviet era, the propiska system endures in many cities today in spite of a 1992 ruling by the Constitutional Court deeming the practice unconstitutional and in violation of a number of international human rights norms. In October 1993 President Yeltsin issued a decree abolishing the propiska system. Many cities, including Moscow, have refused to abolish the propiska arguing it is one of the only tools they have to control in-migration that is aggravating a shortage of housing. In smaller cities and towns enforcement of the propiska system has been quite lax ever since the advent of perestroika.

27. A propiska for a particular address entitles the holder to the tenant protection contained in the Housing Code, including the right not to be evicted without provision of alternative housing. Owners of privatized units possess a propiska for the unit they occupy, but may own additional apartments that they lease or plan to sell for which no propiska is required. All individuals in a privatized unit, including minors, have a property right in the unit.[4] The propiska system is a means of tracking who those individuals are. Where an owner seeks to sell his unit, he must acquire written permission from all other propiska holders in the unit. Not to do so clouds the title for the new purchaser of the unit. Many of the challenges to title that appear in the courts are raised by propiska holders, particularly minors, from whom permission to sell the unit was not obtained before the privatized unit was sold.[5] No clear legal precedent exists for resolution of these types of disputes. However, absent a system of title insurance, a successful challenge to title by a propiska holder who did not give permission to sell may result in the new purchaser of the unit being forced to compensate the propiskaed tenant.

28. Propiska records are maintained by the militia. When a resident moves from one address to another he must update his records with the local militia. In the past, individuals could not obtain a propiska unless one was requested by their employer. Many smaller cities do not actively enforce this procedure. Where they do, the charge for acquiring a new propiska for a change of address is minimal. However, in Moscow and St. Petersburg, the charge for acquiring a new propiska is substantial.[6] The fees range from thousands to millions of rubles depending upon whether the individual seeking the propiska is from Moscow or outside the area and whether they fall into one of the protected categories of citizens (veterans, pensioners, etc.). Given the strong opposition of larger cities to abolishing the propiska system it is unlikely that the system will disappear any time soon. To date, no federal action has been taken to enforce the Presidential decree abolishing the system.

29. Presidential Decree "On the State Land Cadastre and the Registration of the Documents on the Rights to Real Property" (No. 2130, December 11, 1993) delegates to Roskomzem the authority

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4/ This is true although the minor may not in fact physically possess a propiska.

5/ To ensure that the minor's interest is represented before an apartment is sold, a 1993 law (Article 133 of the Codex of Law on Family, Marriage and Guardianship) requires that the Department of Public Education, Section on Marriage issue permission on behalf of all minors (under 18) to sell the unit.

6/ In Moscow, the fees that are being charged are apparently not for the propiska per se, but for a "license" that appears to be connected obtaining the propiska.

to create and operate a unified system of real estate registration that would register rights to both land and structures. However, the decree also delegates to Roskomzem, the Ministry of Justice and the State Property Committee the authority to jointly prepare the rules and procedures for real estate registration. Roskomzem and the State Property Committee have not yet reached a consensus on this vital area of privatization. Extensive laws and procedures developed by Roskomzem, and they are reasonably to this point, have been stalemated by the lack of cooperation among the three responsible agencies.[7]

30. Housing Construction. In June 1994, the Government authorized the implementation of a program "On Measures of State Support for Restructuring of Housing Construction Production Base" prepared by the Minstroi. The objectives of the program are to facilitate a technological restructuring of the construction and construction materials industry base. Although there is little doubt that the critical situation in the construction industry is a legitimate concern of the government, the proposed program makes no provisions for economic and financial restructuring of the troubled industry. In this context, the program appears to be at odds with the fundamental principles of the Program "Housing" calling for reduced government involvement in the housing sector and full cost recovery. It is worth mentioning however that the Government resolution authorizing the program does not commit any substantial budget resources to the proposed government driven technological restructuring of the industry.

31. The other most recent in a series of enactments on housing construction are the Presidential Decrees "On Measures to Provide for Completion of Unfinished Apartment Buildings" and "On Issue and Circulation of Housing Certificates" (June 1, 1994). Whereas the former decree establishes a legal basis for auctioning unfinished apartment building to natural and juridical persons, the latter aims to facilitate private investment in the housing sector by establishing regulatory framework for issuing construction bonds (housing certificates). Housing certificates may be converted at maturity into a number of square meters of housing provided a number of conditions are met , will be covered by insurance and indexed in their principal amount to the inflation and housing construction cost.

32. Local Government Policy Initiatives. To compensate for the shortcomings in the federal legislative framework, a number of local governments have enacted their own housing laws to accelerate the pace of housing reform within their jurisdictions. While many, perhaps most, cities of the Russian Federation continue to wait for federal guidance before enacting reforms, a number of cities have taken the initiative in passing condominium laws, reforming title registration procedures and introduces rent increases and housing allowances. The cities of Moscow, Yaroslavl, and Ryazan have all passed their own condominium laws and model charters and have been registering condominium associations in their cities. Moscow has

7/ A proposed draft of a comprehensive regulation on real estate title registration, with accompanying forms for the registration records, was delivered by the Land Committee to the State Property Committee in May, 1994. It should be noted here that several significant World Bank loans to the Russian Federation, including the "LARIS" Project, have been conditioned on enactment of a suitable national regulation on the registration of real estate titles.

successfully implemented a streamlined procedure for registering property rights in housing within the Department of Municipal Housing. The cities of Moscow, Nizhny Novgorod, Ryazan and other cities are in the process of raising rents and housing allowances.

33. Future Reform Activity. The Russian Federation has made substantial progress in establishing the legal and procedural framework for private housing ownership. The next stage for Russian housing policy is to develop the legal basis to foster the burgeoning private housing market. The legal framework should consist of a uniform system of title registration for land and structures, laws on mortgaging land and real estate, competitive procedures for allocating land for private use, more flexible land use regulation of land in private hands, procedures for carrying out and registering secondary transactions, and a permanent federal law on condominium establishment of a regime of landlord-tenant laws.

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 1.4
HOUSING MARKET ANALYSIS IN PROJECT CITIES 1993-94

A. INTRODUCTION

1. During 1993-94, USAID financed and directed formal surveys of the emerging real estate market in proposed project cities as part of its Technical Cooperation Program for the Project. The primary purpose of the surveys was to describe the dynamics of the housing market and to identify problems hampering its development. Another important objective of the surveys was to develop a methodology that would provide benchmark indicators of housing market development that would permit future monitoring of housing sector reforms over time. Four separate surveys covered: households, developers, and sales transactions, as well as housing sector monitoring indicators. A brief analysis of the formal surveys are presented below in Section B.

2. In addition to the formal surveys, international consultants carried out informal surveys under the Construction Finance Sub-component. These surveys yielded valuable information on the skill, organization and composition of the private real-estate industry, its response to the evolving housing market, and the financing techniques being developed in the present uncertain financial environment where resources are still scarce. Section C below presents the information gathered through the informal surveys.

B. SUMMARY OF FORMAL SURVEYS

3. Survey Description. Five Russian research groups were assigned to the different cities[1] to carry out the surveys. These surveys were monitored for quality control of the data by a consulting firm on behalf of USAID. Most of the surveys were completed satisfactorily and are believed to have produced reliable data. However, some of the surveys suffer from inherent limitations. For instance, preferences indicated in household surveys cannot predict behavior as accurately as preferences demonstrated in the marketplace. Also, household incomes are typically understated, given the large informal sector and incentives to avoid taxes. Keeping these limitations in mind, the following sections present a brief analysis of the survey results.

1/ For short description of surveys see Attachment A.

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Table 1. Basic Indicators of Real Estate Market Development in Russia, 1993-94

Cities:	Barnaul	Moscow	Nizhny Novgorod	Novgorod	St.Petersburg
Total Housing Stock (# units)	166,746	3,100,000	403,347	72,650	1,473,000
Housing Units Privatized in 1993 (%)*	26.9	30.4	19.0	20.5	33.0
Price Change (%)**		700	640		730
Construction Cost Increase (%)		800	700		1,000
Real Estate Transactions (%)***	21.0	6.5	3.0	17.5	10.4
Residential Mobility	5.4	1.9	1.0	3.6	3.4
Sources of Finance:					
-Central Budget	-		0.8	34.0	3.7
-Local Budget	-		13.0	37.0	9.5
-State Enterprises	23.0		75.0	27.0	84.7
-Public organizations	11.0		-	-	-
-Joint-Stock Companies	58.0		-	-	-
- Private Individuals	8.0		-	2.0	-
Waiting List in 1992 (%)****	32.5	13.0	25.2	24.4	20.0
Urban Housing Stock - sq.m. per person	13.7	16.03	16.0	15.4	17.0
Joint Dwelling Units (%)	2.8	11.5	3.4	3.1	15.1
Housing subsidies, housing services and public utilities as a percentage of local government budget in 1993	38.3	35.9	37.5	14.5	27.7

Notes:

* Percentage of all privatized housing units subject to privatization by the end of 1993.

** Average Nominal Housing Price change compare to 1992; Inflation Index (1993) was at 734%.

*** Transactions recorded in real estate market as % of all privatized housing.

**** Percentage of total families on the waiting list at the end of 1992.

4. The specific findings of the surveys are presented in the following categories:

   a. Privatization and Development of the Secondary Housing Market,
   b. Privatization and Its Impact on Housing Prices,
   c. Macroeconomic Impact
   d. Availability of Market Information,
   e. Decline in Housing Construction
      i. Lack of Construction Finance
      ii. Competition from the Secondary Housing Market
      iii. High Construction Costs due to Excessive Local Government Fees

iv. Uncertain Regulatory Environment
v. Lack of Property Titling System, and
f. Lack of Developable Land in Private Housing Market

a. Privatization and Development of Secondary Housing Market. The year 1993 saw a major breakthrough in the development of the Russian housing market. The rate of housing privatization, still slow at the beginning of 1993, gained momentum during the second half of the year. This surge in housing privatization sparked a rapid growth of the secondary housing market. A substantial increase in the volume of real estate transactions, including sales and exchanges, was recorded in all major urban centers.[2] According to the survey estimates, the number of housing units that were for sale in 1993 equalled on the average 12% of all privately-owned housing stock in the cities studied.

b. Privatization and its Impact on Housing Prices. As demonstrated in the surveys the substantial growth in the number of tradeable units has had a moderating impact on housing prices. Prices remained at the same level in real terms throughout most of 1993, though they jumped by about 20%-30% in the first quarter of 1994. Prices also reflected increased differentiation according to quality and location of dwelling units. For example, prices of low-quality flats in multi-story panel buildings remote from city centers stabilized to a large extent, while larger units of better quality in prestigious locations increased in value in response to greater demand. Prices per square meter varied from $500-600 in a five story "Krushchev" building, to $2,500 for a better quality apartment in a central district of Moscow or St.Petersburg. Indirect estimates show that location might account for as much as 40-50% of the housing value. The surveys also found strong correlations between housing prices and the environmental quality of the area, and the quality of the building and apartment itself.

c. Macroeconomic Impacts. Early signs of a positive macro-economic impact of the evolving housing market were detected, for example in increased residential mobility; the surveys documented an average of 3.1% in residential mobility across the five cities. Second, the development of a competitive secondary housing market seems to have absorbed some of the inflationary demand pressure in the housing sector and in the economy as a whole.

d. Availability of Market Information. Despite alleged difficulties in obtaining adequate market data about real estate transactions, the surveys documented the ability of buyers to obtain good market knowledge. Typical sources of information are advertisements and informal sources, such as acquaintances or enterprises. Nevertheless, major progress has been made in developing new sources of market information and in enhancing the existing ones. The creation of real estate market data networks and the increasing variety and sophistication of real estate publications and services are a few important signs of this progress.

2/ See Table 1 for the volume of recorded real estate transactions in the major Russian cities.

e. Decline in Housing Construction[3]. In 1993/94 the volume of new housing construction declined, mainly due to the reduction of subsidies and finance from the public sector. Privately financed construction cannot yet compensate for the drop in public construction. The surveys emphasized five factors that currently hamper private construction: (i) lack of construction finance; (ii) competition from the secondary housing market; (iii) high construction costs due to excessive local government fees; (iv) a complex and uncertain regulatory environment; and (v) an unreliable system of title registration.

i. Lack of Construction Finance. There are four principal sources of construction finance: (a) public housing subsidies from local governments and subsidized enterprises; (b) developers' equity and/or installment payments from future buyers; (c) advances from legal entities, such as enterprises; and (d) construction loans from commercial banks.

Public housing subsidies have dwindled to insignificant amounts in all cities[4]. Most construction was financed by private developers, who, in turn, obtained funding through installments by future buyers or residents. However, given the uncertain legal enforcement of developer-buyer contracts, individuals suffer considerable risks of noncompletion and installment losses. A legal title transfer takes place only upon the completion of the project. Sales were generally to legal entities. In St. Petersburg, for example, 79% of the buyers were legal entities (e.g. enterprises) and 21% were individuals. Enterprises purchased only 15% of new units for their employees (mainly chief executives). They purchased 85% for re-sale or to resettle families from communal flats in the center city that were being renovated privately. Individual buyers purchased only 3.3% of apartments. In the projects surveyed, construction loans from commercial banks represented about 20% of privately financed construction costs. Loans were for very short maturities (on average 3 months) and at high real interest rates[5].

ii. Competition from Secondary Housing Market. The development of a secondary housing market with competitive housing prices has meant that the developers/builders of new housing can no longer shift the increasing cost of construction to the buyers. The buyers can now purchase existing apartments, instead of undertaking the risks of new development, such as non-completion and loss of installments. In 1993, for example, the costs of housing construction in

3/ This section is based on information from Developers' Survey in Moscow, St.Petersburg, Tver, Barnaul, Novgorod, Nizhny Novgorod, and Rostov-on-don.

4/ Except for Novgorod, where public funds were the major source of financing new housing construction (71%), the use of government resources for housing construction was found to be minuscule in all of the surveyed projects.

5/ In the last ten months of 1993 the discounted real interest rate of the CBR was 10%. (The Economist, July 16-22, 1994).

Moscow increased by 800 percent, whereas the mean housing price rose only by 700 percent. In less than two years, the new home Sales Price-to-Construction Costs ratio descended from 3.0 (in 1992) to 1.3 at the beginning of 1994.

iii. High Construction Costs due to Excessive Local Government Fees. High local government fees and taxes, both in cash and in-kind, contribute significantly to high construction costs. Currently the cities require a fee of 86% of the actual cost of construction, to be paid by the developer toward a payment for land and use of city infrastructure[6]. In addition, 18-30% of finished apartments must be transferred free of charge to the city upon the completion of the project. Combined together these city levies represent an equivalent of 219 - 241% value added tax on housing construction.

iv. Uncertain Regulatory Environment. Most of the surveyed developers reported interaction with city administrations as the major problem in the development process. Specific complaints include: (a) lack of written regulations; (b) arbitrary changes of requirements by the city in the course of the project; (c) long development review process; and (d) uncertain and high city charges for land and the use of city infrastructure (see above).

v. Lack of Property Titling System. Nearly all the developers surveyed stated that one of the largest problems facing the development of a housing market concerns acquisition and tradeability of property rights. There is no recognized legal basis for recording and transferring developers' rights, on land or on newly constructed apartment buildings. Also, the title registration process for buyers is complicated and lengthy, and characterized by weak and unclear property rights.

f. Lack of Developable Land in Private Housing Market. Despite the enacted legislation enabling private ownership of land, municipal governments still own most of the developable urban land. At the present time there is no established procedure for land allocation; land sales are neither transparent nor open. Long term land leases are sold at arbitrary prices through ad hoc procedures. Development of the housing market is hampered further by the absence of a land titling system. Nevertheless, the number of land-lease contracts is growing as the formerly state-owned enterprises dispose of their vast land holdings. In addition to the cities, collective farms in adjacent rural areas are other major potential suppliers of land for housing development.

B. SUMMARY OF INFORMAL SURVEYS

5. In addition to the formal surveys described above, international consultants carried out an informal survey of some 172 housing projects in the participating cities, followed by consultations with 40 local developers and bankers, plus extensive interviews with the ten ISB

6/ Rostov requires 89%

banks in Moscow, St. Petersburg and Tver. The purpose of these consultations was to develop guidelines and a pipeline of sub-projects to be financed under the Construction Finance Line of Credit. These surveys have yielded important information on the skill, organization and composition of the private real estate industry. In general, the informal surveys corroborate the findings of the formal surveys described above.

6. The findings of the informal surveys are presented in the following categories:

a. Apartments: The Preferred Housing Option for New Construction,
b. The Market for Other Types of Housing,
c. Diverse Composition of the Private Real Estate Development Industry,
d. Role of Commercial Banks in Real Estate Financing and Development,
e. Financing Techniques in an Uncertain Financial Environment,
f. Availability of Land to Private Developers, and
g. Reconstruction and Relocation.

a. Apartments: The Preferred Housing Option for New Construction. Three-quarters of the new housing supply planned by developers consists of small two-room apartments of 60-65 m2 gross floor area in mid or high-rise buildings. Two types of developers share this market. Privatized kombinats build about one-third of the apartments, generally in prefabricated panel technology at an average estimated cost of US$ 23,000 per unit. The more market-savvy and better capitalized of the private developers handle the remaining two-thirds of the production, consisting of slightly larger and better-finished apartments in various technologies (brick, brick with reinforced concrete frame, panel) for an average cost of about US$ 25,000 per unit.

Developers concentrate on the apartment market because it corresponds to the only effective demand group of any size, i.e. the population that can mobilize cash from savings and by realizing assets (privatized apartment, garage, dacha), and possibly benefit from employer and state subsidies. This population seeks to improve their housing conditions at times by moving from a shared apartment to a privately-occupied one, or by moving to a larger apartment with an extra room, or by moving to an apartment of better quality, in better environmental conditions or in a more attractive location. Such moves are as yet marginal, however for the poorly-housed families these small improvements are significant.

b. The Market for Other Types of Housing. The remaining 25 percent of the new housing supply consists mainly of single-family housing (mostly free-standing cottages) and some reconstruction of inner-city buildings. This market, which consists predominantly of smaller private developers attracted by the promise of substantial profits, is also much riskier and more volatile, because effective demand is small, and signs of oversupply are already visible.

c. Diverse Composition of the Private Real Estate Development Industry. As diversification is a necessity in the uncertain business environment of Russia, many developers have combined real estate with other activities. Most of the developers who

have submitted projects for financing under the Construction Line of Credit are new private companies with diverse backgrounds. Privatized former kombinats account for no more than 20 percent of developers. Some developers are contractors, while others are subsidiaries of industrial enterprises that build housing for their staff but sell part of the production to outsiders. Many are enterprises that have become involved in real estate to keep themselves alive, while others started in trade and are investing their profits in housing and other real estate. In some cases, a developer might be the shadow commercial real estate arm of a municipality. Several of the new private developers are also acquiring or setting up building materials plants, in order to ensure reliable access at reasonable prices to building materials, which are in short supply and therefore priced speculatively. A number of commercial banks are also very active in real estate (see below).

d. Role of Commercial Banks in Real Estate Financing and Development. Several banks are active in real estate in the role of developers as well as lenders mostly because it provides them with a good return on invested capital, and they can use their network of branch offices to collect deposits dedicated to housing. As developers, banks act through subsidiaries in which they are generally the majority shareholders. The subsidiaries use their own or shareholders' equity, some funds from the bank and other techniques to attract savings, like any other developer. Banks claim they like to lend to companies that they control, as it allows them to carefully monitor the construction process and minimize risks in an unregulated environment[7].

Banks lend to developers these days mostly for short term financing. Developers normally only go to banks when they need bridge financing to complete housing construction for sale to the ultimate buyers. Today, obtaining such financing is difficult for most developers: first, the banks require collateral unless the developer has a stream of income from other sources domiciled at the bank; second, the banks also impose close monitoring, which the developers resent as an invasion of privacy; and finally, due to the scarcity of term money, developers compete for funds that are otherwise used for financing short-term activities at extremely high rates of interest (35-40% in US Dollars).

e. Financing Techniques in an Uncertain Financial Environment. At this moment there is very little commercial lending for construction activities because of (a) lack of long-term sources of funds for the banks, (b) competition from other more lucrative lending activities, (c) high interest rates for short-term credits, (d) severe controls imposed by banks on developers, and finally (e) unwillingness of banks or developers to share profits. To overcome these constraints, builders until now have financed their projects from their own equity as well as from share-participation, advance sales and deposits from prospective purchasers. These solutions allowed the developer to adapt the amount of the installments to variations in construction cost[8]. But now, such techniques are becoming increasingly

7/ Under the Construction Finance Line of Credit, ISB candidate banks are required to decrease lending to related parties over time, in order to fulfill prudential regulations.

8/ During 1993 the cost of building materials increased faster than inflation.

inadequate, as many enterprises which in the past bought housing for their employees in this manner have now run out of funds, while individual buyers are becoming market-wise and are availing themselves of the alternatives provided by the emerging secondary housing market.

Several innovative methods are being developed to organize savings; however, some methods[9] raise questions about the integrity of the financial institutions that have launched them. Already a few instruments, highly publicized on TV by fly-by-night financial institutions, have robbed people of their savings. Also, bonds issued by the new mortgage banks often offer interest rates inadequate to protect the client from inflation. Other bonds have a face value denominated in square meters and are guaranteed only by the building to be constructed with the funds coming from the sale of these bonds. These bonds can be exchanged into new bonds upon completion of the building and invested in a new venture. A secondary market for such bonds is now developing.

Notwithstanding the nature of raising funds for construction, it is apparent that there is a necessity for longer term credit for housing construction. Longer-term credits are expected to: (i) increase the overall volume of construction; (ii) provide leverage to decrease the cost of construction provided the interest rate is reasonable; (iii) allow developers to sell the units later in the project cycle, and for a higher price; and (iv) speed up the process of housing construction.

f. Availability of Land to Private Developers. Land distributed earlier to enterprises for employee housing has become an important source of building sites for developers. As many of these enterprises are unable to develop these sites themselves due to a shortage of funds, they are passing on the development rights to private developers. Developers also have access to municipal land. The payment for development rights on municipal land is often a proportion of the completed units (usually 10-50%), and/or in the form of extra infrastructure built at the developer's expense.

g. Reconstruction and relocation. Privatization of housing has resulted in movement and redistribution of households according to their financial capacity -- usually between the centers and the peripheries of the larger Russian cities.

Developers interested in purchasing and refurbishing well located apartments, usually occupied by middle or low-income families in communal or privatized apartments, are required to provide alternative units for relocation of these households. The occupants themselves are increasingly market-wise, aware of the value of location and of their bargaining power. Many, therefore, are able to exchange their dilapidated or shared accommodations in the city center for a larger, newer and privately-owned apartment in the

9/ Such as investing "futures" in Rubles -- where a person pays a company one-quarter of the price of a house that is expected to be delivered in four years. The company then expects to fiance the construction of the building from the profit it makes by investing these deposits for the next four years in high-yielding investments.

urban periphery. Because of the high cost of new construction, developers now prefer to provide existing apartments through specialized agencies rather than to build new ones. The profits from reconstruction are such that adequate relocation of sitting occupants at the expense of the developer is feasible.

ATTACHMENT A: HOUSING MARKETS IN FIVE CITIES

A. MOSCOW

1. As of January 1, 1993, there were about 3,100,000 apartments in Moscow's housing stock. By October, 1993, over one million units had been privatized which totaled 30.4% of overall housing stock. The privatization process in Moscow occurred rather quickly from the beginning for two reasons: first, under privatization most of Moscow's housing was transferred to tenants at no cost and second, the market value of housing in Moscow is the highest in the whole country which encouraged Muscovites to become owners.

2. From the end of 1992 until autumn 1993 the average sq.m. price (in hard currency) remained more or less stable between $500 and $700 per sq. m. with just two increases, one in February/March and one in October/November 1993. In December 1993, however, there was a significant price increase to well over $800 per sq.m. Prices vary by location and apartment type:, the price of a well located apartment may exceed $2,500 per sq.m. of total area, while the sq.m cost in a five story "Khrushchev block building" is about $650.

As of March 1994 apartment prices varied in US$ as follows:

One room apartment:	17,400 to 42,000
Two room apartment:	21,000 to 75,000
Three room apartment:	35,000 to 220,000

3. Despite having the highest rate of privatization in the country, the level of real estate transactions in Moscow amounted to only about 6.5% of overall privatized housing stock. The percentage of recorded residential mobility was also among the lowest of the five cities, with only Nizhny Novgorod recording a lower level.

B. NIZHNY NOVGOROD

4. As of January 1, 1992, when privatization began, there were 403,347 housing units in the city. In 1993, 55,669 apartments were privatized, which was 14% of all apartments subject to privatization. Since the beginning of privatization in 1992, a total of 78,463 apartments have been privatized which represents 19% of all apartments subject to privatization.

5. In the past two years a rather solid basis for the development of a secondary housing market has been formed, as over a quarter of the city's housing stock is privately owned (the 19% which was privatized in the past two years plus the 6% which was already private property before privatization). Surprisingly, compared to the other surveyed cities, Nizhny Novgorod had the lowest level of recorded real estate transactions - about 3%. The rate of residential mobility was also correspondingly low -- at 1%.

6. New housing construction was primarily financed by state enterprises (75%) and partially through local, regional and central budgets - 13%, 0.8% and 3.7%, respectively. According to the survey, the mean price per sq. m. for housing was $321, the minimum was $101 and the

maximum price was $838. The price per sq. m. was lower than $715 in 99.3% of the transactions. As of January 1994 the price dispersion of housing in Nizhny Novgorod, dependent on the location and condition of the apartment was as follows:

One Room Apartment:	$250 to $410 per sq. m.
Two Room Apartment:	$300 to $470 per sq. m.
Three Room Apartment:	$340 to $470 per sq. m.

7. The "typical"[10] apartment in Nizhny is a two room flat with a total area of 49 sq.m. located 6 km from the city center in a six story panel building with a sq. m. value of $321.

C. BARNAUL

8. In 1993 the housing stock in Barnaul consisted of about 166,746 units. By November 1993, 42,699 housing units had been privatized which represented about 26.9% of all units. The rapid privatization of housing triggered an explosive development of the housing market. Barnaul had the most active market of the five cities; during the first 10 months of 1993, the Bureau of Technical Inventory issued 6,238 certificates for sales transactions, 1,781 for gifts and 893 for exchange. This totaled about 21% of all privately owned housing units. Correspondingly, the level of residential mobility in Barnaul (5.4%) also significantly exceeds that of the other cities.

9. However, despite the rapid growth of the supply of housing units in the secondary housing market, prices did not stabilize. The surveys showed, for example, that although in 1994 housing prices of newly-built housing exceeded prices in the secondary market by 20-25%, there was no shortage of buyers. It appears that buyers are not well informed of the prices in the secondary market. In the secondary market the mean sales price per sq. m was US$ 163, the minimum recorded price was US$ 22 and the maximum was US$ 443. The sales price distribution in US$ for units on the secondary market in Barnaul in December 1993 was as follows:

One room apartment:	6,667 - 8,000
Two room apartment:	8,667 - 10,667
Three room apartment:	16,000 - 19,333

10. Most of the housing construction in 1993 was financed by joint-stock companies (58%), followed by state-owned enterprises (23%), public organizations (11%) and private individuals (8%).

10/ This is derived from the means of each variable.

11. According to the survey, the "typical"[11] housing unit in Barnaul is a 48 sq. m. two room flat, located about 5 km from the city center in an eight story panel building with a value of approximately $162 per sq.m. The average amount of space per person in Barnaul is 15 sq.m.

D. ST. PETERSBURG

12. In 1993 the housing stock in St.Petersburg totaled 1,473,000 units. The rate of housing privatization in the city was the highest among the five cities; by January 1994, 33% of all apartments subject to privatization had been privatized.

13. The housing market was moderately active. In one year about 10.4% of all privately owned housing units were either sold, exchanged or given as gifts. The level of residential mobility in St.Petersburg was 3.4% which is the third highest rate after Barnaul and Novgorod. Prices in the secondary housing market increased by about 730% while the inflation index was 736%; however, construction costs increased tenfold, making new housing construction in St.Petersburg less and less profitable.

14. From January to November 1993, 9,134 new units were built. State enterprises were the main sources of financing for housing construction (84.7%), followed by the municipal government and central budget transfers at 9.5% and 3.7%, respectively.

E. NOVGOROD

15. There were 72,650 housing units in Novgorod in 1993. By the end of the year, 14,870 of housing units were privatized or 20.5% of overall housing stock. Despite the moderate rate of privatization, Novgorod had a relatively high rate of recorded real estate transactions (17.5%) and residential mobility (3.6%).

16. Novgorod is among a few remaining cities in Russia where central and local government funding plays a major role in financing housing construction. In 1993, for instance, over 34% of the newly built housing was financed through the local budget and 37% through the central government transfers. The remainder was financed by state enterprises and private individuals, 27% and 2%, respectively.

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11/ See Number 10.

ATTACHMENTS: HOUSING AFFORDABILITY MODULE
HOUSING MARKET MODULE
HOUSING QUALITY MODULE
HOUSING PRODUCTION MODULE

HOUSING AFFORDABILITY MODULE		Moscow	Nizhni Novgorod	Barnaul	St. Petersburg	Novgorod	Tver
Indicator 1.1	Auction House Price to Income Ratio [Ind.3*] Ratio of the median free-market price of a dwelling unit sold at auction and the median annual household income	47.2 (year end)	18.7 (annual average)	– (no auctions before 1.1.94)	69.6 (beginning year)	– (no auction in 1993)	– (no auction in 1993)
Indicator 1.2	Broker's House Price to Income Ratio [Ind.5*] Ratio of the median price of a dwelling unit sold by real estate agents and the median annual household income	55.2	15.0	10.3	27.0 (year end)	10.8 (year end)	14.5
Indicator 1.3	Cooperative House Price to Income Ratio [Ind.5*] Ratio of the median sale price of a cooperative dwelling unit and the median annual household income (year end)	5.0	5.0	5.5	6.8	– (no coops were formed in 1992)	(no coops were formed in 1992)
Indicator 1.4	Rent to Income Ratio [Ind.6*] Ratio of the median annual rent of a dwelling unit and the median annual household income of renters	0.0005	0.0004	0.0004	0.006	0.0006	0.0007
Indicator 1.5	Subrent to Income Ratio [Ind.8*] Ratio to the median annual free-market and the median annual income	1.74	0.6 (IV quarter)	0.2 (IV quarter)	0.5 ("elite" units: 3.0)	0.2 (mid-year)	2.53
Indicator 1.6	Cheap House Price-to-Income Ratio [Ind.A11*] Ratio of the average lowest-priced (unsubsidized) dwelling unit typical for a household of average size and the median annual household income	47.2	11.0 (I quarter, 1993)	8.5	20.0	8.7	7.8
Indicator 1.7	House Price Appreciation [Ind.7] Annual rate of change of house prices, measured as an annual average of the percentage increase in house price since 1991 (year end)	908% (cooperative prices only)	2500% (November)	6000% (November)	2760%	N/A	170.0% (Nov. 92 increases from Feb. 92, no sales in 91)
Indicator 1.8	House Price-to-Construction Cost Ratio of the sales price for an average house per square meter and the construction cost per square meter (year end)	8.5	11.4	8.8	3.2	1.2 (mid-year)	4.0

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112

HOUSI	IKET MODULE	Moscow	Nizhni Novgoro	Barnaul	St. Petersburg	Novgorod	Tver
Indicator 2.1	Dwelling Stock Distribution						
	State and public dwelling stock	80.1%	79.5%	78.0%	84.5%	93.3%	75.2%
	Municipal stock	63.2%	30.4%	54.0%	69.6%	58.9%	52.7%
	Ministerial and departmental stock	16.8%	49.1%	24.0%	14.9%	34.4%	22.2%
	Other public dwelling stock	0.1%	0.1%	0.3%	0.1%	0.2%	0.3%
	Housing and construction cooperatives	10.4%	9.4%	10.0%	14.1%	3.5%	8.6%
	Individual housing	9.5%	11.0% (1993)	11.7% (1993)	1.3%	3.0%	16.2%
Indicator 2.1.1	Privatized dwelling units	13.3%	–	6.6%	16.3%	10.6%	15.0%
	Percentage of privatized dwelling units at year end		(19.4% in 1993)	(25.6% in 1993)			
Indicator 2.2	Vacancy Rate [Ind. 14]	0.12%	0.15%	0.0%	0.0%	0.6%	0.12%
	Percentage of the total number of completed dwelling units which are presently unoccupied						
Indicator 2.3	New Municipal Dwelling Units Sale	28.7%	–	–	–	–	–
	Percentage of newly constructed municipal dwelling units sold						
Indicator 2.4	Residential Mobility [Ind. 13]	4.9%	4.1%	5.1%	3.0%	4.0%	4.3%
	Percentage of households that moved into their unit last year						
Indicator 2.5	Housing Improvement	0.60	0.92	0.90	0.54	0.90	0.96
	Ratio of those recieving housing from the waiting list to all household who improved their housing conditions or obtained a new apartment						
Indicator 2.6	Housing Improvement from Waiting List	9.1%	4.5%	8.3%	3.1%	12.4%	6.9%
	Percentage of households on the waiting list provided with housing this year						
Indicator 2.7	Waiting List	13.0%	25.2%	32.5%	26.6%	24.4%	21.5%
	Percentage of total families on the waiting list at the end of the year						
Indicator 2.8	Housing Purchase Expenses	N/A	N/A	N/A	6.9%	N/A	N/A
	Ratio of the annual house purchase expenses of the urban population to annual income						
Indicator 2.9	Maintenance and Utilities Expenses	1.2% (includes coop fees)	0.35% (coop fees not included)	0.37%	0.014% (includes coop fees)	0.3%	0.69% (coop fees not included)
	Percentage of annual income spent on housing maintenance and utilities expenses						
Indicator 2.10	Household Income	135.0 (annual)			75.4 (annual average)	108.4 (annual average)	82.6 (annual average)
	Median household income by quarters (thousands rubles) I	63.8	32.4	37.0			
	II		84.3	73.6			
	III	282.5	128.5	147.8			
	IV		249.5	266.7			

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HOUSING QUALITY MODULE

		Moscow	Nizhni Novgorod	Barnaul	St. Petersburg	Novgorod	Tver
Indicator 3.1	Urban Housing Stock (Floor Area Per Person) (Ind. 8) Median usable floor area per person last year (square meters)	16.03	18.0	15.7	17.0	15.4	16.3
Indicator 3.2	Permanent Housing Stock (Ind. 9) Percentage of dwelling units which are likely to last twenty years or more (not dilapidated or emergency dwellings)	98.7%	98.6%	96.0%	99.5%	99.8%	99.0%
Indicator 3.3	Other Housing Stock Percentage of housing stock that is dormitory, or rooms in houses	3.2%	4.0%	5.8%	6.2%	7.1%	2.3%
Indicator 3.4	Water Connection (Ind. 10) Percentage of dwelling units with water connections	99.7%	99.3%	99.0%	99.9%	99.9%	95.1%
Indicator 3.5	Central Heating Percentage of dwelling units with central heating	97.9%	97.5%	97.5%	99.5%	96.7%	90.5%
Indicator 3.6	Gas Connection Percentage of dwelling units with gas connection	93.4%	93.9% (3.4% electric stoves)	97.3% (96.1% electric stoves)	92.9%	96.1%	91.3%
Indicator 3.7	Hot Water Provision Percentage of dwelling units with hot water provision	96.8%	96.3%	93.0%	92.5%	92.7%	77.8%
Indicator 3.8	Bathroom Percentage of dwelling units with a bathroom	96.8%	91.4%	93.7%	91.9%	92.0%	78.9%
Indicator 3.9a	Sewerage Percentage of dwelling units with a sewerage connection	99.8%	96.1%	97.1%	99.6%	99.5%	93.0%
Indicator 3.9	Journey to Work (Ind. 11) Average length in minutes of one-way commute during rush hour in the urban area, by all means of transport (excluding home-based workers)	50	35	25	40	28.8	34.0
Indicator 3.10	Unauthorized Housing (Ind. 12) Percentage of the total housing stock in the urban area which is not in compliance with current regulation	0.0%	0.0%	0.0%	0.5%	4.0%	(No data

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	Moscow	Nizhni Novgorod	Barnaul	St. Petersburg	Novgorod	Tver
Indicator 3.11 Households per Dwelling Unit [Ind. A1] Ratio between the total number of households and the total number of total number of occupied dwelling units units of all types	1.06	1.1	1.1	1.16	1.11	1.16
Indicator 3.12 Persons per Room [Ind. A2] Ratio between the median number of persons in a dwelling unit and and the median number of rooms	1.5	1.4	1.4	1.5	1.5	1.5
Indicator 3.13 Joint Dwelling Units Percentage of units which are communal	11.5%	3.4%	2.8%	15.1%	3.1%	15.3%

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115

HOUSING PRODUCTION MODULE

		Moscow	Nizhni Novgorod	Barnaul	St. Petersburg	Novgorod	Tver
Indicator 5.1	Housing Production Total usable floor area of dwelling units produced last year per 1000 population	341.3 (6.3 units)	390.2 (5.2 units)	356.0 (6.1 units)	126.0 (2.3 units)	217.3 (4.8 units)	251.0
Indicator 5.2	Net-Housing Production (Ind. 3) Net number of units produced (units produced minus units demolished) in both the formal and informal sectors last year per 1000 population	4.5	(based on 54 sq m. unit) 2.6 (128.6 sq.m.)	(based on 54 sq m. u 4.13 (223.2 sq.m.)	(based on 54 sq m. u 0.37 (20.7 sq.m.)	(based on 45 sq m. unit) 3.6 (162 sq.m.)	3.5
Indicator 5.3	Housing Investment (Ind. 4) Total investment in housing (in both the formal and informal sectors in urban areas) as a percent of gross city product	3.8%	1.7%	2.5%	2.8%	3.5%	1.49%
Indicator 5.4	Infrastructure Expenditure per Capita (Ind.22) Ratio of total expenditures (operation maintenance, and capital) by all levels of government (including private utilities and parastatals) on infrastructure during the current year and the urban population (in 1000 rubles)	10.5	3.0	4.0	9.9	4.5	2.2
Indicator 5.5	Construction Cost (Ind. 23) Present replacement cost (labor, materials, on-site infrastructure, management and contractor profits) per square meter of a median priced dwelling unit (in 1000 rubles)	22.0	21.0	28.0	29.2	26.1	25.3
Indicator 5.6	Industrial Concentration (Ind. 24) Percentage of new formal sector housing units place placed on the market by the five largest developers (private or public) last year	100.0%	100.0%	100.0%	95.0%	83.3%	95.2%
Indicator 5.7	Construction Time (Ind. A10) Average time (in months) from the start of construction to completion of a standard dwelling unit	12 – 14 months	10 – 12 months	10 – 12 months	24 months	15 months	16 – 17 months

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	Moscow	Nizhni Novgorod	[illegible]	St. Petersburg	Novgorod	Tver
Indicator 5.8 Inn-Priced Dwelling Unit [Ind. A12]						
Price (in 1000 rubles)	1210.0	–	–	2450.0	1178.0	1200.0
Questions on the physical characteristics of the most common median priced unit:						
1. Type	apartment	apartment	apartment	apartment	apartment	apartment
2. Number of floors	16 – 20	9 – 10	8 – 12	12 – 16	9	5 – 12
3. Plot size, sq m. per entrance	70000	varies	varies	35000	40000	15.7 (per capita)
4. Number of units	125	36 – 40	36 – 48	140	140	36 (per section) 3 – 4 sections.
5. Age of the structure (years)		50 – 70	50 – 70	25	25	75
6. Building materials						
roof	manufactured	varies	concrete panels	manufactured	manufactured	manufactured
exterior walls	concrete	varies	concrete slabs	concrete	concrete	concrete
floors	linoleum	linoleum	linoleum	linoleum	linoleum	linoleum, parquet
7. Services (piped water, sewerage, electricity, air conditioning, elevators, paved roads)	all	all	all	all	all	all
Indicator 5.9 Popular Single Family House						
Questions of the physical characteristics of the most common single family house	None	None				
Number of floors			2 – 3	detached 1.5	detached 1.5	detached 1
Plot size, sq. m.			4000 – 8000 (in city)	35000	70000	650
Age of structure (years)			50 – 70	40	40	50
Exterior walls			brick	timber	timber	timber
Floors			2 – or 4 – pitch slope	slate	slate	roofing iron
Roofs			wood	wood	wood	timber
Indicator 5.10 Land Concentration [Ind. A8] Share of vacant land in the urban areas owned by the five largest land holders	100.0%	0	0.0%	100.0%	100.0%	5.1%
Indicator 5.11 Land Development Multiplier [Ind. 21*] Ratio between the median land price of a developed plot on the urban fringe in a typical subdivision and the median price of raw, undeveloped land in an area currently being developed	3.7	2.1	2.1	N/A (no plot sales in 1992)	N/A	N/A (no plot sales in 1992)
Indicator 5.12 Land Conversion Multiplier [Ind. A14] Ratio between the median land price of a developed plot on the urban fringe given planning permission for residential development and the median price of a nearby plot in rural use without such permission	1.8	1.5	6.0	N/A (no plot sales in 1992)	N/A	N/A (no plot sales in 1992)
Indicator 5.13 Construction Cost Appreciation Rate of change of construction cost, measured as a percentage increase in average construction cost of 1 sq. meter of total usable floor area in a standard project from 1990 (by quarters)						
1990	100	100	100	100	100	100
1991	350			340	320	302
1992, I	3091	1666	1786	2606		3538
1992, II	4909	4478	6071	2606	5300	(1992 average)
1992, III	11182	6343	8929	4610	8134	
1992, IV			10714			
1993, I	16162	16657	24286	22850	20766	46196
1993, II	26500	33582	52143	40010	43172	(1993 average)

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DEMOGRAPHIC MODULE		Moscow	Nizhni Novgorod	Barnaul	St. Petersburg	Novgorod	Tver
Indicator 6.1	New Household Formation (Ind. 1) Annual percentage increase in the number of new households	-1.1%	-0.54%	-0.67%	-1.10%	-0.4%	-0.09%
Indicator 6.2	Multinuclear Families Percentage of multinuclear families to the total number of families	20.6%	18.0%	16.6%	24.9%	21.0%	N/A
Indicator 6.3	Forced Migration Number of households with status of forced migrant or refugee according to the Federal Migration Services	4309	2047 (1993)	–	657	411	N/A
HOUSING SUBSIDIES MODULE							
Indicator 7.1	Housing Subsidies (Ind. 18) Housing subsidies and housing services and public utilities expenses as a percentage of the local government budget last year	35.3%	37.5% (1993)	36.3%	27.7%	14.5%	32.2%
Indicator 7.2	Property Tax Receipts Percentage of propert tax receipts in the local government budget	–	0.002%	0.002%	2.3% (both physical and juridical persons)	2.7%	

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RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 2.1
HOUSING SECTOR REFORM STRATEGY

A. INTRODUCTION

1. This Annex presents the Russia's housing sector reform strategy that was developed in close collaboration with the Government of Russia under the Technical Cooperation Project on Housing Reform and Privatization during the year 1992. The strategy is presented in matrix form. The matrix summarizes actions needed across ten major areas of a housing system during its transition to market. The proposed strategy also presents a sequencing of reforms. Although this matrix is not intended to be the blueprint of reform actions and programs, it presents the means of apprehending the links between priority policy actions, new incentive structures and new professions.

2. The Russia Housing Project has been designed in consonance with the sector reform strategy, government's priorities and bank's CAS. The Project is designed to implement reforms at the local level that the national Government has already established as its policy. Local reforms will be concentrated on three areas that facilitate private sector construction for sale on the housing market: (a) *property rights development* -- including land and property title registration (b) *urban regulatory reforms* -- such as land privatization; land allocation through competitive procedures; and urban planning, building, environmental, and permitting procedures; and (c) *pro-competition policies for the building industry* -- including public procurement rules and construction management.

3. The Participating Cities have developed Regulatory Action Plans (RAP) that will be agreed with the Government and the cities during negotiations. The following elements of the RAP's are proposed as disbursement conditions for sub-projects under the Land Development Sub-component: a) the city has adopted a regulation on registration of title, including transactions in land and real estate, acceptable to the Bank; and b) the city has adopted procedures, acceptable to the Bank, on auction and competitive tender for land on project sites being disposed of by the city. Progress in implementation of RAP's will be a basis for reallocating loan proceeds among cities during annual reviews.

RUSSIA - MATRIX OF HOUSING REFORM POLICIES

Area/Issue of Interest	Recent Policy Measures	Immediate Next Steps	Over the Next Year	Medium Term (Five Years)	Ultimate Goal (Long Term)
1. Institutional Reform	Institutional changes initiated in the sector. Federal Housing Reform Office created. Regulatory autonomy and ownership of housing stock granted to local governments.	Provide new government structure and decentralize responsibilities. Integrate and/or coordinate housing sector-related institutions at federal and local levels. Clarify assignment of federal-local responsibilities. Create city-level housing reform offices.	Streamline federal institutions into directorates suited for market development policies. Recruit finance and management advisors for local governments. Train staff for new functions at federal and local levels. Retrain redundant staff, redeploy to operations.	Reorganize all key sector specific institutions Shift Federal role to regulation/enforcement monitoring of rules and processes; development of market oriented information . Autonomy of housing/land use regulations by local governments. Continue on-the-job training.	Housing production is no longer a direct public sector function. A market-oriented government structure is in place for the urban sector. Responsibilities of central and local governments are differentiated. Every function is carried out at the lowest possible level.
2. Property Rights/Legal Reform	New Laws Passed: 1993 Constitution includes full right to private ownership of land. Law on Basic Federal Housing Policy; Urban Development Law; Law on Pledge. Drafts of Mortgage, Property Register Laws	Allow private property of urban land in any use. Pass key housing laws, including property registration, and condominium. Issue regulations to implement new legislation. Introduce civil law contracts for all renters. Define clear land titling rules	Redefine public interest for eminent domain procedures. Detail regulations, model contracts. Introduce systematic property registration and land titling. Develop legal tools for private rental and home purchase. Introduce laws for eviction/foreclosure.	Implement land and mortgage registries. Promote publicity of all real estate transactions. Expand role of notary offices. Regulate with Civil Law contracts all rental/ownership transactions. Strengthen judicial appeal/procedures.	Consistent laws and regulations apply to all types and phases of real estate development. Private ownership of land and housing is prevalent. Property rights are clearly defined and well protected. Trading and exchange of properties is efficient, transaction costs low. Owners and tenants rights are well balanced.

120

Area/Issue of Interest	Recent Policy Measures	Immediate Next Steps	Over the Next Year	Medium Term (Five Years)	Ultimate Goal (Long Term)
3. Privatization of Public Housing	Major amendment passed to 1991 Housing Privatization Law that allows local flexibility. More than 20 cities have fully organized housing privatization process. Some cities are allowed to experiment ahead of the federal laws.	Create local committees to handle privatization. Provide incentives for rapid privatization. Streamline regulation and administrative procedures. Revise waiting lists and their functions .	Speed transfer of local government and departmental housing to private ownership. Write laws for brokerage services. Development new registration systems. Develop housing information systems services.	Privatize most of the public housing stock. Encourage listing and information services for sale of units. Support the development of a network of real estate centers in each province to support local real estate industry. Train new professionals.	Minimum ownership of public housing. Efficient brokerage of market transactions at low cost. Reliable and timely information across the entire housing systems is readily available locally.
4. Rent Reform	1992 Budget Law authorized local governments to increase rents. 1993 Presidential Decree prohibits experiments by local governments, yet is applied flexibly.	Design process to de-control rents. Encourage local experiments and assist cities. Develop city level financial management plans for municipal housing. De-control rent on privatized dwellings.	Give incentives to local governments to raise rents on public housing and provide minimum schedules.. Coordinate housing rehabilitation with rent increase programs. Coordinate rent reforms with new safety net policies.	Charge rents covering full O&M costs. Use rent vouchers for low income families.	Subsidies are restricted to vulnerable groups. Their choice of types of housing has been broadened. The overall rent level reflects market demand and the cost of capital in the economy. Full cost recovery is achieved by all types of owners (private and social non-profit). The housing system has become a self-financing industry.

121

Area/Issue of Interest	Recent Policy Measures	Immediate Next Steps	Over the Next Year	Medium Term (Five Years)	Ultimate Goal (Long Term)
5. **Maintenance and Management of Public Housing**	Local housing agencies are municipalized. Revenues do not even cover ordinary O&M costs. Funding for major rehabilitation and capital cost recovery remains a universal problem.	Restructure and differentiate the rent payment system. Adjust rental payments to cover operation and maintenance. Create autonomous housing management companies. Provide privatization rules to avoid mixed tenure within one building.	Develop training programs for the new housing management companies. Clean up accounting, billing framework and commingled communal economy funding. Create financial schemes for financial balance of individual housing companies. Initiate a large-scale energy rehabilitation program for housing. Introduce competition allowing private firms to carry-out O&M.	Generalize correct accounting, charging and billing procedures. Generalize the energy rehabilitation program. Continue to reduce the scale of Housing Management Companies. Every city has a fully operational city-wide financial planning and management system. Every city has its own competitive, private O&M firms. Resident mobility across the social housing stock within and between cities has been greatly increased through reform of waiting lists.	Most social housing companies have a corporate status.Municipally owned housing is very small. Management of the social housing stock is under financially and managerially autonomous local housing companies. The average scale of a social housing company has fallen much below 4,000 units. Management boards are representative of key local interests (residents, employers, financiers, local government). Rents insure full recovery of O&M, replacement costs, and local taxes. Explicit public subsidies for low-income resident insure financial balance of housing companies. Individual housing companies are supported by regional and federal professional associations which monitor performance, publicize audits every year, provide training and advice.

Area/Issue of Interest	Recent Policy Measures	Immediate Next Steps	Over the Next Year	Medium Term (Five Years)	Ultimate Goal (Long Term)
6. **Financial Policy**	Two-tier banking system introduced. Interest rates only partially adjusted to reflect inflation, and macro-economic instability prevents long-term lending. Pledge Law passed, but not other key laws affecting the use of housing and other real estate as collateral for loans.	Link housing finance to overall financial sector reforms. Design training center for banking services for housing and other real estate. Design viable construction and mortgage finance instruments. Design a viable transition financing plan for the private sale of new housing. Pass Mortgage Law.	Issue mortgages law supporting regulations. Implement training programs for housing finance. Test new mortgage tools when macro-economic conditions allow. Design new housing savings mechanisms. Develop mutual forms of housing finance.	Implement key laws and procedures to secure loans. Housing now investment attracts private funds. Lending and deposit rates are market-determined. Begin charging full price on new housing starts based on new products. Reduce credit subsidies and allocate them competitively.	Subsidies and finance are clearly separated. An efficient housing finance system is in place, based on competing private banks. Regulatory and supervisory systems are in place. Banking mechanisms are in place to raise the supply and management of term credit by banks.

122

Area/Issue of Interest	Recent Policy Measures	Immediate Next Steps	Over the Next Year	Medium Term (Five Years)	Ultimate Goal (Long Term)
7. Fiscal Policy	Drastic budget cuts affect all aspects of housing operations: maintenance, rehabilitation, and new production.	Develop consistent budget guidelines on competing demands: O&M, rehabilitation, completion of works in progress, and new production. Allow and promote local experiments in the taxation of land and real estate property.	Plan to remove most budget and in-kind subsidies to new housing production. Subsidies are shifted to the demand side, to avoid subsidizing inefficient production. Insure that new demand-side subsidies are up-front, explicit and budgeted. Develop new methods to charge for the provision of urban services. To evaluate policy options, creation of integrated "housing sector accounts" to monitor public an private financial flows, subsidies, and "tax expenditures" to the sector.	Implement fully the restructuring of demand-side subsidies and production subsidies. Target any residual subsidy to well identified deserving beneficiaries. Implement a consistent taxation framework for housing covering both tax expenditures and budget subsidies.	The role of the federal government is primarily to monitor and regulate the sector. Budget resources to subsidize the sector are targeted to vulnerable groups, their share of the national budget and GDP are consistent with macro-economic stability. Full periodic fiscal reviews are prepared for the sector covering both direct budget expenditures and indirect tax expenditures. The detailed management of housing budget transfers is left to local governments.

123

Area/Issue of Interest	Recent Policy Measures	Immediate Next Steps	Over the Next Year	Medium Term (Five Years)	Ultimate Goal (Long Term)
8. Privatization of the Construction Industry	Prices and Imports Liberalized A large number of SOE's have been privatized "as is". Effective restructuring to adjust to competitive conditions is still needed.	Reorient the construction ministry away from direct control of sectoral SOE's. Work on competitive procurement and tendering rules and regulations. End local monopolies over supply of building materials. End price regulations over construction activities. Draft new building codes to allow new types of housing. Draft Procurement Law. Initiate a major review of the restructuring of the building materials industries.	Adopt and apply competitive procurement law. Use new procurement rules in new projects to help emergence of subcontracting new firms. Develop a market-oriented legal framework for competitive construction. Start the restructuring of housing kombinats. Reduce or terminate subsidies to builders and suppliers. Start competitive bids on major public works contracts.	Stop all direct subsidies to state enterprises. Use competitive bids on all major public works contracts. Develop market intelligence services. Create rules for bonding, insurance, and guarantees of good completion. Develop the institutions and professions of the market. Develop project management, cost controls and firm management programs.	Most contractors and suppliers are private. The number of sub-contracting specialist firms is very large. Construction management, pricing and cost control methods are in place. Profitability - not volume - is the driving incentive. Government enforces legal framework for private contracts. Guarantees of good delivery are in place. Project life-costing is a common practice: O & M requirements are fully integrated into project design. A wide variety of technologies are available and building products respond to user demands.

124

Area/Issue of Interest	Recent Policy Measures	Immediate Next Steps	Over the Next Year	Medium Term (Five Years)	Ultimate Goal (Long Term)
9. Reform of Land Use and Urban Regulation	Urban Development Law passed, but it is focused on city design rather than on urban investment regulation. Ownership of urban land for housing allowed, but it should be extended to all uses to generate resources for local restructuring. Fundamental reform allowing full private ownership of land in new Constitution of December 1993. Removes earlier land use restrictions.	Clarify division of central-local responsibilities for urban development. Draft federal rules on access to urban land, leave implementation to cities. Streamline land-use regulations.	Implement open rules for selling urban land. Remove implicit and explicit administrative barriers to new housing types. Encourage design and planning innovations to diversify supply of housing. Protect historical and other sensitive sites in city centers.	Revise current master plans, zoning and subdivision regulations as needed. Establish procedures and institutions for public participation in land use decisions and appeals. Higher levels of governments can neither disregard nor overrule local planning decisions reached through new legal and regulatory processes. Local planning is done locally, not by central institutes.	Sufficient land is zoned to meet demand for housing development. Fallow industrial lands in prime locations have been recycled. Cities are efficient and livable. Procedures may be standard across Russia, but substantive land use decisions are local. Urban planners do not design cities. They establish minimum rules that *all* potential land users must meet, and the limits within which the land market will operate. This regulatory process is local and public. Historical sites and urban amenities are protected.

10. Municipal Finance and Residential Infrastructure	Municipalities to control urban development and provide infrastructure.	Densify development where infrastructure, urban services are easily available. Abolish concept of "communal economy" and develop the basis for individual pricing of each urban service.	Limit master plan role to location of primary infrastructure by the public sector. Develop market-oriented land valuation techniques. Develop a property tax system.	Municipalities assume responsibility for trunk infrastructure provision. Property tax contributes to infrastructure finance, as well as impact fees. Develop public/private methods of providing local infrastructure and services.	Developers provide the secondary infrastructure charging its costs within price of dwellings. Major trunk infrastructure is financed by local government through long-term credit. Public/private investment and operation mechanisms are in place.

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 3.1
CITY SELECTION PROCEDURE

A. BACKGROUND

1. The Government of Russia has established extensive reforms in housing policy that have yet to be integrated on a local level. Land development and construction finance in the Housing project will be implemented at the city and *oblast* levels. The selection of a limited number of cities is necessary to maximize the learning and demonstration effects of the Project. Including cities of a number of different sizes and types enhances the use of these cities as demonstrations to other cities throughout Russia. The list of Participating Cities includes the following five: Barnaul, Nizhny Novgorod, Novgorod, St. Petersburg,and Tver.

2. Initial discussions on city selection were held between representatives of the Russian Government, mostly from Minstroi and the Presidential Administration, and the Bank's Project Identification Mission during May 9-21, 1993. Several key points emerged from the discussions:

(a) The Russian Government emphasized the need to focus on a number of smaller cities in Central Russia where there was an identified need to absorb returning soldiers and refugees from former Soviet republics;

(b) The mission emphasized the need to focus on a broader range of cities throughout the Russian federation, particularly on the larger cities which are leaders in market reforms;

(c) The Russian Government would be responsible for selecting the cities. The Bank, on its part, would like to have the opportunity to eliminate cities which it considers unsuitable.

3. The results of these discussions was an agreement that the Bank would conduct initial investigations in twenty-one cities and *oblasts* and present the results of its investigations to the Russian Government which would then narrow down the number of cities further. The Bank and the Russian Government agreed on examining cities and *oblasts* of three types: the two Russian megacities - Moscow and St. Petersburg which are clear leaders in market reforms and market development; seven cities and *oblasts* in Central Russia (including the two *oblasts* of the megacities); and all the Russian cities with a population of over one million people.

4. Demographic, economic and housing data from published recent statistics were collected for each of the twenty one cities and *oblasts* and organized into a set of identical tables for each city. A large number of potential city selection criteria were identified and translated into possible quantitative indicators for which data may be obtained during the city visits. A methodology for

conducting the city visits was formulated, dividing the attention between meetings with officials, private sector and banking representatives, site visits, and factory visits. Two housing specialists of the Bank's city selection team visited each of the cities and *oblasts* during the period May 24- July 6, 1993, collecting documents, meeting officials, academics and representatives of the private sector and visiting Project sites, enterprises and banks. The main findings of the city selection team are presented below.

B. CITY SELECTION CRITERIA

5. The Aide-Memoire issued by the Bank's Project Identification Mission in May of 1993 identified three main criteria for city selection: (a) the reform orientation of the local administration and its interest in enhancing and promoting housing sector reforms; (b) the level of development of market demand, market relations and private-sector supply in the housing sector; and (c) the suitability of the city for the key components of the proposed Project.

6. A large number of statistical variables and field observations were used to try to differentiate between the cities. There was no significant variation between the cities surveyed on a number of variables where considerable differences were expected. A number of other statistical findings did point in the right direction:

(a) Privatization of the public housing stock is proceeding everywhere but the latest available statistics, for June of 1992, were out of date. The percentage of units shown to be privatized by that date ranged from 0.5% to 5.9% (in Moscow). These low rates of privatization did not reflect the existence of a vibrant housing market in any city except Moscow, and to a lesser extent St. Petersburg, where the percentage of units privatized was only 0.8%. More current data for most cities were not available at that time, however results from surveys underway in all the Participating Cities have now provided a more accurate indication of housing demand and recent housing market activity.

(b) The intensity of overall privatization of public enterprises in 1993, measured rather unsystematically by a business publication, did vary considerably between city regions. Yekaterinburg, Rostov-on-Don, Orenburg, Cheliabinsk, Ufa and Perm all had rates below 40%, while St. Petersburg, Novgorod, Pskov and Nizhny-Novgorod had rates above 75%.

(c) A similar measure of private ownership, albeit an historical one, is the percentage of the housing stock in individual ownership as of 1991. Generally, a very small percentage of the stock was in private hands, with a median of 7.7%.

(d) There was data available on the percentage of the population in each *oblast* which supported the Government's economic reform in the referendum of 1993. More than 60% supported the reforms in Moscow, St. Petersburg, Yaroslavl, Yekaterinburg, Cheliabinsk and Perm. Less than 50% supported the reforms in Tver, Pskov, Kostroma, Omsk, Novosibirsk, Volgograd and Ufa. These results, however, did not

necessarily reflect the attitudes of the local administration which was brought about more clearly in the city visits.

(e) Finally, investment risk, measured rather unsystematically by a business publication, was found to be low in most cities except Kazan and Ufa.

7. The preliminary statistical findings had to be corroborated by the city visits, and supplemented by additional recent data on housing market characteristics - privatization, rent and maintenance levels, housing transactions, and the availability of mortgage finance; housing production - quantities produced, costs and dwelling unit sizes, waiting lists and unfinished housing, the state of the construction conglomerates, private sector production, and the presence of rehabilitation projects; residential land - use, land development, residential land subdivision and the presence of informal land subdivisions. Again, on a large number of these dimensions there was no significant variation among the cities surveyed.

8. While it was not possible to use the data and the observations in a systematic manner for recommending cities for the Project, the team was able to combine the data to form strong impressions as to the suitability of each city for participation in the Project. The recommendations of the team are given in the following section.

C. RECOMMENDED CITIES

9. The team focused on recommending cities where (a) The Project would have the highest probability of success; (b) The key components of the Project could be implemented; and (c) The implementation of the Project would create demonstration effects which could be replicated in other Russian cities.

10. Eleven cities were recommended for possible participation in the Russia Housing Project, with the understanding that discussions with the Russian Government would lead to reducing the number further. The findings of the City Selection team were presented to Minstroi and reviewed by the Vice Chairman, Mr. Krivov and the Chairman, Mr. Basin in early July, 1993. At that time Barnaul was added to the city selection process at the request of the Government and a mission was sent out to visit Barnaul. Following the visit the Bank agreed to include the city in Project Preparation due to its reform orientation and market activity.

11. By the end of July it was decided that the number of cities participating in the Project would be further reduced to six. The Project has since worked closely with the selected cities to develop the Project components, relying primarily on the various members of the Project Review Unit in Moscow to maintain that contact. At an advanced stage in Project Preparation it was decided that Rostov-on-Don, then one of the six Participating Cities, would not be ready to participate in the Project by Appraisal in June. The city of Rostov-on-Don has set a moratorium on construction due to severe deficits in infrastructure that cannot be resolved in the immediate future.

12. A detailed description of the five Participating Cities follows below. More extensive statistics per city regarding population and housing density have been compiled and placed in the Project files.

(1) St. Petersburg:

St. Petersburg is the second largest city in the Russian Federation with 5 million people in 1991. The population grew by about 0.7% per year between 1980 and 1991. About 48% of the housing stock in St. Petersburg was built between 1951 and 1970. In 1990, the housing stock stood at 1.5 million units and the average number of persons per dwelling unit was 3.1. In 1991, only 1.4% of the housing stock was private while 10% was State owned and 74% belonged to the municipality. Between 1991 and January 1994 the number of units privately-owned grew to approximately 483,000, which comprised 32% of the total housing stock in St. Petersburg.

St. Petersburg is widely recognized as one of the most reform oriented cities today, having been the site of initial economic reforms. Most small ventures are privatized as are most of the former state-owned companies. Housing privatization has progressed steadily. The housing market for existing private apartments involved about 4000 transactions a month in 1993. In September 1993, prices of typical flats was between $US455/m2 for those situated in good down-town locations and $US358/m2 for those less centrally-located . Key government officials want to focus on new types of buildings and building materials. They also want to improve procedures for contracting work and allocating land. .

(2) Tver:

Tver's population was 460,000 in 1991, and grew at an average of 1% between 1980 and 1991. In 1990, the average number of persons in each dwelling unit was 3.81, and the average household size was 3.1. In 1991, 79 % of the stock belonged to the State or the municipality, and about 13% was private. About 35% of the housing stock was built between 1951 and 1970. Tver has an open-minded administration, working closely with the private sector and the new local banks to support a number of initiatives. There are a number of suburban developments under way, with plans for new self-financing land development schemes. The local *Kombinat* has been privatized and has initiated a number of innovative schemes to meet market demands. Tver is one of the localities that is expected to absorb returning soldiers from the Baltics. It is also receiving help sponsored by the Bank and funded by Canada in strengthening its construction industry.

(3) Novgorod:

Novgorod had a population of about 243,000 in 1991, and grew at an annual rate of about 2.5% between 1980 and 1991. In 1990, the average number of persons in each dwelling unit was 3.7, and the average household size was 3.1. In 1991, 94% of the stock belonged to the State or the municipality, and about 3% was private. About 33% of the housing stock was built between 1951 and 1970. There is a positive environment for housing development in the city. The government strongly supports new forms of housing such as cottages. The private construction building material industry has high potential for supporting new types of construction. Housing privatization has proceeded satisfactorily. The city has been actively preparing for the return of military families.

(4) Nizhny Novgorod:

Nizhny Novgorod's population was 1.5 million in 1991, having grown an average of 0.7% annually between 1980 and 1991. The *oblast* in which the city resides was 78% urban in 1991. In 1990, the average number of persons per dwelling was 4.1, and the average urban household size (for the *oblast*) was 3.1. In 1991, 85% of the stock belonged to the State or the municipality, and about 6% was private. About 13% of the housing stock was built before 1950. The government has a strong reform orientation, and there is a commission on housing reform looking at problems in the housing sector. Although they are awaiting federal guidelines, the government has worked out a set of local acts to support rent increases. The government has a clear understanding of the need to harness individual resources for housing, especially for maintenance. The governor, in an attempt to address the lack of competition in the present system of state-ordered housing, recently signed an act that forces most construction to come through competition. The governor also believes money must flow through a properly regulated banking system. Finally, the government and business community believe they must rely chiefly on their own efforts to save themselves.

(5) Barnaul:

Barnaul's population in 1992 was 92,603, and grew by 2000 during the past year. The Altai Krai has about 2,660,000 with growth of about 100,000 in 1993, primarily from Central Asia migrants. The Krai and the City administration appear to work together well, and the mayor is dynamic and apparently popular. The city's economic base is a little difficult to determine, but according to both public and private officials, there are more jobs than workers available, with housing being a key constraint to their ability to absorb more migrants. The city has a large historic core with beautiful, turn of the century wooden houses on well-laid out blocks. The city has a well-developed tradition of housing construction in wood. A significant number of the new houses being built are of wood, although most of the big ones are built with bomb-proof 64 cm. brick walls.

Of 150,000 state units, about 20,000 have been privatized; apparently through a simple procedure. In addition, there are 40,000 private single family houses, most in poor condition. There appears to be a fairly active real estate market, with about 15 sales a week. City priorities appear to be the upgrading of existing single family neighborhoods, the opening new areas for single family housing, and cadastres.

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 3.2
LAND DEVELOPMENT SUB-COMPONENT

A. OVERVIEW

1. A critical constraint to the development of a competitive and market-responsive housing sector is the lack of land available to the private housing market. Under the Communist regime, land was treated as a public good, owned and managed by the state. The private sector had little or no access to land ownership or development. Although, starting in early 1990, federal legal and regulatory reforms have established the enabling framework to private ownership of land and the right of all land owners, including local authorities, to dispose of land at their own discretion, these reforms remain to be realized at the local level (See Annexes 1.1 and 1.2 for status of regulations at the federal and the local level, respectively). Local governments continue to own the majority of the land, while the traditional land development and management tools available to the local authorities remain inadequate for efficient, market-responsive land development and management. As a result, there is a shortage of "developable" land in the current private housing market. The Land Development Sub-component is designed to address the policy, regulatory, procedural and technical constraints to market oriented land management.

2. This annex presents the objectives, strategy for instituting enabling framework for implementation of the Sub-component, detailed development sequence of the sub-projects, and institutional arrangements for implementation of the Sub-components. The attachments present (a) Definition of Terms, (b) Guidelines for Sub-project Preparation, (c) First Phase, including the First Year Plan, for Land Development Sub-projects, (d) Feasibility Analysis Data on the Initial Pipeline of Sub-projects, (e) Affordability Analysis carried out for housing proposed under the sub-projects, and (f) the phasing plan for implementation of the initial pipeline of sub-projects.

B. OBJECTIVES

3. Consistent with Project goals and objectives, the Land Development Sub-component will address the constraints on availability of land by breaking up government monopoly on supply of land by assisting the local government in introducing land rapidly into the private housing market. For this purpose, the Sub-component will provide assistance for the development of a practical framework of procedural and regulatory environment responsive to a private market-oriented housing sector at the local level. More specifically, the objectives of the Land Development Sub-component will be: (a) to implement the national policies, legal and regulatory reforms in the participating cities; (b) to demonstrate the tangible outcome of the government's policy reforms, as well as the feasibility of market oriented planning process; and (c) to institutionalize the new regulatory, planning, and administrative principles and procedures in the day to day functioning of the relevant institutions, such as title registration system and competitive land disposal procedures. These objectives would be achieved through (a) Institutional Development -- institutionalization of the relevant procedures

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and practices through Training and Technical Cooperation, and (b) Demonstration Land Development Sub-projects, described below.

C. PRINCIPAL INITIATIVES UNDER THE SUB-COMPONENT

I. Institutional Development
II. Land Development Sub-Projects

I. INSTITUTIONAL DEVELOPMENT

4. In order to transfer land from public to private ownership a number of regulations and procedural practices have to be in place, such as clarification of property rights, title registration system, and transparent and open land disposal procedures. The main objective of the Institutional Development initiatives will be to create such enabling practical framework for implementation of the sub-project. In addition, while the Sub-projects will demonstrate the feasibility of new policies and practices, the institutionalization objective will be critical in making the impact of the of the sub-component sustainable in the long term and establishing a practical framework for implementation of the sub-projects. Institutionalization of relevant principles and practices of this Sub-component will be supported by specific initiatives under the Training and Technical Assistance Component. Detailed Training and Technical Cooperation Program is presented in Annexes 3.6 and 3.7. A number of Technical Cooperation initiatives have already taken place during Project preparation. These are stated below.

5. Specific technical cooperation initiatives that have already been undertaken in support of the Land Development Sub-component are:

a. An Affordability Model has been introduced to the participating cities assess the financial feasibility of Land Development Sub-projects.

b. Local Regulatory Action Plans (RAPs) have been developed by each city, in workshops/seminars for Land Policy and Regulations. The RAPs include key issues that need to be instituted prior to sub-project funding such as title registration, land allocation procedures, local land use and planning regulations. The longer term issues included in RAPs that need to be addressed over the life of the project are housing reform policy and Land use and building regulation. These local action plans also identify a number of enabling federal actions that need to be addressed for successful implementation of the sub-project as well as sustainable sectoral reform. Detailed description of Local Regulatory Action Plans are presented in Annex 3.3.

c. A number of seminars and workshops have been to provided to participants from local governments, commercial banks, and private developers, under USAID's Technical Cooperation Program (Annex 3.7) in: (a) assessment of financial feasibility of sub-projects through a Land Development Model, (b) Land Allocation and Title Registration System, (b) Land Development Regulatory Framework, (c) Project Finance, and (d) Project Development, including (e) Construction Finance Seminar in the U.S. for select participants.

6. Future training and technical cooperation activities proposed in support of the Sub-component include:

1. Technical assistance for Land Auction Procedures;

2. Pilot Land Registration System;

3. Procurement procedures and processes as per World Bank guidelines.

4. Terms of Reference for: (a) Land Development Regulatory Audit (Annex 3.8) which will establish the framework for spatial, engineering and social norms of planning, norms for development cost sharing between public and private, systems of establishing administrative control over these processes, and the structure of fees and taxes related to land development; and (b) Building Materials and Housing Construction Regulations (Annex 3.8), which will develop and establish codes and standards for fire safety regulations, building materials, building regulations, licensing process of private product manufacturers, developers and planning professionals.

II. LAND DEVELOPMENT SUB-PROJECTS

7. The Land Development Sub-projects will be developed by the local authorities of the participating cities. The local authorities will select the sites and develop proposals for Land Development Sub-projects for appraisal by the CPIU, according to the Site Selection, Planning and Marketing,and Environmental Guidelines established by the CPIU. These guidelines, presented in Attachment B, have been prepared by the CPIU in conjunction with Minstroi and local developmental guidelines. The sub-projects will be monitored by the LPIU while the CPIU with support from the General Consultant for the Project will administer the loan disbursement and repayment on behalf of GOR and IBRD.

8. Presently 16 sub-projects in the five participating cities have been appraised and approved for eligibility under the land Development line of credit. A summary of the initial pipeline of sub-projects appraised is presented in Chapter 3, table 3.3. The Economic Rationale, Types of Investment supported by the Sub-component, and status of the initial pipeline of appraised sub-projects is presented in Chapter 3, section B.

9. Summary of Sub-component Concept. The sub-component's basic objective is to increase the amount of raw land available in the housing market. The sale of land could, inter alia, be seen by municipal governments as means of raising resources to discharge some of the community service responsibilities they are presently unable to meet. Auctioning of land would be desirable as it would enable them to test the market, secure the highest returns and assure transaction transparency. For example, participating municipalities will offer land in areas supported by suitable off-site services by auctioning it to construction companies before construction of on-site infrastructure is undertaken, thus testing the suitability of the land offered as well as the relative demand for improved and unimproved land. In such auctions, municipal governments could undertake to deliver on-site infrastructure within a specified period of time, but housing construction firms would have the option

to bid for the same plot of land without infrastructure. Thus, if a bidder believes that it can build on-site infrastructure at a lower cost or more quickly than the municipal government, it should have the opportunity to do so. The winning bid should be the one offering the highest net present value to the municipal government for the unimproved land. For purposes of comparison, the local government's estimated cost of on-site infrastructure construction should be deducted from bids for improved land.

1. Development Sequence

10. The sub-projects will constitute seven broad steps from design to implementation. These are:

1. Site Selection;
2. Planning for future housing development;
3. Auctioning of land to private developers/builders;
4. Tendering contract for construction of public infrastructure;
5. Appraisal of sub-project and sub-loan approval[1];
6. Construction of public infrastructure;
7. Housing Construction.

1. Site selection. The sites will be selected as per the Site Selection Guidelines (Attachment B), and feasibility analysis carried out on the basis of Land Development Model introduced to the cities at the onset of project preparation.

2. Planning for future housing development. The local design institutes will prepare the sub-projects as per the Land Development Guidelines established for the sub-projects (Attachment B). These proposals will include feasibility analyses as per the Land Development Model, financial plan for cost recovery and loan repayment including a schedule for auction and tendering of the parcels, and engineering and infrastructure design guidelines. The cities will be required to include Environmental Assessment reports carried out as per Bank guidelines.

3. Auctioning of land to private developers/builders. *Summary*. In order to transfer land from public to private ownership the cities will be required to adopt transparent and open land disposal procedures such as land auction or competitive tendering of land parcels as part of their Regulatory Action Plans. As a tool for investment decision, the cities are required to auction the land prior to municipal infrastructure construction. Where auctions are unsuccessful, the reserve price will be re-evaluated and auctions rescheduled. These procedures will maximize the local governments rate of return from the sale of land while minimizing the risk of over-investment in land development and infrastructure construction. The cities will revise and adapt these procedures as they gain experience.. The cities will be provided technical assistance from the General Consultant for the entire procedure of land auctioning and tendering.

1/ The design of initial pipeline of sub-projects have been appraised before the auction during Project Preparation. The sub-loans for these sub-projects will be approved after the auction has been held and the cities have obtained bids for construction of public infrastructure.

a. Auctions or competitive tenders: Sub-project sites will be sub-divided into smaller parcels of 20-30 houses and auctioned to private builders as per guidelines summarized below. Each of the parcels will be accompanied by Town Planning Orders, Building Permits for certain a flexible range of house types, and legal titles for each plot. Cities will be required to sell land either through auctions or by evaluating competitive proposals. Competitive proposals must be open, transparent and competitive subject to criteria of prequalification. In either case, the local government will solicit offers after publicizing widely through the local media. Auctions will be open to the public, and competitive tenders will be available for public scrutiny. The winning bid will be the one offering the highest net present value to the cities for land. The discount rate used in the evaluation will be included in the request for proposals. The discount rate for evaluation of proposals by private developers should be equal to subloan rate to the municipality by the central government. The cities will publicize the result of the selection of successful bidders, the terms of the sale and the reasons for the selection. Potential developers will be given maximum flexibility in proposing terms. Technical assistance will be provided to both the cities and the bidders for the land disposal procedures.

b. Eligible Bidders. Only private developers, co-operatives and other resident associations, and companies with at least seventy five per cent private ownership, will be allowed to participate. Reasonable pre-qualification of bidders based on financial capability and development experience will be permitted.

c. Reserve Price. The local government will set a minimum reserve price that is at least equal to the cost of providing infrastructure to the land being sold plus the imputed value of land. Where optional levels of infrastructure development are proposed by the private developers, reserve prices will be adjusted accordingly. If the infrastructure benefits more than one parcel, the local government will allocate the costs of construction on a reasonable basis. The local government will not sell land for prices below the reserve price without prior approval from the Bank. The reserve price will not be publicized in advance of auctions.

d. Responsibility for Infrastructure Development. The Cities will be responsible for providing off-site infrastructure. Depending on the outcome of land auctions, the auctions will close with cities selling either:

i. Raw land with no infrastructure; or
ii Land with the local government responsible for infrastructure development;
iii. Land with the developer responsible for infrastructure development; or
iv. Land where the private developers will provide part of the infrastructure and the cities the rest.

The cities will be encouraged to remain flexible. Based on their experience with the first sub-projects the municipalities will be better able to assess (a) their capacity to generate counterpart funding, (b) the financial feasibility of future land development initiatives, and (c) their consequent ability to generate enough revenue through land sales or auction to cover

infrastructure costs and loan repayment. This will also allow the cities to provide a greater choice to the private contractors and developers.

In all of the options the price to developer will be adjusted to take into account the infrastructure costs being borne by the cities. Where the city is responsible for infrastructure development and does not complete the infrastructure within the agreed time period, the developer will be entitled to cancel the offer and receive a refund of the deposit plus interest. In all cases, the purchasers will be responsible for constructing the infrastructure that will run from the connecting infrastructure to the individual buildings constructed on the parcels.

e. Timing of the Sale. Local governments will be required to auction the land before they award any contracts for related infrastructure construction. This will minimize the risk to the cities of borrowing for infrastructure construction that may not be recovered from land sales. Soliciting bids for design and construction of infrastructure would further minimize cost to the cities. However, it might result in significantly lower offers because of increased developer uncertainty.

f. Payment Terms. All payments for land will be required in cash. Payments in kind, for example in the form of apartments or infrastructure construction, will not be permitted. This will enable a maximum disclosure of the market price and allow for a fair comparison of alternative offers. It will also permit the local governments to receive the cash needed for repayment of the Bank's loan.

While this will require developers to provide more cash than normal existing practices, the impact can be mitigated by allowing for graduated payments over an extended time period, with the requirement that they deposit at least 10% of the offered price at the time of the acceptance of the bid or proposal. While repayment may be tied to house sales, the terms will be designed so that the developers pay full price of the land before half of the parcels on their land is sold. The terms will always include a fixed date for payment.

The cities will hold the titles in escrow until the developer pays for the land. The developers may make payments for portions of their sites that are completed and are being sold to households. At this time the title for individual buildings will be transferred to the individual households. Titles will not be transferred until payment is received from developers.

g. Local Project Account and Counterpart Funding Requirement Until the city repays the Bank borrowing, all proceeds from the sale of land will go into a special account that can only be used for development of project sites or debt repayment. The cities will be required to establish and maintain separate Local Project Accounts distinct from the cities' budgetary accounts. This will help ensure timely provision of counterpart funding for project implementation and timely repayments of participating city loans to the Borrower. In addition, a separate account would facilitate more efficient record-keeping and audits. After the conclusion of the Project and repayment of the participating city loan, the city can use the surplus funds in this account as it deems necessary. The Local Project Account must contain at least four months of estimated counterpart funding requirements at the time of disbursement for infrastructure contract(s) to a participating city. The Bank would monitor

the level of counterpart funding available, to ensure that it was sufficient for the completion of the Sub-projects.

4. **Tendering contract for construction of public infrastructure.** The cities in all cases will be responsible for provision of off-site infrastructure. The outcome of the auctions will determine the level and amount of additional infrastructure, which the private developers are unable to construct, to be provided by the cities. At this stage the cities will be required to invite tenders from contractors for construction of public infrastructure. The contractors for civil works will be selected through international and local competitive bidding under the World Bank Procurement Guidelines (see Chapter 4, paras 4.26 - 4.29). After obtaining the final contracts for construction of public infrastructure, the sub-projects will be ready for appraisal by the CPIU (and the Bank). Approval of contracts will trigger approval of sub-loans. The cities will be provided technical assistance in the tendering and contracting procedures.

5. **Appraisal and Loan Approval.** The sub-project proposals, reflecting the outcome of the land auction and tendering for construction of public infrastructure, will be appraised by the CPIU as per the criteria for sub-project selection (Attachment B). The design of the sub-projects in the initial pipeline has been appraised by the Project Preparation team. Following the approval of the sub-projects, the cities/oblasts will enter into a subsidiary loan agreement with the federal government. The CPIU with support from the General Consultant, will monitor and disburse the loan from a Special Account (SA) set up in a commercial bank for the Land Development Sub-component (TOR for the General Consultant is presented in Annex 3.8). The Commercial bank will be selected by the Government through competitive bidding and acceptable to the World Bank (see Chapter 4).

6. **Construction of Public Infrastructure.** After obtaining the sub-loan approval, the cities will award Civil Works Contracts and commence the construction of infrastructure. The Civil Works Contractor may arrange sub-contractors for specialized construction work. Larger sites will be developed in phases. The infrastructure will be designed and constructed as per the engineering guidelines developed under the Technical Cooperation Sub-component (TOR for Land Development Regulatory Audit is presented in Annex 3.8).

7. **Housing Construction.** The private developers will construct their share of the infrastructure in sequence with public infrastructure construction. They will construct the houses as per the Town Planning Orders developed by the cities. The builders are expected to finance the construction process either from their own resources or obtain financing from participating commercial banks under the Construction Finance Line-of Credit, or commercial banks of their own selection. LPIU will monitor the construction process and sale of the units to private owners to ensure adherence to the Planning Orders, guidelines, and Building Standards. The commercial banks will monitor the loan repayment for construction finance.

2. Institutional Arrangements and Financial Channel

11. Central Project Implementation Unit (CPIU)and the General Consultant. The CPIU will contract with a General Consultant for overall administration of the Project. The Government will on-lend funds to the local governments in participating cities to carry out the demonstration sub-

projects through a Special Account (SA) in a commercial bank. The CPIU with support from the General Consultant, will manage the SA on behalf of the Ministry of Finance and Ministry of Construction. The General Consultant will be responsible for overall review and monitoring of the Land Development Sub-component. The specific functions of the General Consultant will be to (a) monitor the SA and request disbursements as the sub-projects are implemented, (b) review sub-projects for adherence to Project guidelines, including environmental guidelines, (c) monitor and assist the LPIU in preparation of the sub-projects proposals, implementing land title registration system, developing and institutionalizing Planning and Building Regulatory Guidelines, (d) provide assistance for procurement, and auction of sub-projects sites, (e) inspect construction of infrastructure, (f) monitor availability of local counterpart funding, and (g) report on progress to the World Bank and IMC. Detailed responsibilities and staffing pattern are presented in Annex. For detailed function of the General Consultant see Annex 3.8.

12. Local Project Implementation Unit (LPIU) A Local Project Implementation Unit (LPIU) will be established within local governments in each city for sub-project preparation and implementation. The LPIUs will be responsible for: (a) developing and submitting proposals to CPIU for appraisal, (b) implementation of land auctions and land marketing; (c) monitoring the implementation of regulatory action plans and land title registration system; (d) securing collateral and counterpart financing, (e) project management, including supervision of detailed sub-project planning, infrastructure design, environmental analysis, contracting for civil works and construction supervision; (f) supervision of disbursements from local budgets and loan funds; (g) accounting, audits and reporting, and (h) coordination of local technical cooperation and training activities. The LPIU will also be responsible for reporting functions to the Mayors of the respective cities when the sub-projects are within city boundaries, the LCC and the CPIU.

13. Local Coordinating Committee (LCC). The LCC will be responsible for (a) approving the work plans of each LPIU; (b) recommending to the IMG, any alterations to the Land Development Sub-component; and (c) coordinating the various entities which will be involved in implementing the Project at the local level.

14. Detailed implementation arrangements of the Sub-component are described in Chapter 5. Detailed responsibility and staffing pattern are presented in Annex 5.2. Financing mechanisms, and cost-recovery analysis are discussed in detail in Annex 4.2.

ATTACHMENT A: DEFINITION OF TERMS

Definition of terms as used under the Land Development Sub-component is presented below:

1. **Site**: The entire area containing parcels of land to be auctioned for residential and other development, as well as parks, open-space, community facilities (sometimes called "social infrastructure") and land needed for utilities and infrastructure such as roads, utility easements, and substations. There are sixteen sites in the Land Development sub-component.

2. **Parcel**: An area of land to be auctioned or sold for development. Generally a parcel is large enough to contain many dwelling units, and the purchaser will be a developer or builder intending to construct such units and sell them on the real-estate market. A site will generally be subdivided into a number of parcels, the sum total of which will be the 'net saleable area' of the site. A parcel purchased at auction generally contains no infrastructure, and may contain a number of plots (see below). The builder is responsible for connecting his dwelling units to the infrastructure which will usually be located in the adjacent street.

3. **Plot**: An area of land intended for a single building such as a single-family house, a townhouse or apartment building under the control of its tenants/ home-owners.

4. **Primary Off-site Infrastructure**: This is generally a plant or facility serving a wide area of the city, such as a water-treatment plant, an electricity substation or a heating plant. Primary off-site infrastructure may be included in the sub-component when the capacity of an existing facility is insufficient to support the amount of development proposed for a given Site.

5. **Infrastructure Network**: The system of pipes, roads, lines or other conduits linking development to a Primary Infrastructure facility. For cost-recovery purposes some of this network is categorized as "on-site" and some as "off-site". Generally, maintenance of the network is the responsibility of the city or a utility enterprise, but construction of portions of the network may be undertaken by either the city or a private developer.

6. **Connecting Infrastructure**: For the purposes of this project, this is the portion of an infrastructure network within the boundaries of a Site which connects or services the various Parcels of land to be auctioned. The Connecting Infrastructure is generally within a street or on public property. It may be constructed by the developers of adjacent parcels if suitable agreements on delivery dates, construction standards and permitting by city authorities can be made. Otherwise city agencies should be responsible for construction under WB procurement regulations. These authorities will ultimately

ATTACHMENT B: GUIDELINES FOR SUB-PROJECT PREPARATION

1. Guidelines for the Land Development Sub-project Selection were discussed and developed by the Bank in conjunction with the cities during Project Preparation. These generally fall into four categories:

1. Site Selection Guidelines
2. Planning and Marketing Guidelines
3. Environmental Guidelines
4. Cost-recovery Guidelines

1. SITE SELECTION GUIDELINES

2. Site Selection Guidelines were developed after a number of discussions with planners and developers. It was agreed sites were going to be selected as per the following guidelines:

a. have all necessary utilities nearby (i.e., at or near the edge of the site);
b. have ready access to public transportation and existing community facilities;
c. not require excessive site preparation (landfill, drainage, regrading etc);
d. be generally compatible with the present Master Plan regarding land-use;
e. be situated on land already under city/oblast control, or which can be readily acquired at reasonable cost from a Sovkhoz (collective farm) or other organization/enterprise;
f. not be pre-allocated to a developer nor be under construction; and
g. have no major environmental defects which would cause delays due to impact studies or major expense to rectify problems.

2. PLANNING AND MARKETING GUIDELINES

3. An Affordability Model which would enable the cities to perform a basic planning and cost analysis of the serviced sites was introduced at the on-set of Project Preparation. Such an analysis for the sub-projects is presented in Attachment E. The basic guidelines of the model are as follows:

a. Anticipated house sales prices and the number of units in a given price-range should be within potential market demand;
b. Housing plots should be sized to ensure infrastructure is affordable;
c. Housing densities should follow master plan norms for each district, but with both maximum and minimum densities set through the Town Planning Orders;
d. Percent of saleable land should be at least 55%
e. Subsidies: purchase price of serviced land should not show cross-subsidies
f. Raw land values should be positive.
g. Proportion of serviced land costs to <u>total</u> housing cost to be approximately 30 - 40%
h. Construction costs should reflect modest standards, while minimizing subsequent maintenance costs.

3. ENVIRONMENTAL GUIDELINES AND RELOCATION GUIDELINES

4. All sub-project sites must have a preliminary environmental assessment carried out as per Standard World Bank Guidelines, before the preparation of sub-projects proposal. Upon appraisal and approval of the sub-projects, the cities are expected to carry out detailed Environmental Assessment for each site.

5. The initial pipeline of sub-projects have been subject to an Environmental Assessment in accordance with World Bank Guidelines. The sub-projects have been selected such that there is minimal relocation of existing housing. The Environmental Assessment was carried out by international consultants working under a grant from USAID, in conjunction with Russian counterpart consultant engineers. In general the net environmental impact of all sites is expected to be positive, in terms of relieving overcrowding and unsanitary conditions in several cities. No significant and irreversible environmental impacts are anticipated for any of the sites. Annex 3.9 presents a summary of the Environmental Assessment carried out for these sub-projects.

4. COST RECOVERY AND LOAN REPAYMENT GUIDELINES

6. The salability of plots is the key to cost recovery; the selection of appropriate sites has been confirmed by engineers, real-estate brokers and developers in each city. In some cities the private housing market cannot be documented with adequate data confirming recent sales and sales prices; in such cases development will be phased in a prudent way in order to test the market in the first few years. At the same time site plans and the Town Planning Orders which govern each site are designed to be flexible enough to be adapted to an emerging market.

7. To minimize financial risk to the local governments and to ensure adequate cost recovery, the cities will be required to auction land with minimum infrastructure to purchasers. A reserve price will be placed on each parcel of serviced land to be sold at auction or by tendered bid. In the event that the reserve price is not realized, the sale will be abandoned, the reserve price re-evaluated, and the sale rescheduled. The reserve price will include:

a. the full investment in on-site infrastructure;
b. relocation costs;
c. the portion of off-site infrastructure costs allocated to the site;
d. underlying land value as estimated in the Affordability Model, and
e. administrative costs associated with project design and implementation.

8. The proceeds from the land sales are the key to cost-recovery under this component. Following sections outline the guidelines that were prepared for the cities to ensure full cost recovery from land development and sale of parcels to private developers. Annex 4.2 presents an analysis of the loan repayment potential of the local governments, as well as detailed financing plan by components.

Computer Models. A computer model that has been used in a number of other Bank projects to analyze potential sites for the project, have been introduced to the local governments. The model provides a means of quickly analyzing physical and financial alternatives.

Summary of Steps in the Analysis Process. The guidelines and procedures for determining potential sales' values of the sites selected by the cities, fall in the following categories:

a. Determine Site Physical Characteristics
b. Determine Physical Infrastructure Requirements
c. Estimate Sales Prices and Demand
d. Planning Infrastructure Construction and Land Sales Phasing
e. Estimate Base Costs for Infrastructure and Housing Construction
f. Make assumptions for:

   i. Inflation
   ii. Design Costs
   iii. Supervision Costs
   iv. Bank Share of Project Financing
   v. Interest Rates
   vi. Loan Repayment Period
   vii. Developer Profit Margin
   viii. Customs Duties and Taxes

g. Conduct sensitivity analysis

a. Determine Site Physical Characteristics. Land use, density and construction characteristics have a major impact on the financial feasibility of the project. The model analyses the impacts of these factors on the potential sales prices of land. The model helps plan the percentages of land that will be used for different types of residential construction, office and commercial space, community facilities, roads and parks and open space, as these will affect both the revenue and the project costs. Office and commercial space should yield higher land prices than residential space. Community facilities, on the other hand, will not yield any revenue but will add to the infrastructure cost.

The model uses assumptions for *usable area* and *the ratio of the usable area to the gross floor area of individual houses*, apartments and office and commercial facilities, to determine the amount of floor space the developer must construct. *Floor area ratio* is another important assumption in the model since it determines how much construction a specific amount of land can support and, therefore, how much the developer can pay for the land. The higher the floor area ratio, the higher the price that the developer can pay. The cities can control these factors through planning guidelines.

b. Determine Physical Infrastructure Requirements Off site-infrastructure often benefits other sites in the city other than the sub-project sites. However, the cost of facilities that benefit larger areas is pro-rated in the economic analysis of the site so that only the cost related to the site is included in the sub-project cost estimates. For instance, if the city must build new facilities such as waste water treatment plant, to service the sub-projects sites, the model takes into account the total cost of the new facilities as the cities will have to finance the entire project. However only a portion of this cost is allocated to the site. The cities' financing plans address the total cost. Infrastructure projects include may include -- Water

Treatment and Distribution, Wastewater Collection and Treatment, District Heating, Roads, Electricity, Schools, Parks, Public Medical Facilities, Other Community Facilities

c. Estimate Sales Prices and Demand. The model derives land prices by starting with the final price that consumers will pay for housing and commercial facilities. Separate estimates must be made for individual housing, apartments and commercial space. The cities initially used their knowledge of local market conditions to estimate prices. Later, they revised the estimates based on information from USAID funded real Estate Market Analysis in each city. The studies, which were carried out by independent research groups, looked at consumer preferences, their resources, transactions and developers' activities. The purpose was to evaluate the current conditions and also to establish a framework for further evaluations over time. A summary of the analysis is presented in Annex 1.4. Assumptions will be modified for later sites and phases based on the results from the first phases.

d. Determine Infrastructure Construction and Land Sales Phasing. An important policy decision facing the cities is the timing of the land auctions in the development sequence of the sub-projects. There are three possibilities. With respect to infrastructure in the sub-project sites the cities will have the option of selling:

a. Raw land with no infrastructure;
b. Land with the local government responsible for infrastructure development;
c. Land with the developer responsible for infrastructure development; or
d. Land where the private developers will provide part of the infrastructure and the cities the rest.

The cities might prefer to undertake the infrastructure development because they fear a desire on the part of the infrastructure developers to expect too much profit (possible because of the risk in these early projects), quality control and developers lack access to financing. The developers, on the other hand, may be reluctant to bid, or discount land prices heavily if the infrastructure is not in place and they do not control the infrastructure development. The cities will deal with these problems by attempting to sell the land after bids are taken for the infrastructure construction.

e. Estimate Costs for Infrastructure and Housing Construction. The cities will use the design institutes to estimate infrastructure costs. The estimates will be reviewed by the General Consultant firm on behalf of the CPIU. A 15% physical contingency will be added to the cost estimates. The construction industry in Russia is in a state of transition to private ownership and management. The bidding procedure is also relatively new while there are serious financing and material shortages. Cost estimates for later phases will, therefore, be revised based on actual experience.

f. Make Other Assumptions. The other assumptions in the model will be made based on current Russian conditions.

g. Carry Out Sensitivity Analysis. Because of the uncertainty regarding the assumptions and the need to develop broad development controls, sensitivity analyses will be a key to the

development of the sub-projects. This analysis focuses on the effects of changes on two main indicators: (i) the Cost Coverage Ratio, and (ii) the Loan Coverage Ratio.

i. *The Cost Coverage Ratio*[2] is the ratio of the site's infrastructure cost to its estimated selling price of the land. This ratio is designed to make sure that the site will be profitable. A ratio of more than 100 per cent would mean that the sale of the land would not cover the cost of providing infrastructure. The lower the ratio, the more margin there is for error in the assumptions. Off-site infrastructure costs are included only to the extent that they benefit the site. For instance, if a collector sewer benefits a larger area than the project site, only a share of its cost would be pro-rated to the site based on relative expected usage.

b. *The Loan Coverage Ratio* is the ratio of the loan to the expected sales price of the land. This is the percentage of the selling price of the land that must actually be realized to repay the loan. It is different from the Cost Coverage because (a) It will be lower because the loan will not cover the full cost of infrastructure - taxes, capitalized interest, imputed developer's profit and land acquisition costs are included in the cost but not in the loan, and (b) on the other hand, this will be off-set to the extent that the loan finances off-site infrastructure that benefits non-project sites. The loan will finance as much of the necessary off-site infrastructure as possible to ensure that funds are available to the cities and that the projects will be completed in a timely manner. The project will limit this ratio to a maximum of 80 per cent of the expected selling costs of the land.

2/ Note that the concept of the coverage ratio used here is the reciprocal of the usual coverage ratio because it is easier to think in terms of the percentage of the land sales that must be realized to cover the costs of the project and the loan repayment.

ATTACHMENT C: FIRST YEAR PLAN FOR LAND DEVELOPMENT SUB-PROJECTS

1. The sites selected for the first phase program are generally those which have minimal infrastructure problems and costs, particularly in terms of bringing services to the sites. They have few environmental problems, if any. The phasing of all sites has been discussed with each city, and the selected first-year sites have been agreed. The attached table is presented in three parts: the first section deals exclusively with the first-year program; the second part summarizes the infrastructure costs for all first phase sites(including the first year); the third part presents the site area, number and type of dwelling units to be constructed in the first phase of the sub-projects.

The sites selected for the first-year program are:

St Petersburg	Kolomagi (townhouses and apartments) Kamenka (townhouses only)
Novgorod	Pskovskaya (townhouse area)
Tver	Youzhny D (townhouses only)
Nizhny Novgorod	Delovaya (apartments)
Barnaul	Solnechnaya Polyana West (single-family and townhouses)

2. First Year Sub-projects in St.Petersburg and Proposed Environmental Mitigation. The infrastructure in St.Petersburg presently meets the needs of the current population in a very limited way. Any site that could be potentially identified for Land Development sub-projects would require investment in upgrading off-site infrastructure for servicing the sites, similar to that proposed under the project for the first phase sites. Such investment would be required to (a) extend basic services to the sub-project sites, and (b) to mitigate the additional water and sewer capacity load created by the new development. Both of the St Petersburg first year sites are in the northern part of the city where they will be supported by an independent package of infrastructure improvements agreed with the city.

3. The proposed investment in off-site infrastructure for the first phase of Land Development Sub-component--termed as the "Environmental Mitigation Package", is smaller in comparison to the investment required for other sites or any new sites that could potentially qualify for the Project. The current mitigation plan for the northern sites is aimed at completion of high priority water and waste-water facility components and items as identified by St.Petersburg Vodacanal and Project's environmental experts, that are directly related to the sub-project sites.

4. The present Environmental Mitigation Package, totalling $25 million, of which 18.75 million, excluding design fees, taxes, and contingencies, will be financed under the loan, consists of the following:

• Pumping Station	$ 4.60 million
• Primorskaya Highway Collector sewer	$ 4.60 million
• NW waste-water treatment plant (grit removal, metering and technical assistance)	$ 3.04 million
• Water-line rehabilitation (over two years)	$12.26 million
Total Cost	**$25.00 million**
Total to be financed under the loan	**$18.75 million**

5. The Table. The total first-phase infrastructure program is approximately $67.6 million (January, 1994 prices exclusive of interest). All site acquisition costs, and taxes are considered to be local responsibilities--an estimated 20% of the infrastructure construction costs--to be paid for out of municipal budget, with the rest 80% eligible for financing under the Bank loan.

RUSSIA HOUSING PROJECT
Land Development Sub-projects
First Year & First Phase Cost Estimates
(In US$ millions)

City	Sites		First Year			First Phase			Site Area, ha	Dwelling Units			
		Est. Sale Price	*Total Cost*	*Bank*	*City*	*Total Cost*	*Bank*	*City*		SF	TH	Apts	Total
St. Petersburg	Kamenka	6.7	5.5	4.4	1.1	5.5	4.4	1.1	13.55	0	154	1,093	**1,247**
	Kolomagi	4.2	3.3	2.6	0.7	3.3	2.6	0.7	8.50	0	210	0	**210**
N. Novgorod	Delovaya	17	7.9	6.3	1.6	11.0	8.8	2.2	16.00	0	16	1,980	**1,996**
Tver	Youzhny D	12.8	4.9	3.9	1.0	5.8	4.6	1.2	19.72	0	451	0	**451**
Barnaul	S. Polyana	5.6	2.5	2.0	0.5	5.0	4.0	1.0	29.00	88	538	0	**626**
Novgorod	Pskovskaya	20.2	5.5	4.4	1.1	12.0	9.6	2.4	15.94	0	302	276	**578**
TOTAL		**66.5**	**29.6**	**23.7**	**5.9**	**42.6**	**34.1**	**8.5**	**102.71**	**88**	**1,671**	**3,349**	**5,108**

St. Petesburg Environmental Package		10.0	7.5	2.5	25.0	18.8	6.2					
TOTAL		**39.6**	**31.2**	**8.4**	**67.6**	**52.9**	**14.7**					

ATTACHMENT D: FEASIBILITY ANALYSIS DATA ON THE INITIAL PIPELINE OF SUB-PROJECTS

Attached.

RUSSIA HOUSING PROJECT
Land Development
Planning Data Summary

Base data from	23-Jun-94	10-Jun-94	10-Jun-94	10-Jun-94	10-Jun-94	10-Jun-94	15-Dec-94	15-Dec-94	27-Apr-94
City	St Petersburg	St Petersburg	St Petersburg	St Petersburg	St Petersburg	St Petersburg	Novgorod	Tver	Tver
Site	Yugo Zapad W	Yugo Zapad E	Sev. Dolina	Sev. Primorsk.	Kolomagi	Kamenka	Pskovskaya	Youzhny D.	Batino
GROSS SITE AREA (ha)	33.77	8.42	34.60	22.65	19.75	14.21	81.01	34.95	39.20
Net Res. Area	24.31	7.38	14.28	11.75	10.08	5.90	47.79	22.36	22.70
SF	1.15	0.00	0.00	0.00	0.00	0.00	12.15	0.00	0.00
TH	23.16	7.38	5.78	1.13	4.35	2.00	29.40	22.36	10.40
Apts	0.00	0.00	8.50	10.62	5.73	3.90	6.24	0.00	12.30
Net Commercial Area	1.69	0.52	5.78	2.08	1.96	1.99	2.43	5.60	3.60
Net Community Facil/Parks	3.95	0.00	8.42	7.98	6.72	3.21	19.04	2.52	5.70
Net Roads/Infrastruct	3.82	0.52	6.12	0.84	0.99	3.11	11.75	4.47	7.20
Other/Environ. Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL SALEABLE LAND (ha)	26.00	7.90	20.06	13.83	12.04	7.89	50.22	27.96	26.30
SF houses	24	0	0	0	0	0	243	0	0
Townhouses	1,874	597	462	110	211	160	1,176	716	374
Apartments	0	0	1,778	2,418	1,491	1,479	1,147	0	2,153
TOTAL DU	1,898	597	2,241	2,528	1,702	1,639	2,566	716	2,528
Average Family Size	3.10	3.10	2.75	2.75	2.75	2.75	3.30	3.00	3.00
Res. Density DU/ Gross ha	56.21	70.92	64.76	111.62	86.18	115.32	31.68	20.47	64.48
Res Density Pop/ha	174.24	219.84	178.10	306.96	237.00	317.14	104.54	61.00	193.45
% Saleable Land (Res+Comm)	76.99%	93.82%	57.98%	61.06%	60.96%	55.52%	61.99%	80.00%	67.09%
SINGLE FAMILY Units	24	0	0	0	0	0	243	0	0
SF Sales Price	$121,000						$42,000		
SF Useable Floor Area	200.00						100.00		
SF Constr Cost/m2	$280						$208		
SF Floor Area Ratio	0.42						0.20		
SF Avg. Lot size (m2)	476.19	0.00	0.00	0.00	0.00	0.00	500.00	0.00	0.00
Est'd Total Sales Price for all SF	$2,922,150	$0	$0	$0	$0	$0	$10,206,000	$0	$0
TOWNHOUSE Units	1,874	597	462	110	211	160	1,176	716	374
TH Sales Price	$48,800	$48,800	$48,000	$42,300	$62,400	$41,950	$32,000	$48,000	$50,000
TH Net Useable Floor Area m2	100.00	100.00	100.00	100.00	120.00	91.00	80.00	120.00	100.00
Ratio: Net Useable/Gross Area	0.87	0.87	0.80	0.80	0.81	0.80	1.00	1.00	1.00
TH Gross Floor Area	114.94	114.94	125.00	125.00	148.15	113.75	80.00	120.00	100.00
TH Constr Cost/m2	$230	$230	$250	$250	$250	$241	$200	$250	$230
TH Floor Area Ratio	0.93	0.93	1.00	1.22	0.72	0.91	0.32	0.38	0.36
TH Avg. Lot size (m2)	123.59	123.59	125.00	102.46	205.76	125.00	250.00	312.50	277.78
Est'd Total Price for all TH	$91,448,175	$29,139,251	$22,195,200	$4,665,182	$13,191,984	$6,712,000	$37,632,000	$34,344,960	$18,720,000

151

RUSSIA HOUSING PROJECT
Land Development
Planning Data Summary

Base data from City Site	23-Jun-94 St Petersburg Yugo Zapad W	10-Jun-94 St Petersburg Yugo Zapad E	10-Jun-94 St Petersburg Sev. Dolina	10-Jun-94 St Petersburg Sev. Primorsk.	10-Jun-94 St Petersburg Kolomagi	10-Jun-94 St Petersburg Kamenka	15-Dec-94 Novgorod Pskovskaya	15-Dec-94 Tver Youzhny D.	27-Apr-94 Tver Batino
APARTMENT Units	0	0	1,778	2,418	1,491	1,479	1,147	0	2,153
Apt Sales Price			$28,000	$29,120	$24,468	$28,000	$26,000		$28,500
Apt Net Useable Floor Area			65.00	74.00	58.72	72.00	67.00		60.00
Ratio: Net Useable/Gross Area			0.80	0.78	0.76	0.78	0.88		0.80
Apt Gross Floor Area			81.25	94.87	77.26	92.31	76.14		75.00
Apt Constr Cost/Gross m2			$230	$186	$192	$180	$180		$230
Apt Floor Area Ratio			1.70	2.16	2.01	3.50	1.40		1.31
Apt Site Area per DU (m2)	0.00	0.00	47.79	43.92	38.44	26.37	54.38	0.00	57.12
Est'd Total Sales Price for all Apts	$0	$0	$49,796,923	$70,409,704	$36,473,438	$41,405,000	$29,832,788	$0	$61,369,620
Gross COMMERCIAL Area (m2)	16,055.00	4,836.00	86,700.00	31,200.00	29,400.00	29,850.00	24,300.00	42,000.00	18,000.00
Commercial Sales Price/ Net m2	$650	$650	$660	$660	$700	$600	$450	$500	$520
Commercial Constr Cost/Gross m2	$260	$260	$260	$260	$260	$260	$250	$313	$250
Commercial Site Area (ha)	1.69	0.52	5.78	2.08	1.96	1.99	2.43	5.60	3.60
Commercial Floor Area Ratio	0.95	0.93	1.50	1.50	1.50	1.50	1.00	0.75	0.50
Ratio: Net/Gross Area	0.87	0.87	0.87	0.87	0.87	0.87	0.80	1.00	1.00
Net Saleable Commercial (m2)	13,967.85	4,207.32	75,429.00	27,144.00	25,578.00	25,969.50	19,440.00	42,000.00	18,000.00
Est'd Total Commercial Sales Price	$9,079,103	$2,734,758	$49,783,140	$17,915,040	$17,904,600	$15,581,700	$8,748,000	$21,000,000	$9,360,000
TOTAL PROJECT SALES PRICE	$103,449,428	$31,874,009	$121,775,263	$92,989,927	$67,570,022	$63,698,700	$86,418,788	$55,344,960	$89,449,620
Builder's % Profit + Overhead/Supervision	24.00%	24.00%	18.00%	18.00%	18.00%	18.00%	17.00%	18.00%	16.00%
BUILDERS' COST inc taxes (VAT+special)	$55,067,590	$17,043,180	$70,227,000	$54,225,412	$37,629,830	$36,717,200	$45,670,200	$34,590,600	$50,255,970
Commercial Sales as % of Total Sales	8.78%	8.58%	40.88%	19.27%	26.50%	24.46%	10.12%	37.94%	10.46%
DEVELOPED LAND PRICE*	$35,165,616	$10,740,466	$38,907,403	$29,003,941	$23,166,822	$20,372,404	$32,984,654	$14,528,052	$31,152,695
Avg. Price /m2 Saleable (Devt) Land	$135	$136	$194	$210	$192	$258	$66	$52	$118
Avg. Developed Land Price per DU	$17,323	$16,803	$12,360	$9,747	$11,395	$9,296	$12,231	$16,238	$10,637
Developed Land as % of Avg. Sales Price	34.84%	34.43%	38.47%	32.82%	39.05%	31.66%	40.41%	33.83%	33.57%

RUSSIA HOUSING PROJECT
Land Development
Planning Data Summary

Base data from City Site	10-May-94 Nizhny Nov. Bughrl	10-May-94 Nizhny Nov. Beshentsev 1	10-May-94 Nizhny Nov Beshentsev 2	10-May-94 Nizhny Nov. Novoprokovsk.	15-Dec-94 Nizhny Nov. Delovaya	15-Dec-94 Barnaul SolnechPol E	15-Dec-94 Barnaul SolnechPol W	TOTALS All Sites
GROSS SITE AREA (ha)	55.00	73.80	20.41	32.51	22.00	29.00	42.02	563.30
Net Res. Area	39.60	34.17	13.67	20.15	12.10	19.14	27.85	333.23
SF	17.60	0.00	11.29	1.95	0.00	5.22	7.38	
TH	18.70	17.42	2.38	13.00	2.00	13.92	16.15	
Apts	3.30	16.75	0.00	5.20	10.10	0.00	4.32	
Net Commercial Area	1.10	7.53	0.00	2.44	1.80	0.38	0.55	39.45
Net Community Facil/Parks	0.00	16.53	0.00	1.53	3.30	3.30	0.76	82.96
Net Roads/Infrastruct	14.30	15.57	6.74	8.39	4.80	6.17	12.86	107.65
Other/Environ. Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL SALEABLE LAND (ha)	40.70	41.70	13.67	22.59	13.90	19.52	28.40	372.68
SF houses	352	0	282	39	0	88	125	1,153
Townhouses	584	695	93	519	63	538	624	8,797
Apartments	320	3,247	0	864	2,796	0	629	18,323
TOTAL DU	1,256	3,942	375	1,422	2,859	626	1,378	28,273
Average Family Size	3.10	3.10	3.10	3.10	3.10	3.50	3.50	
Res. Density DU/ Gross ha	22.84	53.41	18.39	43.73	130.00	21.58	32.80	
Res Density Pop/ha	70.81	165.58	57.01	135.57	402.86	75.53	114.82	
% Saleable Land (Res+Comm)	74.00%	56.50%	66.98%	69.49%	63.18%	67.31%	67.59%	
SINGLE FAMILY Units	352	0	282	39	0	88	125	1,153
SF Sales Price	$60,000		$62,000	$70,000		$65,000	$65,000	$54,276
SF Useable Floor Area	100.00		100.00	120.00		155.00	155.00	
SF Constr Cost/m2	$380		$420	$420		$255	$255	
SF Floor Area Ratio	0.20		0.25	0.24		0.26	0.26	
SF Avg. Lot size (m2)	500.00	0.00	400.00	500.00	0.00	590.48	590.48	
Est'd Total Sales Price for all SF	$21,120,000	$0	$17,499,500	$2,730,000	$0	$5,720,000	$8,123,952	$62,601,602
TOWNHOUSE Units	584	695	93	519	63	538	624	8,797
TH Sales Price	$45,000	$55,000	$55,000	$58,000	$50,000	$40,000	$40,000	$46,311
TH Net Useable Floor Area m2	80.00	100.00	85.00	100.00	90.00	110.00	110.00	
Ratio: Net Useable/Gross Area	1.00	0.95	0.95	0.95	0.95	1.00	1.00	
TH Gross Floor Area	80.00	105.26	89.47	105.26	94.74	110.00	110.00	
TH Constr Cost/m2	$350	$390	$390	$390	$370	$250	$250	
TH Floor Area Ratio	0.25	0.42	0.35	0.42	0.30	0.43	0.43	
TH Avg. Lot size (m2)	320.00	250.63	255.64	250.63	315.79	258.82	258.82	
Est'd Total Price for all TH	$26,296,875	$38,228,190	$5,120,500	$30,084,600	$3,150,000	$21,520,000	$24,959,091	$407,408,009

RUSSIA HOUSING PROJECT
Land Development
Planning Data Summary

Base data from City Site	10-May-94 Nizhny Nov. Bughri	10-May-94 Nizhny Nov. Beshentsev 1	10-May-94 Nizhny Nov Beshentsev 2	10-May-94 Nizhny Nov. Novoprokovsk.	15-Dec-94 Nizhny Nov. Delovaya	15-Dec-94 Barnaul SolnechPol E	15-Dec-94 Barnaul SolnechPol W	TOTALS All Sites
APARTMENT Units	320	3,247	0	864	2,796	0	629	18,323
Apt Sales Price	$29,000	$32,000		$32,000	$32,500		$25,000	$29,292
Apt Net Useable Floor Area	65.00	65.00		65.00	65.00		70.00	
Ratio: Net Useable/Gross Area	0.90	0.90		0.90	0.90		0.85	
Apt Gross Floor Area	72.22	72.22		72.22	72.22		82.35	
Apt Constr Cost/Gross m2	$245	$270		$270	$320		$230	
Apt Floor Area Ratio	0.70	1.40		1.20	2.00		1.20	
Apt Site Area per DU (m2)	103.17	51.59	0.00	60.19	36.11	0.00	68.63	
Est'd Total Sales Price for all Apts	$9,275,538	$103,901,538	$0	$27,648,000	$90,870,000	$0	$15,737,143	$536,719,693
Gross COMMERCIAL Area (m2)	11,000.00	90,360.00	0.00	24,400.00	27,000.00	4,560.00	6,600.00	446,261.00
Commercial Sales Price/ Net m2	$600	$550		$600	$700	$500	$500	$597
Commercial Constr Cost/Gross m2	$290	$320		$320	$400	$240	$240	
Commercial Site Area (ha)	1.10	7.53		2.44	1.80	0.38	0.55	39.45
Commercial Floor Area Ratio	1.00	1.20	0.00	1.00	1.50	1.20	1.20	
Ratio: Net/Gross Area	0.80	0.80		0.80	0.80	0.85	0.85	
Net Saleable Commercial (m2)	8,800.00	72,288.00	0.00	19,520.00	21,600.00	3,876.00	5,610.00	383,429.67
Est'd Total Commercial Sales Price	$5,280,000	$39,758,400	$0	$11,712,000	$15,120,000	$1,938,000	$2,805,000	$228,719,741
TOTAL PROJECT SALES PRICE	$61,972,413	$181,888,128	$22,620,000	$72,174,600	$109,140,000	$29,178,000	$51,625,185	$1,241,169,044
Builder's % Profit + Overhead/Supervision	16.00%	16.00%	16.00%	16.00%	16.00%	20.00%	20.00%	
BUILDERS' COST inc taxes (VAT+special)	$38,588,000	$120,764,160	$15,103,200	$47,915,600	$77,626,982	$19,367,600	$35,606,563	$756,399,087
Commercial Sales as % of Total Sales	8.52%	21.86%	0.00%	16.23%	13.85%	6.64%	5.43%	
DEVELOPED LAND PRICE*	$17,210,333	$41,801,703	$5,100,288	$16,592,504	$19,092,700	$5,936,880	$8,897,310	$350,653,772
Avg. Price /m2 Saleable (Devt) Land	$42	$100	$37	$73	$137	$30	$31	
Avg. Developed Land Price per DU	$13,330	$8,689	$13,588	$10,410	$5,813	$9,302	$6,330	$11,089
Developed Land as % of Avg. Sales Price	29.54%	24.10%	22.55%	24.48%	17.68%	21.37%	17.87%	

154

ATTACHMENT E: AFFORDABILITY ANALYSIS

1. This attachment presents the affordability analyses carried out for the initial pipeline of sub-projects appraised by the PRU present in attached tables. These table present comparison of data on proposed housing sales-prices in the sixteen Land Development sites, with information on the housing market derived from the surveys in five cities (The summary of the surveys are presented in Annex 1.4 and the survey reports are available in Project files):

Table 1	Presents the proposed number and sales-prices for dwelling units of each type on each site; and
Table 2	Presents the Affordability Analyses of the Units in each on the basis of housing market survey results.

2. Potential Beneficiaries. In the Household Surveys, data from a sample grouping each city was extrapolated for the city as a whole to determine the percentage and finite number of families would could raise cash for new housing under several scenarios. In each city the number of families that could privatize their present homes was determined. In general it is between 77% and 97% of the total number of families in each city. There exists a distinction between total families and families "that could privatize". The market for new private housing in the near- to medium-term future will comprise families who can sell their present apartment to raise cash to pay for a new home. The market for new housing will be drawn from those who can sell their present home, and possibly add cash savings into the deal. Other sources of financing such as personal savings, mortgage financing from banks or employers, are not easily available. Also, not all families are free to privatize their apartments as some are historic or architectural landmarks, or have other restrictions. Therefore potential beneficiaries are derived from the universe of families who are free to privatize their present apartments.

3. Table 2 presents several price-ranges in rubles and dollar equivalents (January 1994 exchange rates: $1 = Rub.1500) The figures shown are mid-range in each case. The percentage of families who could raise cash in each price range is derived from the household surveys, and takes into account such factors as current income, declared assets, level of affluence as determined by the interviewer based on observations of the interviewees surroundings and personal possessions. The percentages and finite number of eligible families in each price range was determined by the surveys using regression analyses.

4. The percentages of families who could raise the appropriate amount of cash are shown under three scenarios:

1. those who already have cash or liquid assets;
2. those who have cash supplemented by the ability to obtain a loan; and
3. *those who have cash supplemented by the value of their present apartment. This third scenario gives the highest results, and thus represents the potential market.*

5. The number of housing units being proposed for sites in the Land Development component is compared to the potential market in each price range. The proportion of families that can afford a house in a particular price range is cumulative in that those who can afford a home in any given

price range can also afford homes in lower price ranges. Table 2 also shows the number of houses proposed for each site as a percentage of its total market and it indicates the number of houses on the entire site; and the number proposed for the first-year program.

6. Conclusions. The housing proposed under the Land Development Sub-component is affordable to a large proportion of households with assets in the form of present units. Table 2 shows:

1. that apartments, which are 70.3% of total number of dwelling units proposed on the program as a whole will be affordable to 10%-40% of the household population across the five participating cities; townhouses, which are 26.3% of total number of units proposed will be, affordable to 0.5%-30% of the same number of households, while the single family houses, 3.4% of total number of dwelling units proposed in the first pipeline of sub-projects, are affordable to 0.1% - 0.6% of households that can privatized their apartments across the cities.

2. that a large number of houses will be affordable to an acceptably large segment of the population. The median dwelling price ($32,000) is affordable by 20% of families in the five cities, and the median apartment price ($28,000) will be affordable by 30% of families.

3. When compared with the percentage of market that the dwelling units will constitute, its apparent that families that will occupy the Land Development sites will represent less than 5% of the universe of those that could afford them. In other words, the project is reaching out to a fairly large segment of the population, in terms of their ability to afford such housing.

7. Only in Novgorod where the size of the city (and thus the market) is very small, and therefore, a very small first-year program is recommended to test the market. There appears to be some flexibility to reduce sales prices and build cheaper alternative units. In Nizhny Novgorod, too, a small first-year program will test the market in certain price-categories.

RUSSIA HOUSING PROJECT
Land Development
MARKET ANALYSIS
Table 1

SUMMARY OF PROPOSED SALES PRICES

	Single Family	Townhouses	Apartments	Number of Units			Total	
				SF	TH	Apt	all DU	all City
St Petersburg								**8,722**
1. YugoZapadny A	$121,000			24			1,898	
		$48,800			1,874			
2. YugoZapadny B		$48,800			597		597	
3. Severnaya Dolina		$48,000			462		2,240	
			$28,000			1,778		
4. Primorskaya		$42,300			110		2,529	
			$28,000			2,194		
			$40,000			225		
5. Kolomagi		$62,400			211		211	
			$22,000			0		
			$45,000			0		
6. Kamenka		$35,200			154		1,247	
		$48,000			0			
			$28,000			1,093		
Novgorod								**2,566**
7. Pskovsk Plosch	$42,000			243			2,566	
		$32,000			1,176			
			$26,000			1,147		
Tver								**3,243**
8. Yuzhni D		$48,000			716		716	
9. Batino		$50,000			374		2,527	
			$28,500			2,153		
Nizhny Novgorod								**9,854**
10. Bughri	$60,000			352			1,256	
		$45,000			584			
			$29,000			320		
11. Beshentsevo 1		$55,000			695		3,942	
			$32,000			3,247		
12. Beshentsevo 2	$62,000			282			375	
		$55,000			93			
13. Novoprokovskaya	$70,000			39			1,422	
		$58,000			519			
			$32,500			864		
14. Delavaya		$50,000			63		2,859	
			$32,000			2,796		
Barnaul								**2,011**
15. Solnech Pol E	$65,000	$40,000		88	538		626	
16. Solnech Pol W	$65,000	$40,000	$25,000	125	630	630	1,385	
TOTAL ALL SITES				**1,153**	**8,796**	**16,447**		**26,396**

MEDIAN VALUE - ALL DWELLINGS: $32,000 (see Table 3)

RUSSIA HOUSING PROJECT
Land Development
MARKET ANALYSIS
Table 2

CITY Total Households	HOUSEHOLDS eligible for privatization***	HOUSING PRICE MID-RANGE Million Rub (Jan 1994)	$ at 1:1500 (Jan 1994)	SOURCES OF HOUSEHOLD FUNDS: 1. Cash Funds %	Hseholds	2. Cash + Mortgage %	Hseholds	3. Cash + Equity in present Apartment %	Hseholds	PROPOSED UNITS in WB Project Sites in each price range DU	Type	% of Market*
St Petersburg		25,000,000	$16,667	0.40%	4,628	1.30%	15,041	72.40%	837,668	0		
1,500,000	1,157,000	35,000,000	$23,333	**		**		33.80%	391,066	1,331	Apts	0.34%
		50,000,000	$33,333	0.30%	3,471	0.30%	3,471	10.70%	123,799	5,741	Apts+TH	4.64%
		70,000,000	$46,667	0.20%	2,314	0.20%	2,314	4.50%	52,065	3,298	Apts+TH	6.33%
		90,000,000	$60,000	0.10%	1,157	0.10%	1,157	0.50%	5,785	211	TH	3.65%
		110,000,000	$73,333	0.10%	1,157	0.10%	1,157	0.30%	3,471	0		
		180,000,000	$120,000	0.10%	1,157	0.10%	1,157	0.10%	1,157	24	SF	2.07%
Novgorod		25,000,000	$16,667	0.00%	0	0.20%	149	24.10%	18,003	1,147	Apts	6.37%
78,260	74,700	35,000,000	$23,333	**		**		1.90%	1,419	1,176	TH	82.86%
		50,000,000	$33,333	0.00%	0	0.20%	149	0.60%	448	243	SF	54.22%
		70,000,000	$46,667	0.00%	0	0.00%	0	0.20%	149	0		0.00%
Tver		25,000,000	$16,667	0.70%	885	1.00%	1,264	51.70%	65,349	0		
148,300	126,400	35,000,000	$23,333	**		**		39.50%	49,928	2,153	Apts	4.31%
		50,000,000	$33,333	0.20%	253	0.20%	253	29.30%	37,035	1,090	TH	2.94%
		70,000,000	$46,667	0.20%	253	0.20%	253	15.20%	19,213			
		90,000,000	$60,000	0.20%	253	0.20%	253	6.80%	8,595			
		110,000,000	$73,333	0.20%	253	0.20%	253	1.30%	1,643			
Nizhny Novgorod		25,000,000	$16,667	0.40%	1,738	0.60%	2,607	63.60%	276,342	0		
468,160	434,500	35,000,000	$23,333	**		**		31.00%	134,695	0		
		50,000,000	$33,333	0.10%	435	0.10%	435	10.10%	43,885	7,228	Apts+TH	16.47%
		70,000,000	$46,667		0	0.10%	435	3.60%	15,642	668	SF + TH	4.27%
		90,000,000	$60,000		0		0	1.50%	6,518	1,941	SF + TH	29.78%
		110,000,000	$73,333		0		0	0.50%	2,173	39	SF	1.80%
Barnaul		25,000,000	$16,667	0.30%	620	5.00%	10,325	71.10%	146,822	0		
213,500	206,500	35,000,000	$23,333	**		**		28.70%	59,266	4,458	Apts	7.52%
		50,000,000	$33,333	0.10%	207	0.90%	1,859	6.30%	13,010	624	TH	4.80%
		70,000,000	$46,667		0	0.70%	1,446	0.90%	1,859	0		
		90,000,000	$60,000		0	0.20%	413	0.60%	1,239	125	SF	10.09%
		110,000,000	$73,333		0	0.10%	207	0.50%	1,033			
									TOTAL:	31,497		

Sources: World Bank City Selection Report, June 1993; Urban Institute Housing Market Surveys, Jan 1994; Project Site Proposals to June 10, 1994.

Notes: * "Market" is generally those families who can sell their present apartment (i.e. Households with category 3 funds)
In several cities returning military and other migration programs will boost the market. These are not accounted for in the table.
** Data not available
*** Under present law, not all households can be privatized and sold

ATTACHMENT F: PHASING PLAN FOR IMPLEMENTATION OF THE INITIAL PIPELINE OF SUB-PROJECTS

RUSSIA HOUSING PROJECT
Land Development
***Site* Phasing and Construction Schedule**

KEY:
- Final Design/Approvals
- Off-Site Bidding/Contracting
- Off-Site Infrastructure Construction
- Construct Social Infrastructure
- On-Site Bidding/Contracting
- On-Site (Connecting) Infrastructure Construction
- Land Disposal (alternative timing strategies)
- Housing Construction
- Marketing/House Sales/Title Registration

- denotes 1st year site.

CITY	Site	Phase	Ha	DU	Comm. '000m²	% On-Site $	% Off-Site $	1995 I	1995 II	1995 III	1995 IV	1996 I	1996 II	1996 III	1996 IV	1997 I	1997 II	1997 III	1997 IV	1998 I	1998 II	1998 III	1998 IV	1999 I	1999 II	1999 III	1999 IV	2000 I	2000 II	2000 III	2000 IV	2001 I	2001 II	2001 III	2001 IV	Notes
SAINT PETERSBURG																																				
	1.YugoZap W.	All	34	1,898 SF/TH	16.00	100%	100%											Off On																		
	Off-Site: % Expenditure by Qtr																		1%	2%	2%	2%	1%		5%	15%	15%	7%	15%	15%	15%	5%				100%
	On-Site: % Expenditure by Qtr																		2%	3%	3%		10%	7%	20%	20%	20%	15%								100%
	2.YugoZap E	All	8	597 TH	4.80	100%	100%											Off On																		
	Off-Site: % Expenditure by Qtr																		1%	2%	2%	2%	1%		5%	15%	15%	7%	15%	15%	15%	5%				100%
	On-Site: % Expenditure by Qtr																									3%	3%	2%		40%	40%	12%				100%
	3.SevDolina	A	19	587 TH+Apts	0.00	75%	90%							Off On																(school + kindergarten)						
	Off-Site: % Expenditure by Qtr															2%	3%	3%		10%	20%	20%	20%	12%												90%
	On-Site: % Expenditure by Qtr														2%	2%	2%	2%		7%	18%	18%	18%	6%												75%
		B	16	1,641 TH+Apts	86.70	25%	10%			Off-site Design/Construct with Phase A																										
										On-site Design inc in Severnaya Dolina A																										
	Off-Site: % Expenditure by Qtr															2%	2%	2%	2%	2%																10%
	On-Site: % Expenditure by Qtr																				5%	8%	8%	4%												25%
	4.Primors. 63	A	2	110 TH	3.00	25%	60%			Off On										*							(kindergarten)									* Off-site Design complete. Constr. due complete by 1-Sep-95
	Off-Site: % Expenditure by Qtr														7%	8%	15%	15%	15%																	60%
	On-Site: % Expenditure by Qtr														4%	4%		5%	5%	2%	5%															25%
		B	20	2,418 Apts	28.20	75%	40%			Off On																				(school + kindergarten)						
	Off-Site: % Expenditure by Qtr																	10%	10%	5%	10%	5%														40%
	On-Site: % Expenditure by Qtr																	10%	15%	10%	25%	15%														75%

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RUSSIA HOUSING PROJECT
Land Development
Site Phasing and Construction Schedule

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- On-Site Bidding/Contracting
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- Land Disposal (alternative timing strategies)
- Housing Construction
- Marketing/House Sales/Title Registration

[redacted] - denotes 1st year site.

CITY	Site	Phase	Ha	DU	Comm. '000m²	% On-Site $	% Off-Site $	1995 I	1995 II	1995 III	1995 IV	1996 I	1996 II	1996 III	1996 IV	1997 I	1997 II	1997 III	1997 IV	1998 I	1998 II	1998 III	1998 IV	1999 I	1999 II	1999 III	1999 IV	2000 I	2000 II	2000 III	2000 IV	2001 I	2001 II	2001 III	2001 IV	Notes
[redacted]	5.Kolomagi 21	All	20	1,702 TH/Apts	29.40	100%	100%		Off																											
									On																											
	Off-Site: % Expenditure by Qtr												4%	4%		7%	25%	25%	25%	10%																
	On-Site: % Expenditure by Qtr										2%	2%	3%	1%		15%	30%	30%	17%																	100% 100%
[redacted]	6.Kamenka 74	A	5	160 TH	29.90	55%	100%			Off													(school + kindergarten)													
										On																										
	Off-Site: % Expenditure by Qtr														10%	45%	45%																			
	On-Site: % Expenditure by Qtr										3%	3%	1%		7%	15%	15%	10%																		100% 54%
		B	9	1,479 Apts	0.00	45%	0%			Off																										
										On																										
	Off-Site: % Expenditure by Qtr																																			
	On-Site: % Expenditure by Qtr																	15%	20%	10%																0% 45%
NOVGOROD																																				
[redacted]	7.Pakovskaya Ploschadka	A	37	281 TH	0.00	45%	72%		Off								*						(School and Kindergarten)													* Final stage of sew. treat. plant under construct. Phase A+B operat'n'l on existing system.
									On																											
	Off-Site: % Expenditure by Qtr										2%	4%	2%		20%	12%	20%	12%																		
	On-Site: % Expenditure by Qtr										4%	4%		8%	12%	10%	7%																			72% 45%
		B	26	1,278 SF/TH/Apts	12.00	32%	0%		Off		No additional construction required												(Relocation)													Relocation of 16 families
									On		Design completed in Phase A																									
	Off-Site: % Expenditure by Qtr																																			
	On-Site: % Expenditure by Qtr																6%	10%	10%	6%																0% 32%
	Relocation: % Expenditure by Qtr																			10%	40%	40%	10%													
		C	19	1,007 SF/TH/Apts	12.00	23%	28%		Off		Design completed in Phase A													*			(Kindergarten)								* Completion of 3rd stage sew. treat. plant.
									On		Design completed in Phase A																									
	Off-Site: % Expenditure by Qtr																					10%	12%	6%												
	On-Site: % Expenditure by Qtr																				4%	8%	8%	3%												28% 23%

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Land Development
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- On-Site Bidding/Contracting
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- Housing Construction
- Marketing/House Sales/Title Registration

- denotes 1st year sale

CITY	Site	Phase	Ha	DU	Consum. '000m²	% Off-Site $	% Off-Site $		1995 I	1995 II	1995 III	1995 IV	1996 I	1996 II	1996 III	1996 IV	1997 I	1997 II	1997 III	1997 IV	1998 I	1998 II	1998 III	1998 IV	1999 I	1999 II	1999 III	1999 IV	2000 I	2000 II	2000 III	2000 IV	2001 I	2001 II	2001 III	2001 IV	Notes
RIVER	8 Yuzhny D	A		329 TH	15.00	46%	62%	Off																												
								On																												
					Off-Site: % Expenditure by Qtr							4%	4%		5%	7%	10%	10%	10%	7%	5%															62%
					On-Site: % Expenditure by Qtr							4%	4%		4%	10%	10%	10%	4%																	46%
		B		387 TH	27.00	54%	38%	Off				Design complete Phase A																								
								On				Design complete Phase A																								
					Off-Site: % Expenditure by Qtr													4%	8%	8%	6%	8%	4%													38%
					On-Site: % Expenditure by Qtr													15%	15%	15%	9%															54%
	9 Batino	A		955 TH/Apts	6.80	43%	100%	Off																												
								On																												
					Off-Site: % Expenditure by Qtr													2%	4%	2%		12%	20%	20%	10%	20%	10%									100%
					On-Site: % Expenditure by Qtr													2%	3%	3%		5%	10%	10%	5%	5%										43%
		B		1,568 TH/Apts	11.10	57%	0%	Off											Design and Construction completed in Phase A																	
								On											Design completed in Phase A																	
					Off-Site: % Expenditure by Qtr																															0%
					On-Site: % Expenditure by Qtr																				10%	15%	15%	10%	7%							57%
NIZHNY NOVGOROD	10 Bughri	A	25	699	4.00	60%	93%	Off																												
								On																												
					Off-Site: % Expenditure by Qtr								#	#	#		#	#	#	#	#	#														93%
					On-Site: % Expenditure by Qtr								#	#	#		#	#	#	#	#															60%
		B	30	557	7.00	40%	7%	Off					Design completed in Phase A																							
								On					Design completed in Phase A																							
					Off-Site: % Expenditure by Qtr																				4%	3%										7%
					On-Site: % Expenditure by Qtr																		7%	12%	8%	8%	5%									40%
	11 Beshent - 1	A	12	567 TH/Apts	36.40	32%	81%	Off																												
								On																												
					Off-Site: % Expenditure by Qtr											4%	4%			10%	18%	15%	15%	15%	8%											81%
					On-Site: % Expenditure by Qtr											4%	4%			3%	3%	6%	6%	6%												32%

(Central Area (part), Kindergarten + School)

(Complete Central Area)

(School + 2 Kindergartens)

162

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RUSSIA HOUSING PROJECT
Land Development
Site Phasing and Construction Schedule

KEY:
- Final Design/Approvals
- Off-Site Bidding/Contracting
- Off-Site Infrastructure Construction
- Construct Social Infrastructure
- On-Site Bidding/Contracting
- On-Site (Connecting) Infrastructure Construction
- Land Disposal (alternative timing strategies)
- Housing Construction
- Marketing/House Sales/Title Registration

- denotes 1st year site.

CITY	Site	Phase	Ha	DU	Comm. '000m²	% On-Site $	% Off-Site $	1995 I	1995 II	1995 III	1995 IV	1996 I	1996 II	1996 III	1996 IV	1997 I	1997 II	1997 III	1997 IV	1998 I	1998 II	1998 III	1998 IV	1999 I	1999 II	1999 III	1999 IV	2000 I	2000 II	2000 III	2000 IV	2001 I	2001 II	2001 III	2001 IV	Notes
	11.Beshent - 1	A	12	567 TH/Apts	36.40	32%	81%		Off																											
									On																											
																													(School + 2 Kindergartens)							
				Off-Site: % Expenditure by Qtr											4%	4%			10%	10%	15%	15%	15%	8%												81%
				On-Site: % Expenditure by Qtr											4%	4%			3%	3%	6%	6%	6%													32%
		B	28	3,375 TH/Apts	54.00	68%	19%		Off			Design completed in Phase A																								
									On			Design completed in Phase A																								
				Off-Site: % Expenditure by Qtr																	4%	6%	6%	3%												19%
				On-Site: % Expenditure by Qtr															8%	8%	15%	15%	15%	7%												68%
	12.Beshent - 2	A	7	120 SF/TH	0.00	38%	96%		Off																											
									On																											
				Off-Site: % Expenditure by Qtr											4%	4%		5%	10%	10%	20%	20%	15%	8%												
				On-Site: % Expenditure by Qtr												2%	3%	3%		3%	8%	8%	8%	3%												
		B	13	255 SF/TH	0.00	62%	4%		Off							All Design completed in Phase A.																				
									On							All Design completed in Phase A.																				
				Off-Site: % Expenditure by Qtr																																
				On-Site: % Expenditure by Qtr																					10%	20%	20%	12%								
	13.Novopostrovsk		35	1,422 SF/TH/Apts	24.40	100%	100%		Off																											
									On																				(3 kindergartens + school)							
				Off-Site: % Expenditure by Qtr										2%	3%	3%		10%	25%	15%	25%	17%														100%
				On-Site: % Expenditure by Qtr										3%	3%		10%	20%	20%	10%	20%	12%														100%
	14.Delovaya	A	15	1,270 Apts	21.00	70%	100%		Off																											
									On																				(2 Kindergartens)							
				Off-Site: % Expenditure by Qtr								2%	4%	2%		10%	25%	25%	25%	7%																100%
				On-Site: % Expenditure by Qtr							4%	4%		7%	15%	10%	20%	10%																		70%

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RUSSIA HOUSING PROJECT
Land Development
Site Phasing and Construction Schedule

KEY:
- Final Design/Approvals
- Off-Site Bidding/Contracting
- Off-Site Infrastructure Construction
- Construct Social Infrastructure
- On-Site Bidding/Contracting
- On-Site (Connecting) Infrastructure Construction
- Land Disposal (alternative timing strategies)
- Housing Construction
- Marketing/House Sales/Title Registration

[redacted] - denotes 1st year site.

CITY	Site	Phase	Ha	DU	Comm. '000m²	% On-Site $	% Off-Site $		1995 I	1995 II	1995 III	1995 IV	1996 I	1996 II	1996 III	1996 IV	1997 I	1997 II	1997 III	1997 IV	1998 I	1998 II	1998 III	1998 IV	1999 I	1999 II	1999 III	1999 IV	2000 I	2000 II	2000 III	2000 IV	2001 I	2001 II	2001 III	2001 IV	Notes
		B	13	255 SF/TH	0.00	62%	4%			Off		All Design and Construction complete in Phase A																								
										On		Design work complete in Phase A																(school)								
					Off-Site: % Expenditure by Qtr																															
					On-Site: % Expenditure by Qtr														6%	12%	6%	6%														0% 30%
BARNAUL	15.SolPol E.	A	0	0	0.00	0%	100%			Off																										
										On						No On-site construction until Phase B																				
					Off-Site: % Expenditure by Qtr											4%	4%		10%	15%	7%	15%	15%	15%	10%	5%											
					On-Site: % Expenditure by Qtr																															100%
		B	22	1,703 Apts	34.40	55%	0%			Off						All Design and Construction completed in Phase A																(Kindergarten + Clinic)				
										On																										
					Off-Site: % Expenditure by Qtr																															
					On-Site: % Expenditure by Qtr														4%	4%		7%	14%	14%	6%	6%											55%
		C	20	2,327 Apts	30.30	45%	0%			Off						All Design and Construction completed in Phase A																(School)				
										On						All Design work completed in Phase B																				
					Off-Site: % Expenditure by Qtr																															
					On-Site: % Expenditure by Qtr																					10%	15%	15%	5%							45%
[redacted]	16.SolPol W.	A	20	533 SF/TH	1.00	60%	100%			Off														(Kindergarten)												
										On																										
					Off-Site: % Expenditure by Qtr							5%	3%		10%	15%	7%	15%	15%	15%	10%	5%														100%
					On-Site: % Expenditure by Qtr							5%	3%		10%	17%	0%	17%																		60%
		B	18	216 SF/TH	0.00	30%	0%			Off		All Design and Construction completed in Phase A																(Kindergarten + School)								
										On		Design completed in Phase A																								
					Off-Site: % Expenditure by Qtr																															
					On-Site: % Expenditure by Qtr													5%	8%	0%	5%	4%														0% 30%
		C	4	427 Apts	4.10	10%	0%			Off		All Design and Construction completed in Phase A																								
										On		Design completed in Phase A																								
					Off-Site: % Expenditure by Qtr																															
					On-Site: % Expenditure by Qtr																	1%	4%	4%	1%											0% 10%

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STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 3.3
SUMMARY OF LOCAL REGULATORY ACTION PLANS

A. INTRODUCTION

1. As a condition to participation in the Project, each participating city is required to adopt and implement a regulatory action plan providing the establishment of the basic legal infrastructure necessary for implementation of the land development and construction finance components and success in meeting the basic objectives of the project. This annex provides (a) a brief background on the development of the local Regulatory Action Plans (RAPs), (b) the key issues addressed in each RAP, (c) the federal actions necessary to enable local RAPs, and (d) the draft RAP from Nizhny Novgorod as an example.

B. PREPARATION OF THE RAPS

2. The RAPs were developed according to the following process.

a. **Legal and Regulatory Audit.** The team reviewed the laws of the Russian Federation and all participating cities to identify any legal impediments to implementation of the components and any actions required to provide the legal and regulatory foundation of the components. The team developed memoranda for the cities identifying actions required to provide the necessary legal support.

b. **Intergovernmental Coordination.** The team held further discussions with the cities based on the issues identified for action in the memoranda, and held a seminar in Moscow from January 27-29, 1994 focusing on the issues of land allocation, land use regulation, and title registration. The seminar was attended by officials from six proposed project cities, as well as several federal ministries involved in land and housing issues. The seminar emphasized the required actions at both the federal and municipal levels.

c. **Preparation of a Federal Action Program.** Based on issues raised during the seminar, the team generated a list of requested federal actions to clarify existing rights and to make explicit the authority of municipalities to issue regulations in the required fields.

d. **Preparation of Local Action Plans.** All the cities have participated in the preparation of their own draft RAPs.

e. **Final negotiations.** Based on the material supplied by the cities, and discussions with the cities, final action plans were delivered to each of the six proposed cities and the federal project representatives (an example of a completed RAP, for Nizhny Novgorod, is attached) during the first weeks of August 1994.

B. KEY ISSUES ADDRESSED IN THE RAPS

3. The action plans describe steps that the cities will take in the following broad areas, split into two implementation schedules.

Prior to Project Funding

a. **Title Registration.** Development and implementation of a workable system of title registration (includes transactions in land and real estate) at a scope covering at a minimum the districts in which the proposed land development sub-project sites are located.

b. **Land Allocation Procedures.** Development and implementation of rules, procedures, and development of supporting legal documentation for the competitive transfer of land (by auction and competitive tender) from public to private ownership.

c. **Local Land Use and City Planning Regulation.** Development and implementation of local land use regulation governing the proposed land development sub-project sites that encourage private-sector initiative in design and construction.

During the Life of the Project

d. **Housing Reform.** Development and implementation of local regulations necessary to supplement and implement federal housing legislation in the areas of common ownership of multifamily housing (condominium and cooperative) and private management and maintenance of housing.

e. **Land Use and Building Regulation.** Ongoing audit of local land use and building regulations in light of changing market conditions.

C. ENABLING FEDERAL ACTIONS

4. In the course of developing the local RAPs, city officials raised several issues that would benefit from some action at the federal level. While not considered essential to proceeding with the Housing Project, the federal government is considering action in the following areas to support local government initiatives:

a. **Clarification of the Authority of the Cities/Regions to Allocate Land for Private Sector Development.** Included here are basic issues regarding the authority of cities and regions to provide land for private sector development, as well as the issues of fundamental property rights (the rights of housing development enterprises to hold land for development; the rights of development enterprises to convey land to housing purchasers; the authority of cities to sell rather than lease land...etc.). Following a Presidential Decree No. 2287, of December 24, 1993 which revoked major provisions of the 1991 Land Code, there was confusion regarding the status and of existing property rights and the scope of local government authority to affect these rights. At this time, however, there is a consensus that there is an adequate legal framework in place to permit localities to allocate land to the

private sector and to protect the rights of private sector developers and housing purchasers. A new Land Code is presently under consideration in the State Duma which would clarify and improve the status of property rights; however, enactment of this Code is not a condition of proceeding.

b. **Creation of Procedures and Documentation for the Allocation of Land to Private Sector Developers.** Since the revocation of Roskomzem's proposed regulation on land auctions and tenders, the authority of cities to develop procedures for land transfer in the absence of federal regulations has been somewhat unclear. The existence of such procedures are essential for the Project. However, the legal validity of land allocation through auction or tender has been recognized in federal law (Presidential Decree No. 2167). Regional governments throughout Russia ("subjects of the federation") take the position that they have the authority to enact their own land disposition regulations in the absence of conflicting federal enactments. This position is also supported by the Ministry of Justice. Accordingly, while the prompt enactment of a federal regulation on local land disposition proceedings would be desirable, it is widely believed that regulations enacted by regional governments or by local governments under delegation of authority from regional governments will permit minimum project requirements to be met.

c. **Clarification of the Authority of the Cities/Regions to Establish Systems of Real Estate Registration to Accommodate the Needs of the Projects.** A system of title registration should be created for each of the project areas. The system should be capable of registering both real estate titles and mortgages. The Government's goal of delineating authority for design of this system by level of government has not been amendable to a speedy resolution. While the national and regional governments continue to delineate their respective spheres of authority on land registration issues, it may be necessary to safeguard the authority of the participating jurisdictions to address these issues by granting authority to proceed on an experimental basis. However, even in the absence of explicit experimental authority, there is widespread opinion that pending enactment of a definitive federal law or regulation, subjects of the federation, or municipalities acting under authority delegated by a subject of the federation, are free to devise their own regulations to govern real estate title registration.

d. **Clarification of the Authority of the Cities/Regions to Develop Procedures for Development and Approval of Town Planning Documentation for Private Sector Development.** Minstroi, the federal Ministry of Construction, has provided its assurances of full cooperation in the event that conflicts arise between technical standards determined to be appropriate for selected sub-projects under the Project, and the prevailing national technical standards in force for the Russian Federation.

D. SAMPLE RAP FROM NIZHNY NOVGOROD

5. A draft of the RAP developed for Nizhny Novgorod is attached.

RUSSIAN FEDERATION HOUSING PROJECT

LEGAL AND REGULATORY ACTION PROGRAM – CITY OF NIZHNY NOVGOROD

AUGUST, 1994

OBJECTIVE	ACTION	RESPONSIBILITY	DESCRIPTION/STATUS	COMPLETION SCHEDULE	PROPOSED TECHNICAL COOPERATION.
			I. REGULATORY ACTION PLAN SUPERVISION		
Provide for appropriate supervision and coordination of the regulatory action plans.	Delegation of supervisory authority and creation of the necessary administrative structures.	Oblast Administration (Mr. Kozlov) City Administration (Mr. Rumyantsyev)	The Oblast and City Administrations have each created coordinating committees to oversee implementation of the World Bank project and regulatory action plans.	Complete	
			II. REGISTRATION OF LAND TITLES		
To create and implement the technical and legal basis for registration and protection of legal interests in land and other real estate.	I. Preparation and enactment of required laws and regulations governing registration of interests in real estate.	Oblast Legislature Oblast Administration City Duma City Administration	There is presently a dual system of registration of interests in land and structures. Land registration is conducted by the City Land Committee under the authority of Presidential Decree 1767 (October 28, 1994). Rights to buildings and structures, including new and privatized housing units, continue to be registered in the City Bureau of Technical Inventory ("BTI"), which is subordinate to the City Property Committee. The registration authority of the BTI is found in Russian law of the Soviet era as well as a delegation of authority from the local administration in connection with the housing privatization program. Although the issue has not yet been addressed in local law or regulation, pursuant to the authority of the Russian Federation Law on Collateral mortgages of land and structures may be registered in the place where the mortgaged asset is registered. Roskomzem and the State Property Committee have been authorized under Presidential Decree 1767 to prepare a national law of real estate registration which will unify the registration of land and structures. Pending enactment of that law, the City is preparing its own regulation on registration of interests in real estate for issuance in September, 1994. To assure proper implementation of the projects, and pending enactment of the Federal law, the City, in cooperation with the	September 1994	The City has requested the opportunity for consultation with experts in the normative basis of title registration, which will be provided as part of the USAID technical cooperation program

RUSSIAN FEDERATION HOUSING PROJECT

LEGAL AND REGULATORY ACTION PROGRAM – CITY OF NIZHNY NOVGOROD

AUGUST, 1994

OBJECTIVE	ACTION	RESPONSIBILITY	DESCRIPTION/STATUS	COMPLETION SCHEDULE	PROPOSED TECHNICAL COOPERATION
			Oblast, will enact local regulations on registration of interests in real estate that (1) identify the transactions or interests that are to be registered, including mortgages and purchases and sales of land, apartments and other structures; (2) designate the responsible registry or registries; (3) clarify the responsibilities and modes of interaction of the registries; (4) identify the essential procedures and forms for registration;; and (5) clarify the legal implications of registration in the City.		
	2. Design of the real estate registration system.	Oblast Administration Oblast Land Committee (OLC) City Administration City Land Committee City BTI	The Nizhny Novgorod Oblast Land Committee ("OLC") by order of the regional administration has been assigned responsibility to experiment with development of a real estate registration system for the Oblast. The responsibility is undertaken with the support of Roskomzem, which is providing technical assistance and computer equipment. The experimental system is being designed by Katina Company, a private local firm, and the working Draft "Nizhny Novgorod Land" has been produced. The first stage of the experiment consists of demonstration of a unified real estate registration system in the small city of Vyksa, where the local BTI and Land Committee are cooperating in the design and implementation of the system under order of the local administration. The object of the demonstration is to integrate the existing real estate records in the locality under the supervision of a new agency of real estate registration which will build upon the existing structure of BTI and ultimately replace the BTI as the official registry of real estate interests. In addition to the Vyksa demonstration, there has been created by order of the City Administration a City Cadastre Bureau as an adjunct to the City Land Committee which consists of representatives of the BTI, the City Land Committee and the Office of the Chief Architect. The Cadastre Bureau is authorized to experiment with creation of a unified real estate	September 1994	The City has requested the opportunity for technical cooperation with experts in registration technology to be provided by the USAID technical cooperation program. Visit of the USAID registration experts took place in August, 1994.

169

RUSSIAN FEDERATION HOUSING PROJECT

LEGAL AND REGULATORY ACTION PROGRAM – CITY OF NIZHNY NOVGOROD

AUGUST, 1994

OBJECTIVE	ACTION	RESPONSIBILITY	DESCRIPTION/STATUS	COMPLETION SCHEDULE	PROPOSED TECHNICAL COOPERATION
			information system through the integration of the records of the various agencies. At this time the unified system created has no legal basis; it is not the official repository of title but only an experiment in the integration of records. To support the progress of the projects, the City will identify the technical and administrative models for registration of interests in real estate that will be implemented in the City. The City is encouraged to build upon the experiments with unified real estate registration systems that have already begun inn the Oblast and the City. If necessary to implement the unified system of real estate registration, pursuant to the Russian law permitting local experimentation during the period of transition, the City, with the cooperation of the Oblast, will apply to the Office of the Russian President for the authority to design and implement the unified registration system on an experimental basis		
	3. Implementation of the real estate registration system in the project districts.	City Administration City Land Committee City BTI Oblast Land Committee	Upon selection of the project site, the City will implement the real estate registration system at least in the district or districts in which the projects are located. The system implemented will be designated legally as the official registry of interests in real estate for the district.	November 1994	The City will submit to the USAID technical cooperation program a request for financial assistance for purchasing hardware and software systems, as well as technical cooperation in development of recommendations on system implementation.
	4. Training.	City Land Committee City BTI	The City has recommended a training program for the staff of the registration agency focusing on (1) introduction to the general principles of the legal protection of property rights, (2) the legislative basis of title registration, (3) international experience, (4) review of hardware and software systems, and (5) protection of registration systems against unauthorized access.	Ongoing; staff for the district office in which the project will be located will be trained during 1994.	The City has suggested a program of technical cooperation in the training of personnel for implementation of the registration system in the district. Such training will be included in the USAID technical cooperation program on title registration.

170

RUSSIAN FEDERATION HOUSING PROJECT

LEGAL AND REGULATORY ACTION PROGRAM – CITY OF NIZHNY NOVGOROD

AUGUST, 1994

OBJECTIVE	ACTION	RESPONSIBILITY	DESCRIPTION/STATUS	COMPLETION SCHEDULE	PROPOSED TECHNICAL COOPERATION
	5. Confirmation of existing real estate titles, resolution of title disputes, and issuance and registration of title documentation to existing title holders.	City Land Committee City Property Committee City BTI	Work on the land inventory is presently performed under the temporary instructions of Roskomzem pursuant to an Order of the Russian Government that a land inventory be completed by 1995. The process consists of identification of existing rights, identification of boundaries and resolution of boundary disputes, and registration of rights. Lacking the mechanical infrastructure needed, the process is essentially one of creating the paper land books required under Presidential Decree 1767. Funds to support the process initially allocated by Roskomzem and distributed to local land committees is largely expended and the future pace of the work will depend upon financial resources allocated by the Federal Government, by the localities, or by other donors.	Ongoing; progress of the program is highly dependent upon budgetary allocations.	The Oblast and City are seeking financing from the USAID technical cooperation program for the purchase of modern surveying and cadaster equipment to aid in the completion of the inventory work.
	6. Design and implementation of the real property assessment and taxation system.	Tax Inspectorate Oblast Land Committee City Land Committee City BTI City Finance Department	The Nizhny Novgorod Oblast has developed a system of real estate taxation and the calculation of rents for city owned property that differentiates by location and use of land and has integrated this valuation system into the tax system. Progress on issues of local real estate taxation may depend upon modification to national tax laws.	1994-1995	

III. ALLOCATION OF LAND TO PRIVATE OWNERSHIP AND CONTROL

To create fair and open procedures for the transfer of land from public to private ownership and control to support the development of private sector land and housing markets	1. Adoption of City policy on land allocation.	City Administration City Land Committee City Property Committee City Economy Department City Construction	The City has prepared a draft of a general regulation On the Allocation and Withdrawal of Land in Nizhny Novgorod. This regulation will serve as the basic policy statement of the City Administration with respect to land relationships. The City policy on land allocation should set out the basic policy directions on land allocation, including a statement on the role of the private sector development industry in land and housing development. The City land policy will establish the following essential	September 1994	The USAID technical cooperation program will provide consultation in the preparation of normative documents governing land relations.

171

171

RUSSIAN FEDERATION HOUSING PROJECT

LEGAL AND REGULATORY ACTION PROGRAM – CITY OF NIZHNY NOVGOROD

AUGUST, 1994

OBJECTIVE	ACTION	RESPONSIBILITY	DESCRIPTION/STATUS	COMPLETION SCHEDULE	PROPOSED TECHNICAL COOPERATION
		Department	principles: (1) disposition of land to private sector housing developers through competitive auctions or tenders; (2) conveyance to private developers of property rights which permit them to mortgage land for the purpose of obtaining construction financing; and (3) agreement of the City to convey ownership of the land to individual purchasers or housing associations upon request and without additional price.		
	2. Preparation and enactment of regulations and legal documentation governing competitive disposition of land through auctions, investment tenders and targeted allocation.	City Administration City Duma City Land Committee City Property Committee City Finance Department	The Nizhny Novgorod Oblast has adopted regulations governing procedures of land auctions, investment tenders and targeted allocation. The City of Nizhny Novgorod has prepared its own regulation governing land auction and tender procedures for enactment in September, 1994. In addition to the regulation on land allocation procedures, the City has prepared drafts of the basic legal documents, including lease and sale agreements. To further assure compliance with the requirements of the project the City will agree to create contractual documents for the auction and tender of land to private sector developers which contain the following essential provisions: (1) the City will permit the land recipient to mortgage his rights to obtain construction financing, and will acknowledge the rights of the mortgagee to enforce his claim against the land in the event that the holder of the rights fails to repay the loan; (2) the City will acknowledge the right of the developer to freely dispose of (sell) any housing construction on the site, and will agree to convey ownership of the land to the housing purchasers, including housing associations created for the ownership of multifamily buildings, on demand and without additional price.	September 1994	The USAID technical cooperation program, will provide seminars and other technical consultation on the preparation of regulations and legal documentation for the allocation of land through competitive procedures
	3. Demonstration of a land allocation proceeding under the new regulations.		The City and the Oblast will cooperate in implementing at least one demonstration of a land privatization procedure under the principles and regulations to be developed. The demonstrations will focus on developing and refining the procedures, policies and legal documentation for land privatization in accordance	Ongoing; to commence in September 1994	The USAID technical cooperation program has offered to the City technical consultation in the preparation of land disposal proceedings and

172

172

RUSSIAN FEDERATION HOUSING PROJECT

LEGAL AND REGULATORY ACTION PROGRAM – CITY OF NIZHNY NOVGOROD

AUGUST, 1994

OBJECTIVE	ACTION	RESPONSIBILITY	DESCRIPTION/STATUS	COMPLETION SCHEDULE	PROPOSED TECHNICAL COOPERATION
			with the city land policy.		documentation under the new regulation. If the offer is accepted, the technical cooperation program would begin in September, 1994.
IV. LAND USE REGULATION					
To create a fair, flexible, open and efficient system of land use regulation responsive to the needs of private sector land and housing markets.	1. Prepare town planning and architectural assignments for the project.	City and Oblast Departments of Architecture and Urban Development	The physical plans and town planning assignments for the projects have been completed.	August 1994	The USAID technical cooperation program has provided technical consultation with respect to the preparation of the physical plans and town planning assignments.
	2. Review and revision of City architectural, construction and planning regulations.	City Department of Architecture and Urban Development	The city will undertake a comprehensive review of local town planning and building regulations that conform to the recent federal legislation on urban development and housing and the emergence of a market system in land and housing development. The objectives of the review would be to simplify and improve regulatory processes and to reduce time and costs. Issues to be addressed in the review could include, for example (1) the role and substantive content of the City Master Plan in market land relationships; (2) alternative models of land use regulation; (3) administrative procedures for making and modifying land use decisions affecting the private sector; (4) the role of the public in the making and modifying land use regulations and decisions; (5) procedures for calculating and assessing developer contributions to infrastructure costs; (6) existing design and construction norms, particularly with respect to new forms of low and mid rise housing; (7) procedures for dissemination and sharing of city planning information; (8) procedures and requirements for issuing construction and occupancy permits.	Ongoing	The USAID technical cooperation program has offered to provide technical cooperation in conducting a land use regulation audit with the City. The audit would review the City's existing regulations and evaluate them in terms of their effects on the costs of development, and suggest areas in which modifications might reduce costs and increase efficiency.

RUSSIAN FEDERATION HOUSING PROJECT

LEGAL AND REGULATORY ACTION PROGRAM – CITY OF NIZHNY NOVGOROD

AUGUST, 1994

OBJECTIVE	ACTION	RESPONSIBILITY	DESCRIPTION/STATUS	COMPLETION SCHEDULE	PROPOSED TECHNICAL COOPERATION
			IV. HOUSING REFORMS		
To create a local housing policy that (1) encourages and supports private housing ownership; (2) encourages and supports transition to the private management and maintenance of all forms of housing; and (3) provides opportunities for training and assistance to those engaged in housing privatization, including public officials, associations of owners, private sector housing developers and mortgage lenders.	1. Allocation of responsibility for housing issues.	City Administration City Construction Department (Mr. Frolov) Oblast Committee on Economics (Mr. Kozlov)	The Nizhny Novgorod Oblast has entered into a memorandum of understanding with the USAID/Urban Institute Russian Shelter Sector Reform Project for an ongoing program of technical cooperation in housing reform. Pursuant to the agreement, the Oblast administration has created a joint Oblast/City working group and coordinating council to oversee the work on housing reform (On Housing Reform on the Oblast Territory, No. 556-r, April 27, 1993). The work to be undertaken under the program will include, among other things (1) reform of the economics of the social housing sector and implementation of housing allowances; (2) programs of training for the creation of condominium associations and other forms of common housing ownership; (3) programs of training and consultation for the creaion of private management and maintenance systems for social and private housing; and (4) training and consultation in methods of housing finance	Complete	Technical cooperation will be provided on an ongoing basis under he USAID/Urban Institute Program in Reform of the Russian Shelter Sector
	2. Preparation of City policy statement on housing reform.	City Administration Oblast Department of Construction and Communal Services	The City policy statement on housing issues would serve as a blueprint for housing reform, identifying the priority issues of housing privatization, maintenance, management and new construction, and outline a program to address those issues. Issues could include, for example, methods of promoting privatization of flats; the transition to private management of block housing; the continuing role of the City in mixed ownership buildings; objectives for increases in rents and communal service fees; etc. Pursuant to Instructions of the Oblast Governor (No. 156-r, February 11, 1993) On Development of Regulatory Documents, the Oblast and City have been engaged through various working groups in the preparation of Oblast and City polices on implementation of housing reform.	September 1994	The USAID/Urban Institute technical cooperation program presently is providing technical consultation on the development of local housing policy.

174

RUSSIAN FEDERATION HOUSING PROJECT

LEGAL AND REGULATORY ACTION PROGRAM – CITY OF NIZHNY NOVGOROD

AUGUST, 1994

OBJECTIVE	ACTION	RESPONSIBILITY	DESCRIPTION/STATUS	COMPLETION SCHEDULE	PROPOSED TECHNICAL COOPERATION
	3. Adoption of necessary local laws or regulation on implementation of condominiums and private sector housing management and maintenance.	Oblast Legislature Oblast Administration City Administration City Duma	A Federal law of Condominium must be produced by September, 1994 in accordance with the Provisional Regulation on Condominium enacted in December, 1993. The City will enact such local enabling legislation as may be necessary to create and operate condominium associations within the City and to permit and encourage development of systems for private management and maintenance of housing.	September 1994	
	4. Ongoing review of housing legislation.	Oblast Administration City Administration	The City will review the development of housing law on an ongoing basis and take such action as may be necessary to revise and conform the local housing legislation to the emergence of private housing markets.	Ongoing	Ongoing assistance in the development of housing reform legislation will be provided under the USAID/Urban Institute program in Shelter Sector Reform
	5. Design and implementation of training programs for housing associations.	Oblast Administration City Administration Nizhny Novgorod State Architectural and Construction Academy	Training programs for creation of condominium and other housing associations will be implemented under the USAID/Urban Institute technical cooperation program. At this time it is anticipated that the training programs will be conducted with the cooperation of the Nizhny Novgorod State Architecture and Construction Academy.	1994-1995	The USAID/Urban Institute technical cooperation program will provide technical cooperation in the training of housing associations. Several missions to the City for preliminary discussions have been completed to date
	6. Design and implementation of training in private housing management.	Oblast Administration City Administration Nizhny Novgorod State Architectural and Construction Academy	The City will implement training opportunities for municipal officials and private sector firms for the transition to private management and maintenance of housing in part through implementation of pilot projects. At this time it is anticipated that the training programs will be implemented under the USAID/Urban Institute technical cooperation program and will be conducted in cooperation with the Nizhny Novgorod Sate Architectural and Construction Academy. The City of Nizhny Novgorod has begun work with a set of documents prepared under the technical cooperation program for private maintenance. The documents include requests or proposals, draft management contracts, model procurement schedules, etc. The Oblast government has distributed these.	1994-1995	The USAID in cooperation with the Bank program will provide technical cooperation in the implementation of a system of private housing management and maintenance. Several missions to the City for preliminary discussions have been completed to date.

175

RUSSIAN FEDERATION HOUSING PROJECT

LEGAL AND REGULATORY ACTION PROGRAM – CITY OF NIZHNY NOVGOROD

AUGUST, 1994

OBJECTIVE	ACTION	RESPONSIBILITY	DESCRIPTION/STATUS	COMPLETION SCHEDULE	PROPOSED TECHNICAL COOPERATION
			documents to all districts and the larger cities in the Oblast. A two day study tour is planned for district and municipal officials in Moscow to review the ongoing private housing management project implemented there.		

176

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 3.4
CONSTRUCTION FINANCE SUB-COMPONENT

A. BACKGROUND

1. The design of this component is based on a survey of housing projects in the participating cities, followed by consultations with developers, banks and Minstroi. The survey, carried out by Russian consultants[1], has yielded a pipeline of 172 housing projects by 86 developers, representing about 48,000 dwelling units at an estimated total cost of US$ 1,344 million. Most of these are real projects, with a site or land development rights, at least preliminary designs, cost estimates, and a marketing plan. Many of the projects are ready for construction. After the survey, a general meeting with bankers and developers was organized in each of the cities to provide information on the construction finance line of credit, and to answer questions. Finally, interviews were held with about 40 local developers and bankers, as well as with ten ISB banks from Moscow, St.Petersburg and Tver, and Minstroi, to complement project information, listen to their views of the housing market, and discuss the lending guidelines, terms and conditions. For a detailed description of the survey findings see Annex 1.4.

B. GOALS AND TARGET GROUP

2. Because the demonstrated demand for construction finance is far in excess of the funds that can be allocated under the line of credit (US$ 80 million), the Government has requested that the available funds be used to test and demonstrate new approaches to housing and to provide support to the emerging private housing sector. In the light of recent housing policy reforms[2], during negotiations the government requested that completion of unfinished housing--which is auctioned to private developers within the guidelines of the Project--be eligible for financing under the lie-of-credit. Where possible, the leverage of these credits would be used to introduce more appropriate

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1/ AUREC from St. Petersburg (for St.Petersburg, Novgorod and Nizhny Novgorod) and POLIS-3 from Moscow (for Tver), which have also carried out housing market surveys, and M-ART (Barnaul) which was in charge of designing the land development site in Barnaul.

2/ The Presidential decree *"On measures to provide for completion of unfinished apartments" N 1181, June 10, 1994*, stipulates that (a) unfinished apartment buildings currently under federal ownership, are subject to transfer and sale for the purposes of completion through investment and commercial tenders; and (b) where such housing is currently under ownership of subjects of Russian Federation or local governments, these bodies should adopt similar resolutions for disposition and subsequent completion of such housing. The decree also regulates the procedure of the transfer and sale of unfinished apartment buildings for the purpose of completions, through investment and commercial tenders, documentation and monitoring the sale-purchase contract. In case of commercial tender, the building would be sold on a competitive basis on condition of completion of housing, while giving the developer the right to sell the finished apartments.

planning and housing standards, to diversify housing supply, and to encourage the production of affordable private housing accessible to a larger section of the population.

3. Target group. The ultimate target group for the component is the lowest possible income group that can afford to pay the full price for un-subsidized housing produced under market conditions. Initially the ideal purchasers would be trend-setting middle-income families who would generate a demand for alternative types of housing and building technologies that, in turn, would encourage developers to respond.

4. In order to better the benefits of the component to this group better, and prevent the line of credit from being used for expensive housing, limits would be set on plot sizes, floor areas, and loan amounts.

C. LENDING GUIDELINES

5. The lending guidelines translate these objectives into practical criteria for the selection and design of projects. The aim of the guidelines is to demonstrate or encourage:

a. diversification of housing supply (e.g. town houses, row houses, low or medium-rise apartments, etc. that provide alternatives to the present limited choice between standard apartments in high-rise buildings or unaffordable single-family housing);

b. alternative building methods and technologies, using currently available local building materials in more effective ways;

c. lower construction, operating and maintenance costs;

d. greater energy efficiency, (i) in production of materials, (ii) in building methods, and (iii) in heating of buildings;

e. the emergence of private, smaller-scale builders (developers, contractors) by favoring building methods and housing types not requiring heavy investment in plant and equipment;

6. Eligible Borrowers. Eligible final borrowers will be private developers (legally separate civilian enterprises with at least 75 percent private ownership), residents' associations and housing cooperatives;

7. Eligible Products and Services. Subloans will have to be in the housing sector for construction finance purposes only and will have to comply with the technical guidelines detailed in these guidelines.

8. Location and Regulatory Action Plan. Sub-projects eligible for Construction Finance Line-of-credit should be located either (i) in the jurisdictions of the participating cities[3] and Moscow, or (ii) in other jurisdictions within 15 km from the limits of these city jurisdictions, provided that a Regulatory Action Plan has been agreed upon with the relevant jurisdiction and the oblast/krai. For Moscow, no Regulatory Action Plan is required. Housing projects situated on the land development sites, financed under the Land Development Sub-component of the Loan, are also eligible under the same lending guidelines, terms and conditions.

9. Environmental Review. All sub-projects must comply with the environmental requirements of the Russian Federation and the World Bank. The participating bank will be responsible for ensuring that environmental reviews are carried out in accordance with "Environmental Review Procedures for Participating Banks" developed for the Private Enterprise Support Project. These procedures and requirements are independent but parallel to the Russian Federations's regulatory requirements for environmental review, and would be monitored by the CPIU and IBRD. The environmental review would be carried out at the expense of the participating bank or its borrower. The cost of conducting the review would be eligible for financing under the sub-loan.

In summary, the procedure entails the following steps:

(a) as part of their application for credits, the participating bank and its borrower will submit for each site an environmental screening form indicating the nature of the sub-project, the category of the project in terms of its environmental impact, and whether an environmental assessment will be needed; all new construction sub-projects consisting of 10 or more units constructed on virgin land or land to be acquired will require an environmental assessment.

(b) in case it is required, an environmental assessment will be carried out by the sub-borrower to identify, predict, evaluate and mitigate the environmental impacts and risks that may arise from the proposed sub-project.

10. Site Design. At least 60 percent of the land area on the project sites should be marketable as residential or commercial plots.

11. Eligible Types of Housing Projects

(a) low-rise apartment buildings (less than five floors, no elevator);

(b) townhouses (three floors or less);

(c) small detached or semi-detached single-family houses;

(d) apartment buildings of up to ten floors (in larger cities only or for completion of unfinished apartment buildings);

3/ St.Petersburg, Novgorod, Tver, Nizhny Novgorod and Barnaul.

(e) reconstruction of inner-city buildings;

(f) rehabilitation of privatized apartment buildings;

(g) Completion of unfinished apartment buildings (up to ten floors only).

12. Plot and Dwelling Size Within a given housing project, only the costs directly related to the construction of dwelling units answering the following plot size and floor area criteria will be eligible for credits:

Table 1: Maximum plot size and floor area per type of dwelling

Dwelling type	Maximum plot size (m2)	Maximum gross floor area (m2)
Apartment (Also applicable to unfinished buildings)	-----	80
Town house	200	120
Semi-detached single-family house	300	150
Small detached single-family house	400	150

13. Land and Infrastructure Development of on-site (secondary or tertiary) engineering infrastructure is eligible for separate construction credits, either as part of a housing project, or on its own in view of the sale of serviced plots. However, the following items are not eligible for financing: (i) the cost of utility hook-ups, which is considered to be part of the normal building construction cost, and therefore not eligible for separate credits, and (ii) the cost of urban or district heating and hot water supply for single-family housing.

14. Off-site (primary or secondary) infrastructure as a rule is not eligible for construction credits. However, on the sites financed under the land development component of the project, when housing developers take responsibility for building infrastructure outside their parcels, these works are eligible for construction credits.

15. Only infrastructure works undertaken under the responsibility of the housing developer are eligible and the maximum amount of credit will be determined on the basis of designs and cost estimates. General infrastructure contributions or taxes, sometimes charged to developers by municipalities, are not eligible for financing under the component. Social infrastructure is eligible for financing under commercial space (see below).

16. Community Facilities and Commercial Space Community facilities (so-called social infrastructure) and commercial space included in a housing project are eligible for construction credits, up to a maximum of 30 percent of the total floor area, including residential, commercial and community facilities, that is eligible for credits.

17. Completion of Unfinished Apartment Buildings. Subloans are available to finance the completion of unfinished buildings. Subloans may finance construction only; they are not available to purchase the building itself. Decree #1180 of July 10, 1994 defines government's program for completion of unfinished apartment building. Subloans must be used to support the completion of unfinished construction that was declared as unfinished before effectiveness of the World Bank loan. Developers must have acquired buildings for completion through the commercial bidding process described in Decree #1180.

18. Maximum Credit Amounts. Credit limits for building construction and infrastructure are 75 percent of the estimated cost (including VAT), with a maximum of 75 percent of the average cost (including VAT). Average construction costs and credit limits shall be updated prior to negotiation of the Loan and periodically thereafter, during the yearly project reviews, to reflect inflation and construction costs increases[4].

19. Building Construction. Currently, the average construction cost per square meter of floor area is US$ 380, based on the estimated cost of the projects in the pipeline. Therefore, the current credit limit is 75 percent of this amount, or US$ 285 per square meter of eligible gross floor area for residential, commercial or community facility purpose. Combining maximum eligible floor areas and maximum credit amounts, the maximum credit per unit for different types of housing is as follows:

4/ Section 6 of this annex shows an analysis of current construction costs.

Table 2: Maximum amount of credit per type of dwelling[5]

Type of dwelling	Maximum loan amount per unit (US$)
Apartment (new, or reconstructed); max 80 m2)	22,800
Apartment (rehabilitated or completed in unfinished apartment buildings); max 80m2	17,000
Town house, row house (max. 120 m2)	34,200
Detached or semi-detached single-family house (max. 150 m2)	42,750

20. Infrastructure. The current average cost of on-site engineering infrastructure is US$ 25 (including VAT) per square meter of land or site area[6], based on the average estimated cost of on-site infrastructure in the Land Development Component. Thus the current credit limit is 75 percent of this amount, or US$ 18.75 per square meter of land serviced.

21. Construction Technology. With the exception of reinforced concrete panel (solid or sandwich) for outer walls, and reinforced concrete volumetric blocks, all construction technologies are permitted, provided they comply with the energy efficiency criteria below. Reinforced panel construction will be permitted only in the cases of completion of unfinished buildings or rehabilitation of existing buildings.

22. Energy Efficiency. Construction details of the outer shells of the buildings must comply with minimum thermo-resistance standards. Prior to completion of Subsidiary Loan Agreement, Minstroi will propose thermo-resistance norms acceptable to the Bank. The table below summarizes some of the data.

5/ Loans are limited to 75% of construction cost, subject to the maximum ceilings stated in the table.

6/ Note that the credit limit for building construction relates to floor area, and the credit limit for infrastructure to land area. Therefore, these two amounts cannot be added to, or subtracted from each other.

Table 3: Required Thermo-resistance factors

Construction element	Revised SNIP norm (variable, depending on materials used)	Finnish norm	Construction finance component (norms to be decided by Minstroi)
Outer wall	1.29 - 2.40	3.57	
Roof	3.01 - 3.58	4.55	
Floor against ground	1.94 - 2.06	2.78	
Door	-----	1.43	
Window	-----	0.48	

23. In case of completion of unfinished buildings, reconstruction, or rehabilitation of existing buildings, no norms for outer walls and floors against the ground would apply, unless the walls or floors are to be replaced.

24. District or urban heating and hot water supply for single-family housing is not eligible for construction credits. In the case of apartment buildings, if district heating and hot water supply are financed, provision must be made for (i) consumer control of heat and (ii) later installation of thermal energy meters.

25. Sales and Ownership. All new dwelling units produced would be sold at market prices. Ownership rights will be the fullest permitted by law at that time. For apartment buildings a condominium association or comparable arrangement would be required to ensure un-subsidized and adequate maintenance at the expense of the owners and/or occupants.

26. Periodic Revision of the Guidelines. This set of guidelines, including maximum credit amounts per square meter, would be reviewed and amended, where necessary, during the yearly project review.

27. Summary of lending guidelines The table below summarizes the lending guidelines and maximum credit amounts.

Table 4: Summary of lending guidelines and credit limits;

A. Building construction for residential, commercial and community facilities use

Type of construction	Maximum plot size (m2)	Maximum gross floor area per unit (m2)	Maximum credit amount per m2 of floor area (August 1994) (US$) (1)	Maximum credit amount per unit (US$)
Apartment (new or reconstructed)[7]	no limit	80	285	22,800
Apartment (rehabilitations or completion of unfinished buildings)	no limit	80	285	17,000
Town house	200	120	285	34,200
Semi-detached single-family house	300	150	285	42,750
Small detached single-family house	400	150	285	42,750
Community facilities and commercial space	See "Site design"	30 % of total eligible floor area	285	30 % of total building construction credit

B. On-site engineering infrastructure

Type of construction	Maximum credit amount per square meter of site area (US$)[8]
On-site (secondary of tertiary) engineering infrastructure not including utility hook-ups or district heating & hot water for single-family housing	18.75

7/ Rehabilitation of existing buildings will be permitted under the line of credit; however, the maximum loan size will be $11,000 /unit.

8/ Determined as 75 % of the current average construction cost, which in August 1994 was US$ 25/m2 of floor area for building construction and US$ 25/m2 of site area for on-site engineering infrastructure; during project implementation these amounts would be revised periodically as needed.

D. ON-LENDING TERMS AND CONDITIONS

1. Participating Banks (PBs). Twenty private candidate PBs have been selected for participation in the FIDP, during a multi-stage selection process carried out since mid-1993 in close cooperation with the Russian authorities and with the support of several other international agencies. In this process, two thousand Russian banks have been screened.

2. Among the twenty banks is a mixture of "zero" banks (new banks) and "spin-offs" from former specialized state banks. The twenty banks also vary in size, and include several of the largest Russian commercial banks, as well as relatively small banks. The aggregate capitalization of the candidate PBs is about US$ 700 million, on the basis of June 1993 data.

3. Participating commercial banks will enter into subloan agreements with final borrowers utilizing their own resources and those provided through a loan to the Government by the World Bank. The agreements will be in accordance with the project specific subloan terms and conditions and prudent banking practices. The PBs would be required to meet and maintain conformity with the eligibility criteria established by the Government and the Bank, as described in Annex 5 of the SAR of the Enterprise Support Project (Report No. 12953) titled "Accreditation Criteria and Monitoring of the Performance of Participating Banks". The PBs would also follow Prudential Standards as described in Annex 6 of the same document, titled "Proposed Prudential Standards for Participating Banks".

4. The twenty PB candidates are based in nine cities representing a diverse geographical scope spanning the Russian Federation. Although all the banks can be involved in financing construction under this component, not all of them are equally represented in the six selected cities of Moscow, Saint-Petersburg, Nizhny-Novgorod, Novgorod, Tver and Barnaul. Also some banks are more active than others in real estate. PBs headquartered in Moscow, Saint-Petersburg or Tver are not limited in geographical scope as they can and do act through branch offices and/or corresponding banks.

5. Terms and Conditions of the Subsidiary Loan Agreement There would be a subsidiary loan agreement between the Government of Russia and each Participating Bank (PB). The terms and conditions of these subloans are the same as terms and conditions for the Enterprise Support Project (ESP). This agreement would stipulate the financial and other obligations of the PB for the subloans made with resources from the proposed Bank loan, including responsibilities for risks under each subloan, reporting requirements, etc. Only commercial banks which have been audited and accredited under FIDP procedures would be allowed to participate in the line of credit. PBs will also undertake, under the FIDP, an institutional strengthening program and demonstrate achievement of agreed milestones of prudential standards and performance improvement.

6. The Government would make subsidiary loans to PBs under the following main terms and conditions[9]:

9/ These terms and conditions are the same as for the Enterprise Support Project.

a. funds will be available on a first-come-first-serve basis. The total amount borrowed under the ESP and the present loan should not exceed 100 percent of the PB's capital;

b. the interest rate charged will be equal to the base rate of funds to the Government plus 2.5 percent and rounded to the nearest 0.5 percent interval. The base rate will be adjusted semi-annually and the subsidiary interest rate will be adjusted as required by the above formula. A commitment fee of 0.33 percent per annum will be charged on the balance of undisbursed commitments to individual banks. At present, this would imply a rate of interest of around 9.5 percent. The Loan Agreement between the Government and the Bank provides for an interest rate spread of up to 2.5%. The objective of providing this flexibility is to permit the Government to adjust the interest rate that it charges on this line of credit to the interest rate charged for similar lines of credit, such as the Enterprise Support Project.

c. a signing fee of US$ 25,000 would be payable at the time of signing of the subsidiary loan agreement and would count against interest charges incurred under the agreement;

d. an amount of 0.125 percent would be charged on amounts prepaid. During the first two years after the conclusion of a Subsidiary Loan Agreement with the Government, the PB would be required to commit to utilizing the liquidity that arises from the mis-matching of the terms of the subsidiary loans and those of the subloans to private developers for construction finance for financing further eligible loans for construction finance. After the first two years, this liquidity could be used to finance eligible enterprises for eligible purposes as defined in the Enterprise Support Project (ESP),[10] as well as for purposes under the CFLOC and the EMLOC. Any reflows to the Government would be used either to service the loan under CFLOC or relent to the PB for eligible purposes as defined in the ESP or this project.

7. Terms and Conditions of the Subloan Agreement with Final Borrowers. The following principal terms and conditions are proposed for the line of credit through commercial banks:

a. Sub-borrowers. Eligible sub-borrowers will be private developers (legally separate civilian enterprises with at least 75 percent private ownership), residents' associations and housing cooperatives;

b. Sub-projects. Sub-projects will have to be in the housing sector and will have to comply with the technical guidelines detailed in section 3 of this annex;

10/ Subloans may be provided for capital investments and incremental permanent working capital. Loans will be provided for the purchase of assets in any type of business, but not for refinancing existing obligations, land purchase, or for producing tobacco-related products, military products or arms, or illegal drugs, or for nuclear plants or equipment.

c. Subloan from Banks to Final Borrowers:

i. will be made for construction finance purposes only;

ii. will be evaluated in accordance with the PB's normal project and credit evaluation procedure, but will also cover the evaluation aspects set out in the "Guidelines for Subloan/project Evaluation" (see attachment to the present annex);

iii. will be in US Dollars. The foreign exchange risk will be borne by the sub-borrower. Subloan pricing will be determined by the PB who will be free to set their lending rates in response to market conditions. Subloan maturity will not be less than six months, and the grace period will not exceed two years;

iv. the subloan amount will not exceed US$ 10 million unless otherwise agreed by the Bank;

d. Subloan Review. The PB will be required to submit to the Bank and the CPIU for approval the following subloans, which are estimated to represent about 20 percent of the total loan amount and number of subloans:

i. the first subloan appraisal of each PB;

ii. Subloans above US$ 5 million or greater than ten percent of the bank's capital.

8. Allocation of Construction Finance Credits for the Land Development Component Out of the credit allocation of US$ 80 million, half (US$ 40 million) would be reserved initially to finance housing construction and infrastructure of part of the private developer's investment plan on the sites to be developed under the project's Land Development Component. The remaining US$ 40 million would be available immediately upon effectiveness of the credit for housing projects other than those sites which are located in approved geographical areas. During implementation, once housing construction has started on the land development sites, at the Annual Project Reviews this allocation would be revised as needed.

E. PROJECT APPRAISAL AND LOAN APPROVAL PROCEDURES

9. Institutional Arrangements. Potential investors require that the application review process be quick and be free from political influence. To meet these demands and ensure the funding of economically-viable projects which conform to project criteria, the Construction Finance sub-component provides a thorough project review and appraisal by a Participating Russian Bank (PB). In addition, projects above a specified Free Limit (proposed as $5 million) will be presented for review and final disposition to the Interministerial Committee (IMC) and the Bank.

1. APPRAISAL OF LOAN REQUESTS BELOW THE FREE LIMIT

10. All project applications will be submitted to a PB. The PB will act as commercial bank under Construction Finance Line of Credit. As such it would: (a) appraise sub-project applications, reviewing them for conformity with eligibility criteria; (b) manage financial flows and carry out lending functions normally provided by commercial banks; and (c) take the risk on subloans.

11. The PB would review the loan application to ensure that it complies with these guidelines, that it is financially feasible, and that the sub-borrower is credit-worthy.

12. World Bank staff will provide a detailed review of the first two sub-projects submitted by each PB. After this initial screening the World Bank will automatically authorize disbursement of loans below the free limit upon receipt of satisfactory summary sub-project documentation from the PB. This documentation will include information on the investors and borrowers, the investment sub-project and its financing plan, and a draft sub-loan agreement with the terms and conditions of the sub-loan.

2. APPRAISAL OF LOAN REQUESTS ABOVE THE FREE LIMIT

13. The IMC is a Commission established by the Government for the purpose of representing the Government's interest in the administration of the project. The Minister of Construction is the President of the Interministerial Commission. The IMC intends to establish a working group, the Loan Policy Review Committee, to review specific subloans above the free limit.

14. Subloans above the Free Limit of $5 million will be reviewed by the same process as all other sub-projects, with the following addition. After review by the PB, sub-project documentation will be forwarded to both the IMC and the Bank. The Bank will provide a detailed review of the project and report to the IMC whether the sub-project meets all required criteria and is financially viable. However, even if the Bank informs the IMC that it has no objection to its financing, the IMC may reject the sub-project through its Loan Policy Review Committee. If the IMC rejects the subproject, it will be requested to provide the reasons for its rejection to the Bank.

15. Other functions of the IMC will be to monitor the progress and disbursement profile of the Construction Finance Sub-component, adjusting lending criteria as necessary in consultation with the World Bank. It intends to carry out these functions through a Central Project Implementation Unit supported by a General Consultant. PBs will need to cooperate with these structures and permit checks on project implementation and disbursement. World Bank supervision missions will provide ongoing oversight of the operations of the project. This will entail visits to the PBs.

F. LENDING TERMS AND CONDITIONS

16. Loan Security. Current deficiencies in the existing legal system may require that the subloan be secured by collateral in excess of the loan amount. Collateral requirements will be subject to adjustment based on improvements in the legal infrastructure supporting the enforcement of security interests in property (e.g., implementation of a functioning collateral registration system). Case-by-case assessment of collateral thresholds will be part of the responsibility of the PBs.

F. SUPERVISION OF SUBLOANS

17. Oversight of Firm Activities. The final borrower will be restricted from deviating substantially from its proposed activities in the construction sector. Each legal entity funded under the line of credit will be subject to accelerated loan repayments should it deviate substantially from the stated investment project without prior approval by the PB.

18. Procurement Practices. Final borrowers are expected to follow commercial practices in obtaining materials and labor, and equipment that will assure that the end-product is constructed efficiently and at lowest cost.

19. Supervision of Sub-projects. PBs will supervise the-subloan. PBs will be required to use professional engineers to check the quantity and quality of construction and certify completion of construction stages. Such certification will be required for disbursement of subloans. Disbursement by the World Bank and by the PB will be in stages based on satisfactory completion of the prior stage.

ATTACHMENT: GUIDELINES FOR SUBLOAN / PROJECT EVALUATION

A. INTRODUCTION

1. Participating commercial banks (PB) will enter into subloan agreements with sub-borrowers utilizing their own resources and those of the IBRD. The agreements will be in accordance with the project/specific subloan terms and conditions and prudent banking practices. Subloans will be provided for construction finance only.

2. Subloans must be evaluated in accordance with the participating bank's normal project-credit evaluation procedure, but must also follow the guidelines set out below which imply a business plan lists. Subloan borrowers must be legally separate enterprises with at least 75 percent private ownership.

B. PROJECT EVALUATION GUIDELINES

3. Project/subloan evaluations should cover the following areas (formats may vary between banks and projects, but these substantive areas should be included):

a. Project

i. Information on the project: the applicant, general project description, land ownership, project management, construction schedule, information on construction, off-site infrastructure requirements, financing requirements.
ii. Conformity of the project with the technical guidelines; location and regulatory action plan; site design; eligible types of housing; land and infrastructure development; plot and dwelling size; commercial space; construction technology; energy efficiency; condominium associations.
iii. Maximum credit amount for building construction and infrastructure.

b. Borrower

i. Type of borrower; organizational structure, managerial evaluation, credit history, and key issues

c. Project cost

i. Total project costs: construction, land (cost, value or lease fees), infrastructure, preparation expenses
ii. Bases and assumptions for cost estimates

d. Market Analysis

i. Location of the project, pros and cons.

ii. Market demand for the type of construction and technology; profile of the final purchases, similar project elsewhere in competition. Strengths and weaknesses of the project.
iii. Analysis of borrower's marketing strategies, pricing policies, advertising.
iv. Pre-identified list of buyers for the units, if any.

e. Financial Analysis

The Project

i. Analysis of cost of the main construction components, with assumption for the future cost changes.
ii. Projection of future annual construction costs, prepayments, selling price (based on market analysis), and profit (before and after taxes).
iii. Calculation of financial internal rate of return (FIRR) on investment (using discounted streams of annual cash operating and capital costs and revenues, in constant US$ terms, for life of the project)
iv. Sensitivity analysis (resulting FIRR with varying assumptions concerning major risk factors affecting revenues and costs).

The Borrower

v. Analysis of past financial performance of the borrowers (balance sheets, profit and loss statements, cash flows) with appropriate ratios, such as debt to equity, current ratio, debt service coverage, dividend payouts, if possible.
vi. Analysis of future financial cash flow performance expected from the different projects (not only in real estate) with assumptions, including inflation and price changes over time (forecasts should be in US$ equivalents).

f. Financial Plan

The Project

i. Quantifications of funds to be provided by source (Equity; deposits/prepayments; IBRD-Construction Finance loan; local bank loan, investment from sales, other sources)
ii. Assessment of firmness and status of financing sources

The Borrower

iii. Summary of borrower's sources and applications of funds for term loan and assessment of firmness of various sources, with analysis of any issues.

g. Procurement and Project management

i. Arrangements for project management (assessment of borrower's project management capabilities, nature of organization and responsibilities, use of consultants).

ii. Indication of the method by which the borrower plans to acquire materials and contract for works. This method should provide for competition among potential suppliers and contractors.

h. Environmental Assessment

i. Environmental assessment established by a qualified consultant on a list established by the CPIU and agreed upon by the GOR and the IBRD.

ii. This assessment will specify (a) the environmental issues to be checked for each site, (b) the method to be followed in assessing the related risks or consequences, and (c) recommended remedial or mitigating measures.

f. Technical Assistance

i. Description of any technical assistance required or envisaged for the project and the borrower, and likely sources of this assistance (for project implementation, business plan, technology, marketing, etc.)

j. List of Documents

i. Cost analysis for housing projects, breakdown of cost of construction per square meter, cash flow projection for housing project, work sheet calculating loan and interest payments, ratio analysis for housing projects, market analysis, map showing the location of the housing project, a site plan showing the general design of the proposed project, a site plan illustrating road access and infrastructure, including water, sewage, gas, heating and electricity, legal description of land, evidence of land ownership or lease.

k. Loan Recommendation

i. Proposed amount, terms (interest rate, repayment schedule, other fees) and conditions of loan.

ii. Description of any loan guarantee/security arrangements.

ATTACHMENT A: CONSTRUCTION FINANCE COMPONENT PIPELINE OF SUB-PROJECTS

(a) #	bc	(d) Loc.	(e) L A N D	D E S I G N	S T A R T	I N F	(f) Mat	(g) Type	(h) Site area (ha)	Floors (nr)	(i) Units (nr)	(j) Density (dw/ /ha)	(k) FA Total Resid. (m2)	(l) FA Total Commer. (m2)	(m) FA per unit (m2)	(n) Cost Total (US$ thousand)	(o) Cost per unit (US$)	(p) Cost per m2 (US$)

PIPELINE OF POTENTIAL SUB-PROJECTS

NOTE Figures have been checked where possible. Otherwise, they appear as they were submitted by the developers and may contain inconsistencies.

GUIDELINES

no panel apartment buildings
apartments < 81 m2, single-family dwellings < 151 m2
no municipal companies

LEGEND FOR COLUMNS

(b,c) Names of developers and addresses of projects available in the project files, but withheld at the request of developers. An * signals a separate developer.

(d) Location:

CEN	City center	SUB	Suburbs and periphery
CIT	City	17	Distance in km from city

(e) Indicates:

LAN	whether the developer has land or development rights
DES	whether designs are available for the project
STA	whether construction has started
INF	whether infrastructure is available near the project site

(f) Building technology and materials:

BR	brick	na	information not available
PA	rcc structure, rcc panel walls	nr	not relevent (reconstruction and land development)
SP	rcc structure, sandwich panel walls		
CO	rcc structure, non-panel walls	op	buyer's option (wood, brick or panel cottages)
WO	wood		
WB	wood frame, insulation, brick outside, plasterboard inside		

(g) Type of housing development:

SF	single-family housing ("cottages" or townhouses)
AP	multi-storey apartments
MI	mixed apartments and single-family houses
RC	Reconstruction of inner-city buildings
LD	Land development

(i) dwelling units only
(j) net density in dwelling units per hectare (site area / number of dwelling units); city averages are weighted.
(k,l) total gross residential or commercial floor area
(m) average gross floor area per dwelling unit
(n) developer's total cost estimate in US Dollars (April 1994 prices)
(o,p) average estimated construction cost (not sale price!) per dwelling unit or per m2

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(a) #	bc	(d) Loc.	(e) L A N D	D E S I R	S T A R	I N F R	(f) Mat	(g) Type	(h) Site area (ha)	Floors (nr)	(i) Units (nr)	(j) Density (dw/ /ha)	(k) FA Total Resid. (m2)	(l) FA Total Commer. (m2)	(m) FA per unit (m2)	(n) Cost Total (US$ thousand)	(o) Cost per unit (US$)	(p) Cost per m2 (US$)
City:		ST.PETERSBURG																
		#	Sit				Mat	Type	ha	Flrs	Units#	dw/ha	ResFA	ComFA	DweFA	$Cost	$/dwe	$/m2
SP		1	*	SUB	+	-	-	-	CO	AP	1.5	6-16	331	221	21,100	2,000	64	3,724	11,250	176
SP		2	*	CIT	+	+	+	+	CO	AP	1.2		600	500	37.200		62	15,624	26,040	420
SP		4	*	CEN	+	+	+	+	nr	RC			76		2,500		33	1,000	13,158	400
SP		5		CEN	+	+	+	+	nr	RC			58		2,000		34	800	13,793	400
SP		6		CEN	+	+	+	+	nr	RC			96		3,000		31	1,200	12,500	400
SP		9	*	SUB	+	+	-	+	na	MI	20.6	2-12	1,177	57	94,190	20,000	80	36,248	30,787	385
SP	--	10	*	SUB		na			SP	SF	50.0		120	2						na
SP		11		SUB	+	+	+	+	SP	SF	5.0		100	20	13,500		135	5,500	55,000	407
SP		13	*	CEN	+	-	-	+	nr	RC	0.2				2,262			2,900		1010
SP		15	*	SUB	+	+	+	-	CO	AP	39.0	5	4,745	122	308,000	na	65	72,000	15,174	234
SP		16	*	CEN	+	+	-	+	nr	RC	0.7		150	214	12,000	6,000	80	12,000	40,000	500
SP		17	*	SUB	+	+	+	+	CO	AP	0.6		300	500				1,116		360
SP		19	*	SUB	+	+	+	+	CO	AP	0.3		150	500	9,120		61	4,104	27,360	650
SP		22	*	CEN	+	+	+	+	nr	RC			20		1,203		60	409	20,450	340
SP		23		CEN	+	+	+	+	nr	RC			54			na		184		310
SP		24		SUB	+	+	+	+	CO	AP			94			na		18,709		360
SP		25		SUB	+	+	+	+	CO	AP			200				60	4,320	21,600	360
SP		26		SUB	+	+	+	+	CO	AP			700			na	57	15,000	21,429	375
SP		27	*	SUB	+	-	-	+	WO	LD	40.0		230	6				1,200	5,217	375
SP		32	*	SUB	+	+	-	-	BR	SF	4.0		40	10	6,000	na	150	3,090	77,250	515
SP		34	*	CIT	-	-	-	-	nr	RC	4.8		211	44	15,046	5,015	71	15,607	53,300	778
SP		35	*	SUB	+	+	+	+	CO	AP			1,200		74,400	na	62	34,224	28,520	460
SP		36		SUB	+	+	+	+	CO	AP			450		27,900		62	12,276	27,280	440
SP		37		SUB	+	+	+	+	CO	AP			450		27,900		62	12,276	27,280	440
SP		38		CIT	+	+	-	-	CO	AP			80		3,600		45	1,764	22,050	490
SP		39		SUB	+	+	+	+	CO	AP			150		9,300	na	62	4,185	27,900	450
SP		40		SUB	+	+	+	+	CO	AP			300		18,600	na	62	8,184	27,280	440
SP		42	*	CIT	+	+		+	nr	RC	0.6		142	242	10,691	1,419	75	8,040	56,620	664
SP		43	*	CEN	+	+	+	+	nr	RC			62		4,000		65	1,320	21,290	330
SP		44	*	SUB		+	+	+	BR	AP	2.2	7-15	798	363	48,514	29,465	61	22,000	27,569	400
SP		47		SUB	+	+		+	na	AP	2.2		498	226	26,742	9,755	54	10,000	20,080	375
SP		48		CIT	+	+	+	+	BR	AP	0.7		398	569	23,043		58	8,000	28,948	500
SP		51		SUB	+	+	+	+	BR	AP	1.8		421	234	20,218		48	7,400	17,289	360
SP		55		SUB	+	+	+	+	BR	AP	0.2		48	240	2,290		48	1,200	23,854	500
SP		57	*	SUB	+	+	-	-	na	AP	3.5	2-5	200	57	12,368	2,907	62	5,100	25,500	412
SP		58	*	CEN	+	-			BR	AP	1.0		150	150	10,000	na	67	4,000	27,667	400
SP		60		SUB	+	+	+	+	CO	AP	0.6		303	505	17,000	5,500	56	8,000	19,949	356
SP		61	*	SUB	+	+			CO	AP			150		8,400		56	3,108	20,720	370
SP		62		SUB	+	+			CO	AP			200		11,200		56	4,144	20,720	370
SP		63		SUB	+	+			CO	AP			180		10,078		56	3,729	20,717	370
SP		64		SUB	+	+			CO	AP			160		8,959		56	3,315	20,719	370
SP		65		SUB	+	+			CO	AP			120		6,720		56	3,246	27,050	483
SP		66		SUB	+	+			CO	AP			230		12,881		56	4,766	20,722	370
SP		67	*	SUB	+	+	+	+	BR	AP	0.7		300	429	18,600		62	8,184	27,280	440
SP		68		SUB	+	+	+	+	BR	AP	0.3		400	1333	8,674		22	3,990	10,120	460
SP		70	*	SUB	+	+	+	+	CO	AP	0.8		300	400	18,600		62	8,184	27,280	440
SP		71	*	SUB	+	+	+	+	CO	AP	0.5		250	500	12,500		50	4,375	17,500	350
SP		74	*	SUB	+	+	+	+	BR	AP	0.8	9-15	184	236	9,393	663	51	3,302	15,315	300
SP		77		SUB	+	+	+	+	BR	AP	2.0	7-16	327	166	16,882	15,334	52	10,745	15,488	300
Total		St.Peters-					Total		185.7		17,903		1,006,575	98,058		423,793		
Proj		Devburg					Average		6.6		378	291	23,966		61	8,829	25,387	421
49		25					Weighted					72			62		23,668	381

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(a) #	bc	(d) Loc.	(e) L A N D	(e) D E S I R	(e) S T A R	(e) I N F	(f) Mat	(g) Type	(h) Site area (ha)	Floors (nr)	(i) Units (nr)	(j) Density (dw/ /ha)	(k) FA Total Resid. (m2)	(l) FA Total Commer. (m2)	(m) FA per unit (m2)	(n) Cost Total (US$ thousand)	(o) Cost per unit (US$)	(p) Cost per m2 (US$)
City:		NOVGOROD																
	#	Loc					Mat	Typ	ha		Un#	dw/ha	ReFA	CoFA	m2/dw	Cost	$/dwe	$/m2
NO	2	*	SUB	+	+	-	-	na	SF	8.0		40	5	6,000	----	150	3,371	84,270	562
NO	3	*	CIT	-	+	-	-	BR	AP	0.9		209	227	10,300	----	49	4,136	19,789	402
NO	5	*	CIT	+	+	+	+	BR	AP	0.3		120	400	7,700	500	64	2,022	16,854	263
Total		Novgorod					Total		9.2		369		24,000	500		9,529		
Proj		Dev					Average		3.1		123	211	8,000		88	3,176	40,304	409
	3	3					Weighted					40			65		25,825	397
City:		TVER																
	#	Loc					Mat	Typ	ha		Un#	dw/ha	ReFA	CoFA	m2/dw	Cost	$/dwe	$/m2
TV	4	*	CEN	-	-	-	+	BR	AP	0.3	5	60	200	3,600	na	60	800	13,333	222
TV	9	*	CEN	+	+	+	+	CO	RC			60		3,100	na	52	522	8,708	169
TV	12	*	SUB	+	+	+	-	BR	MI	90.6		340	4	43,917	na	129			
TV	16	*	CIT	+	+	-	+	BR	AP	4.0	9-12	598	150	32,800	na	55	9,213	15,407	281
TV	17		SUB	+	-	-	-	op	SF	37.0		300	8	45,000	na	150	18,933	63,109	421
TV	20	*	CEN	-	-	-	-	BR	AP	0.4	5	78	195	5,500	na	71	1,124	14,405	204
TV	25	*	CEN	+	-	-	-	BR	AP	0.0	5	32	1,067	2,560	na	80	1,000	31,250	391
TV	26		CIT	+	-	-	-	BR	AP	2.0	9	160	80	9,600	na	60	6,000	37,500	625
TV	27		CIT	+	+	-	-	BR	RC	0.2	2-5	36	180	2,400	na	67	1,800	50,000	750
TV	28	*	CEN	+	-	-	-	BR	SF	0.6		120	200	12,000	na	100	1,685	14,045	140
TV	36	*	SUB	+	-	+	-	BR	SF	0.1		10	100	1,500	na	150	899	89,888	599
TV	38	*	CIT	+	+	+	+	BR	AP	0.8		48	60	2,625	na	55	1,006	20,962	383
TV	41	*	CIT	+	+	+	+	BR	AP	0.5	5	72	157	3,874	na	54	1,798	24,969	464
TV	42	*	SUB	+	+	-	+	op	SF	32.0		213	7	31,560	na	148	4,890	22,957	155
TV	43		SUB	+	+	-	+	op	SF	23.0		115	5	17,040	na	148	4,393	38,202	258
TV	44	*	CIT	+	-	-	-	BR	AP	0.2	5	45	225	2,500	na	56	618	13,733	247
Total		Tver					Total		191.7		2,287		219,576			54,681		
Proj		Dev					Average		12.8		143	176	13,723		90	3,645	30,565	354
	16	12					Weighted					12			96		28,085	311
City:		NIZHNY NOVGOROD																
	#	Loc					Mat	Typ	ha		Un#	dw/ha	ReFA	CoFA	m2/dw	Cost	$/dwe	$/m2
NN	5	*	SUB	+	+	-	-	BR	SF	5.0	2	50	10	7,500		150	11,250	150,000	1000
NN	6	*	SUB	+	-	-	-	BR	LD	20.0		200	10				899	4,494	
NN	7	*	CIT	+	+	-	+	na	AP	0.6		240	400	16,800		70	8,400	35,000	500
NN	14	*	CEN	+	-	-	+	BR	AP	0.2		25	167	2,000		80	1,000	40,000	500
NN	15	*	SUB	+	+	-	+	na	AP	1.0	9	140	140	8,588	2,500	61	2,596	18,539	302
NN	18	*	CEN	+	+	-	+	na	AP	0.1		30	273	1,600	500	53	764	25,467	478
NN	21	*	CEN	+	+	-	-	nr	RC	1.0		120	125	8,400	2,800	70	5,880	49,000	700
NN	22	*	SUB	+	+	+	+	BR	AP			52		3,562		69	1,781	34,248	500
NN	25	*	CIT	+	-	-	+	na	AP		9	70		4,000		57	1,685	24,077	421
NN	26	*	CEN	+	-	-	+	BR	RC	1.7	9	247	143	19,760		80	9,916	40,145	502
Total		Nizhny					Total		29.6		1,174		72,210	5,800		44,170		
Proj		DevNovgorod					Average		3.7		117	158	8,023		77	4,417	42,097	545
	10	10					Weighted					36			74		37,624	599

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(a) #	bc	(d) Loc.	(e) D S I Mat	(f)	(g) Type	(h) Site area (ha)	Floors (nr)	(i) Units (nr)	(j) Density (dw/ /ha)	(k) FA Total Resid. (m2)	(l) FA Total Commer. (m2)	(m) FA per unit (m2)	(n) Cost Total (US$ thousand)	(o) Cost per unit (US$)	(p) Cost per m2 (US$)
City:		BARNAUL													
#		Loc		Mat	Typ	ha		Unt	dw/ha	ReFA	CoFA	m2/dw	Cost	$/dwe	$/m2
BA 1	*	CEN + + - +		BR	AP	0.3	8	8	27	640		80	321	40,125	502
BA 2	*	CEN + + + +		BR	AP	0.1	10	127	1,814	4,158		33	1,485	11,693	357
BA 8	*	CEN + + + +		BR	AP	1.6		115	72	6,453	na	56	3,691	32,098	572
Total		Barnaul		Total		2.0		250		11,251			5,497		
Proj		Dev		Average		0.7		83	638	3,750		56	1,832	27,972	477
3		3		Weighted					127			45		21,989	489
#		All cities				ha		Unt	dw/ha	ReFA	CoFA	m2/dw	Cost	$/dwe	$/m2
Total				Total		418.2		21,983		1,333,612	104,358		537,671		
Proj		Dev		Average		5.4		169	295	11,493		74	4,380	33,265	441
81		53		Weighted					57			68		27,438	435

PROJECTS NOT CONFORMING WITH THE GUIDELINES

Non-conform: Panel apartment buildings

#		Loc	Mat	Typ	ha		Unt	dw/ha	ReFA	CoFA	m2/dw	Cost	$/dwe	$/m2
SP 12	*	CEN + + + +	PA	AP	0.2	4-7	64	320	3,660	523	57	5,100	57,188	1000
SP 14		SUB + + - +	PA	AP		10	180		11,000		61	5,300	29,444	482
SP 20	*	SUB + + +	PA	AP	1.0	12	117	117	6,428		55	1,333	11,396	207
SP 30	*	SUB + - - -	PA	AP	9.0	8-12	1,440	160	75,000	5,500	52	22,500	29,565	300
SP 50	*	SUB + + + +	PA	AP	2.6	5-9	292	112	18,250	3,490	63	5,100	16,875	347
SP 52		SUB + +	PA	AP	20.0		2,268	113	192,400		78	76,000	31,200	400
SP 53		SUB + +	PA	AP	0.8		168	210	8,400		50	2,200	12,500	250
SP 56		SUB	PA	AP	2.6		417	160	26,068		63	5,800	13,940	223
SP 59	*	SUB +	PA	AP	0.6	16	400	667	26,000	8,400	65	13,000	24,564	378
SP 73	*	SUB + + - +	PA	AP	2.0	16	378	189	22,688	8,350	60	8,069	15,606	260
TV 1	*	CIT + + + +	PA	AP	0.3	9-10	196	784	11,000	na	56	3,652	18,631	332
TV 2		CIT + + + +	PA	AP	0.3	9-10	200	690	11,300	na	57	1,404	7,022	124
TV 3		CIT + + - -	PA	AP	0.2	9-10	80	533	2,200	na	28	1,404	17,556	638
TV 7	*	CIT + + - +	PA	AP		2-5	75		5,625	na	75	1,422	18,959	253
TV 13	*	SUB + + - +	PA	AP	5.0	9-10	309	62	22,500	na	73	3,933	12,727	175
TV 14		SUB + + - +	PA	AP		9-10	230		15,000	na	65	3,371	14,656	225
TV 18	*	CIT + + + ?	PA	AP	1.0	10	80	80	4,503	na	56	1,258	15,730	279
TV 21	*	CIT - - - -	PA	AP	0.5	9	120	240	7,200	na	60	1,685	14,045	234
TV 29	*	CIT + + - -	PA	AP	0.3	3-5	88	293	7,314	na	83	992	11,268	136
TV 30	*	SUB + + + -	PA	AP	1.0	9	110	110	6,000	na	55	800	7,273	133
TV 31		SUB + - - -	PA	AP	1.0	9	110	110	6,000	na	55	1,600	14,545	267
TV 32	*	SUB + + - -	PA	AP		9	320		19,380	na	61	6,328	19,775	327
TV 33		SUB + + - -	PA	AP		9-10	280		16,812	na	60	5,539	19,783	329
TV 35	*	CIT + + + +	PA	AP	0.4	10	80	190	4,756	na	59	1,133	14,163	238
TV 39	*	CIT + + + +	PA	AP	0.6	9-10	240	400	13,835	na	58	3,371	14,045	244
TV 46	*	CIT + + + -	PA	AP		10	40		2,200	na	55	618	15,449	281
TV 47	*	CIT + + + +	PA	AP	0.8	10	200	250	11,408	na	57	1,404	7,022	123
NN 1	*	SUB + + - -	PA	AP	1.9	10	359	189	20,400		57	12,240	34,095	600
NN 2		CIT + + - +	PA	AP	0.8	10	80	100	5,600		70	3,360	42,000	600
NN 3		CIT + + - +	PA	AP	1.1	10	120	109	7,200		60	4,320	36,000	600
NN 4		CIT + + - +	PA	AP	1.0	10	169	169	10,300		61	6,180	36,568	600
NN 8	*	SUB + - - +	PA	AP	0.8	9	216	260	12,033		56	4,056	18,779	337
NN 16	*	CIT + + - +	PA	AP	0.2		200	1,000	11,000	na	55	5,253	26,265	478
NN 17		CIT + + - +	PA	AP	0.1		40	364	2,590		65	1,237	30,925	478
NN 19	*	CIT + + - +	PA	AP	0.5	12	83	184	5,904		71	2,753	33,166	466
BA 9	*	CIT + + - +	PA	AP	1.7		238	144	13,679	na	57	4,017	16,877	294
BA 10		CIT + + - +	PA	AP	1.7		238	144	13,679	na	57	4,601	19,332	336
BA 11	*	SUB + + + +	PA	AP	9.4		1,092	116	63,805		58	26,652	24,407	418
Total		Panel	Total		69.2		11,317		723,117			258,986		
Proj		Devbuildings	Average		2.2		298	268	19,029		60	6,815	21,141	352
38		24	Weighted					147			64		22,885	358

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N S A F D I R R	(ha)	(nr)	(nr)	(dw/ /ha)	Resid. (m2)	Commer. (m2)	unit (m2)	(US$ thousand)	unit (US$)	m2 (US$)

Non-conform: Apartments > 80 m2

	#		Loc	Mat	Typ	ha	Flrs	Un#	dw/ha	ReFA	CoFA	m2/dw	Cost	$/dwe	$/m2
SP	18	*	CEN + + - +	SP	AP	0.1	5-6	15	150	2,134		142	1,900	126,667	890
SP	33	*	SUB + + + +	PA	AP	1.9	9	400	211	34,200	3,800	86	20,500	51,250	599
SP	54	*	SUB + +	BR	AP	150.0	1-6	3,029	20	261,000	na	86	124,000	40,929	475
NO	1	*	CIT + + - +	BR	AP	1.3	14	186	143	15,900		85	5,088	27,355	320
TV	10	*	CEN + + + -	BR	AP	1.1	2-5	72	65	11,339	na	157	4,778	66,355	421
TV	11	*	SUB + + - +	BR	AP	1.0	5	25	25	3,070	na	123	843	33,708	274
TV	23	*	CIT + + - -	BR	AP	1.0	9	112	112	13,000	na	116	3,652	32,604	281
TV	24	*	SUB + - - -	BR	AP	1.2	5	50	42	8,000	na	160	2,500	50,000	313
NN	13	*	CIT + - - +	BR	AP		16	64		6,400		100	1,600	25,000	250
Total			Apartments	Total		157.6		3,953		355,043	3,800		164,860		
Proj			Dev> 80 m2	Average		19.7		439	96	39,449		117	18,318	50,430	425
	9		9	Weighted					25			90		41,705	464

Non-conform: Apartment buildings > 9 floors

	#		Loc	Mat	Typ	ha	Flrs	Un#	dw/ha	ReFA	CoFA	m2/dw	Cost	$/dwe	$/m2
SP	21	*	SUB + + + +	BR	AP	0.5	16	176	352	8,949		51			
SP	29	*	SUB + + -	BR	AP	1.0	12-16	255	255	14,300	6,700	56	6,667	26,145	466
SP	49	*	SUB + + + +	na	AP	0.5	10	139	278	7,330	2,000	53	3,000	18,457	350
SP	69	*	CIT + + + +	CO	AP	1.1	14-15	900	811	48,144	4,050	53	42,336	37,445	700
SP	72	*	SUB + + +	BR	AP		16	94		6,837	814	73	2,051	21,820	300
SP	73		SUB + + - +	BR	AP	1.5	12	550	367	30,947	10,628	56	12,473	16,880	300
SP	76		CIT + + - +	BR	AP	0.9	10-14	377	428	23,220	7,626	62	9,254	18,477	300
NO	6	*	CIT + + + +	BR	AP		14	158		9,700	----	61	2,798	17,707	288
TV	37	*	CIT + + + +	BR	AP	0.9	12	71	79	4,014	na	57	2,029	28,580	506
NN	20	*	CIT + + - +	BR	AP	0.6	14	108	180	5,600	960	52	2,612	24,189	466
BA	3		SUB + + + +	BR	AP	0.1	12	95	950	6,304		66	1,975	20,789	313
BA	12	*	SUB + + - +	BR	AP	0.5	12	68	136	5,080		75	1,665	24,481	328
BA	13	*	SUB + + - +	BR	AP	0.7	12	84	125	5,349		64	2,499	29,749	467
BA	14		SUB + + - +	BR	AP	0.6	12	84	133	5,349		64	2,499	29,749	467
BA	15		SUB + + - +	BR	AP	0.7	12	84	125	5,349		64	2,500	29,760	467
BA	16		SUB + + - +	BR	AP	0.7	12	84	125	5,349		64	2,500	29,760	467
Total			Apartments	Total		10.2		3,327		191,821			96,857		
Proj			Dev> 9 flrs	Average		0.7		208	310	11,989		61	6,457	24,933	412
	16		10	Weighted					301			58		30,738	530

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ATTACHMENT B: CONSTRUCTION FINANCE COMPONENT ANALYSIS OF PIPELINE OF SUB-PROJECTS

		Number of projects (nr)	Site area (ha)	Number of dw. units (nr)	Density (dw/ha)	Resid. floor area (m2)	Aver. unit area (m2)	Total project cost (US$'000)	Cost per unit (US$)	per m2 (US$)
1. By city, type of housing and building technology/materials										
ST. PETERSBURG										
Panel apartments	Total	11	40.7	6,124		424,094		164,902		
	Average		4.1	557	226	38,554	63	14,991	26,684	404
	weighted av.				146		69		26,927	389
Brick apartments	Total	15	163.6	7,507		502,867		223,265		
	Average		11.7	500	301	33,524	57	15,948	22,627	393
	weighted av.				45		67		30,455	452
Concrete frame apartments	Total	24	45.6	12,543		691,603		292,709		
	Average		5.1	523	451	34,580	58	12,196	23,454	401
	weighted av.				173		61		23,336	367
Sandwich panel apts.	—	1	0.1	15	150	2,134	142	1,900	126,667	890
Mixed apts./ single-fam.	—	1	20.6	1,177	57	94,190	80	36,248	30,787	385
Apartments technology not avail.	Total	3	6.2	837		46,440		18,100		
	Average		2.1	279	187	15,480	56	6,033	21,346	379
	weighted av.				135		55		21,625	390
Brick single-family housing	Total	4	288.0	884		264,600		112,334		
	Average		72.0	221	6	66,150	275	28,084	84,000	335
	weighted av.				3		299		127,075	425
Sandwich panel single-fam.	Total	2	55.0	220		13,500		5,500		
	Average		27.5	110	11	13,500	135	5,500	55,000	204
	weighted av.				4		—		—	—
Wood single-fam.	—	1	20.0	115	6	20,125	175	3,500	50,750	290
Single-fam. technol not avail.	—	1	20.0	70	4	22,857	327	16,000	228,571	700
Reconstruction	Total	13	6.7	1,022		69,162		53,810		
	Average		1.1	85	237	5,763	70	4,139	36,843	521
	weighted av.				96		69		49,815	775
Reconstruction apts. > 81 m2	Total	9	1.5	658		37,656		27,853		
	Average		0.5	82	228	4,707	54	3,095	25,402	484
	weighted av.				—		59		37,922	735
Land development.	—	1	40.0	230	6			1,200	5,217	375

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NOVGOROD

Brick apartments	Total	4	2.5	673		43,600		14,044		
	Average		0.8	168	257	10,900	65	3,511	20,426	318
	weighted av.				204		65		21	322
Brick single-fam.	—	4	7.5	30	4	6,000	200	944	31,461	157
Single-fam. technol. not avail.		1	8.0	40	5	6,000	150	3,371	84,270	562

TVER

Panel apartments	Total	17	11.3	2,758		167,034		39,915		
	Average		0.9	162	312	9,826	59	2,348	14,274	255
	weighted av.				160		61		14,472	239
Brick apartments	Total	13	13.4	1,423		102,482		35,360		
	Average		1.0	109	189	7,883	85	2,720	29,447	355
	weighted av.				106		72		24,849	345
Brick mixed apts./ single fam.		1	90.6	340	4	43,917	129			na
Panel single-family		1		5		1,500	300	337	67,416	225
Brick single-family	Total	6	53.7	560		94,350		27,697		
	Average		13.2	93	56	15,725	170	4,616	56,461	331
	weighted av.				10		168		49,458	294
Concrete frame single-family		1	1.8	15	8	1,305	87	379	25,281	291
Single-family Technology optional	Total	3	92.0	628		93,600		28,216		
	Average		30.7	209	7	31,200	149	9,405	41,423	278
	weighted av.				7		149		44,930	301
Land development		1	45.0	322	7	64,400	200	21,469	66,674	333
Reconstruction	Total	4	6.6	294		33,000		20,300		
	Average		2.2	74	78	8,250	112	5,075	87,577	641
	weighted av.				35		112		69,048	615

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NIZHNY NOVGOROD

Panel	Total	8	6.4	1,267		75,027		39,399		
apartments	Average		0.8	158	297	9,378	62	4,925	32,225	520
	weighted av.				198		59		31,096	525
Brick	Total	4	0.8	249		17,562		6,993		
apartments	Average		0.4	62	173	4,391	75	1,748	30,859	429
	weighted av.				177		71		28,085	398
Apartments	Total	5	1.7	670		43,509		20,018		
Technology	Average		0.6	134	271	8,702	62	4,004	27,536	445
not available	weighted av.				240		65		29,878	460
Brick single-family	—	1	5.0	50	10	7,500	150	11,250	150,000	1,000
Wood single-family	—	1	7.0	100	14	20,000	200	3,820	38,200	191
Wood and brick	Total	4		101		19,400		4,850		
single-family	Average			25		4,850	191	1,213	47,654	250
	weighted av.						192		48,020	250
Reconstruction	Total	2	2.7	367		28,160		15,796		
	Average		1.3	184	134	14,080	75	7,898	44,572	601
	weighted av.				136		77		43,040	561
Land development	—	1	20.0	200	10			899	4,494	na

BARNAUL

Panel	Total	3	12.7	1,568		91,163		35,270		
apartments	Average		4.2	523	135	30,388	58	11,757	20,205	349
	weighted av.				123		58		22,494	387
Brick	Total	9	5.2	749		44,031		19,134		
apartments	Average		0.7	83	390	4,892	63	2,126	27,578	438
	weighted av.				144		59		25,547	435
Brick	Total	2	48.0	370		62,900		35,150		
single-family	Average		24.0	185	8	31,450	170	17,575	95,000	559
	weighted av.				8		170		95,000	559
Land	Total	2	563.0	4,352		739,757		29,443		
development	Average		281.5	2,176	8	369,879	170	14,722	6,965	41
	weighted av.				8		170		6,766	40

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STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 3.5
EQUITY MATCHING SUB-COMPONENT

A. BACKGROUND

1. A key bottleneck to developing a well-functioning housing market in Russia is the shortage of building materials that support market-driven housing production. The failure of industry to meet the demand for these materials is due both to the historical legacy of the command economy and the static of corporate governance regime that enabled settled housing industry management to remain in place notwithstanding the process of privatization.

2. Under the command system, large, vertically-integrated regional organizations controlled the housing construction process. These housing "kombinats" filled the role of physical planner, designer, builder, material supplier, and owner/operator. These monopolistic structures were responsible for the uniformity of residential designs, and the materials in production reflected their preferences toward large energy inefficient, environmentally-damaging, and input-intensive, concrete-panel high rise apartments that stand as monuments to the Soviet past.

3. Strategic restructuring of these organizations has barely begun. Existing management has shown little inclination to adjust to even the most basic demands of the emerging market economy. Technology lags far behind global norms. Investment capital required to address market dynamics is almost nonexistent. Compounding these problems, lack of macroeconomic stabilization and continuance of severe price distortions cloud the market signals required for firms to redeploy their existing assets productively.

4. Privatization in the building materials industry has done little to address these structural problems. Privatization has generally transferred enterprise ownership and management control from the state to enterprise managers and workers. The result has been the creation of "insider" corporate governance structures with owner incentives adverse to restructuring. Managers and employees, as the dominant enterprise shareholders, prefer to use revenues to fuel wage increases and fund existing operations rather than to restructure production to meet the growing demands of the emerging market.

5. The greatest threat to this static management structure is the promotion of outsider investment. Such investment would exert both pressure and market discipline on enterprise managers. If the investment was sufficiently large and made by sophisticated investors, it might also provide much-needed injections of management skill, technology, and capital. One way to promote such investment is through the development of financial institutions, mainly the emerging commercial banks and investment funds.

B. BANK INVOLVEMENT IN THE SECTOR

6. The Bank is addressing the problem of enterprise restructuring generally in the Enterprise Support Project (ESP) and the complementary Financial Institutions Development Project (FIDP). The ESP will provide medium-term credit to enterprises through a core of domestic commercial banks. These banks will be strengthened over the next few years through twinning arrangements and extensive technical cooperation under the FIDP.

7. While these programs are crucial to the long-term restructuring of Russian industry, more can be done to address the immediate needs of the housing sector. Housing reform cannot begin without immediate investment in the production and efficient distribution of building materials that support small-scale developers and diversified types of housing construction, including low-rise construction. Equity investment provided by foreign building materials companies and venture capital funds, as well as competitive Russian firms, present a significant potential source of such investment.

8. The Concept of Equity Matching. Foreign investment represents a vast untapped potential for the transfer of much-needed management, technology, and capital to facilitate the restructuring of Russia's ailing building materials industry. To the extent Russian firms satisfy these objectives, they will also take part in the line-of-credit. The absence of competitively-priced debt to leverage this equity has kept its inflow to a minimum. Traditional programs of the international financial institutions have not been effective, as their high investment thresholds fail to address the smaller-scale equity investments ($2-5 million) characteristic of the current Russian market. The Equity Matching sub-component provides an innovative alternative to leverage these smaller investments.

9. The objective of the Equity Matching Line of Credit (EMLOC) is to leverage private-sector investment in Russia's building materials industry, making commercial bank financing available on reasonable terms for projects which are sufficiently attractive to secure sound private equity capital. The line would mobilize the restructuring of Russia's building materials industry by leveraging new equity investments in the sector with domestic finance. Credits would only be made against investments made by "qualified" investors, that is, investors that are pre-screened to assure adequate capital management. Credits would be lent up to double the amount of new, cash equity invested by a qualified investor in an eligible sub-project. Accordingly, the amount of equity provided by an investor would be equal to or greater than one-third of the total sub-project cost. The risk on subloans made with resources from the proposed Bank loan would be assumed by the participating commercial banks. Unless at least 20% of the line-of-credit has been committed within the a year of effectiveness, the Bank may cancel the line-of credit after consultation with the government.

10. The following example illustrates how the line of credit will operate. An enterprise seeking new capital will bring an investment proposal to a "qualified investor" (either a venture capital fund or a building materials company). Most likely, these enterprises will be joint ventures between a domestic firm (possibly a spin-off from a former kombinat) and a foreign partner (backed by the managerial skills and technology necessary to modernize the enterprize). If the investor deems the proposal worthy of investment and agrees to invest new, cash equity in excess of $500,000, the enterprise will be eligible to submit an application to a qualified Russian commercial bank for a loan

from the EMLOC. If successfully appraised by the commercial bank (and approved by the GOR and the Bank if above the free limit) the enterprise will receive the loan for the sub-project up to double the amount of equity contributed by the investor.

11. The EMLOC component would finance the establishment or expansion of building materials manufacturing or distribution enterprises. Subloans from the Equity Matching sub-component will be denominated in foreign currency (e.g., in US dollars). The minimum and maximum size of subloans will be US$500,000 and US$10 million equivalent, respectively. Subloans outside of these limits could be considered as exceptions on a case-by-case basis by the Government of Russia and the World Bank. The total amount of subloans cannot exceed two-thirds of total sub-project cost. The Participating Bank (PB) would take the full commercial risk of its subloans. Subloans would be for a minimum of two years and a maximum of eight years, including up to two years grace. Interest rates on subloans would be set by the PBs. The EMLOC will provide debt up to twice the amount of new cash equity participation by "eligible investors." However, this guideline does not require that a firm borrow the full amount of its entitlement under the EMLOC.

C. ON-LENDING TERMS AND CONDITIONS TO SUB-BORROWERS

12. Subsidiary Loan Agreement with PBs. There would be a Subsidiary Loan Agreement between the GOR and each Participating Bank (PB). This agreement would stipulate the financial and other obligations of the PB for the subloans made with resources from the proposed Bank loan, including responsibilities for risks under each sub-loan, reporting requirements, etc. The PB would pay interest at the interest rate on the Bank loan plus a spread of up to 2.5% p.a. and rounded to the next .5% interval, to cover the GOR's administrative costs and risks under the EMLOC; the PBs would also pay a commitment fee of 0.33% p.a. on the undisbursed balance of subloans from the date they are authorized for disbursement by the Bank. Flexibility is provided on the interest rate of subsidiary loans to allow the Government adjust the interest rate of subsidiary loans to commercial banks to the interest rate for the Enterprise Support Project (ESP) financed by the World Bank and/or other lines of credit. In general, the terms and conditions of subsidiary loans are the same as terms and conditions for the ESP.

13. Participating Banks. Participating commercial banks (PB) will enter into sub-loan agreements with final borrowers utilizing the resources provided through the line of credit. They may also utilize their own resources, at their option. The agreements will be in accordance with the project/specific sub-loan terms and conditions and prudent banking practices. The PBs would be required to meet and maintain conformity with the eligibility criteria established by the Government and the Bank, as described in annex 5 of the Staff Appraisal Report of the Enterprise Support Project titled "Accreditation Criteria and Monitoring of the Performance of Participating Banks." The PBs would also follow Prudential Standards as described in annex 6 of the same document, titled "Proposed Prudential Standards for Participating Banks."

14. Terms and Conditions of the Subsidiary Loan Agreement. Only commercial banks which have been audited and accredited under Financial Institutions Development Project (FIDP) procedures would be allowed to participate in the line of credit. PBs will also undertake, under the FIDP, an institutional strengthening program and demonstrate achievement of agreed milestones of prudential standards and performance improvement.

15. The Government would make subsidiary loans to PBs under the following main terms and conditions:

a. funds will be available on a first-come-first-serve basis. The total amount borrowed under the ESP and the present loan should not exceed 100 percent of the PB's capital;

b. the interest rate charged will be equal to the base rate of funds to the Government plus 2.5 percent and rounded to the nearest 0.5 percent interval. The base rate will be adjusted semi-annually and the subsidiary interest rate will be adjusted as required by the above formula. A commitment fee of 0.33 percent per annum will be charged on the balance of undisbursed commitments to individual banks. At present, this would imply a rate of interest of around 9.5 percent. If the resultant interest rate using this formula is higher than the interest rate charged under the ESP or other similar lines of credit, the Government has the option of adjusting the spread between its cost of funds and the interest rate that it charges the PB so that the interest rates between the lines of credit are equal or harmonized appropriately.

c. a signing fee of US$ 25,000 would be payable at the time of signing of the subsidiary loan agreement and would count against interest charges incurred under the agreement;

d. an amount of 0.125 percent would be charged on amounts prepaid. The PB would be required to commit to utilizing the liquidity that arises from the mismatching of the terms of the subsidiary loans and those of the subloans to the enterprises for financing further loans to eligible enterprises for eligible purposes as defined in the Private Enterprise Support Project.[1] There would be no reflows available for re-lending under the EMLOC Sub-component.

16. The PB will be required to submit to the World Bank and the Loan Policy Review committee (LPRC) of the Interministerial Commission (IMC) chaired by the Minister of Construction for approval the following subloans, which are estimated to represent about 20 percent of the total loan amount and number of subloans:

i. the first two subloan appraisals of each PB;
ii. Subloans above US$5 million or greater than ten percent of the bank's capital

1/ Subloans may be provided for capital investments and incremental permanent working capital. Loans will be provided for the purchase of assets in any type of business, but not for refinancing existing obligations, land purchase, or for producing tobacco-related products, military products or arms, or illegal drugs, or for nuclear plants or equipment.

D. ON-LENDING TERMS AND CONDITIONS TO FINAL-BORROWERS

1. ELIGIBILITY OF FINAL-BORROWER

17. Eligibility Criteria. The line of credit will fund investment projects of (a) eligible enterprises; (b) that produce eligible products or services; (c) with equity participation by eligible investors (d) that is both new and in cash. Funds from the line of credit will only be available to invest in "eligible investments." Each of these definitions is outlined in detail below.

18. Eligible Enterprises. The EMLOC would only fund legally-isolated enterprises that will manufacture or distribute building materials. Enterprises must be "legally isolated" to prevent cross-subsidization of activities within a firm. The investment project must be to produce or distribute building materials or provide services to support the production or distribution of such materials. All stock of the enterprise must be held by private investors. A "private" Russian investor is defined by the ESP, requiring 75% private ownership. Private foreign firms are defined as 100% privately owned.

19. Eligible Investors. Equity contributions to sub-projects eligible for matching credits must be made by:

a. Certified venture capital funds which have a qualified technical partner involved in the investment enterprise with an adequate share participation or other incentive arrangement with the technical partner to assure that the investment enterprise is competently managed from the technical point of view. The certification process for venture capital funds is similar to that of the International Finance Corporation and European Bank for Reconstruction and Development, both of which are participating in and often maintain representation on the boards of such funds. It will be designed to ensure that participating venture funds are insulated from political control, professionally managed, and chartered to maximize financial returns and ensure qualified management in new ventures.

b. Private corporations with adequate demonstrated experience in producing modern building materials or which provide services that support the production or distribution of such products. Such corporations must provide financial statements (income statements, balance sheets and flow of funds statement) for each of the three years prior to the application for the loan. The statements must be accompanied by an unqualified opinion, from an independent auditor with international experience acceptable to the World Bank, that the statements present a fair and accurate representation of the corporations' financial position, results of operations and changes in financial position in accordance with generally accepted accounting principles.

2. ELIGIBLE SUBLOANS

20. Eligible Products and Services. An eligible building product is any product that may be incorporated in the permanent physical structure of residential housing, and an eligible service is any

service that supports the production and distribution of such products (e.g., provision of retail and wholesale distribution networks, warehousing, etc.). Firms which lease equipment would qualify as providers of an eligible service. All products and services must conform to federal and local environmental, building material, and construction codes and standards. Eligible investments will be buildings, machinery, equipment, and incremental permanent working capital used in the production or distribution of eligible building products or provision of eligible services.

21. Procurement. Purchase of goods up to US$500,000 equivalent may follow normal commercial practice. Contracts for goods above this amount will be required to follow the Bank's International Shopping (IS) procedures, requiring at least three quotations, at least two of which must be from different eligible countries as defined by World Bank guidelines. In the event that equipment to be purchased must be of the same make or technical specification as existing equipment, and is only available from one source, the Bank's Direct Contracting (DC) method will be allowed. All civil works contracts above a $2 million threshold will require International Competitive Bidding. Equipment purchased under the EMLOC must be new. If it is determined that this requirement is unduly restrictive and prevents the EMLOC from disbursing, consideration may be given in the future to permitting the purchase of second-hand equipment.

22. Disbursements. Disbursements would be made against full supporting documentation to assure goods and services financed by the Bank meet all of the Bank's disbursement and procurement requirements.

23. Environmental Assessments. PBs will be responsible for ensuring that investors have obtained all required environmental approvals. Environmental guidelines will be identical to those developed under the ESP.

E. PROJECT APPRAISAL AND LOAN APPROVAL PROCEDURES

24. Institutional Arrangements. Potential investors require that the application review process be quick and be free from political influence. To meet these demands and ensure the funding of economically-viable projects which conform to project criteria, the Equity Matching sub-component provides thorough project review and appraisal by a Participating Russian Bank (PB). PBs must also be accredited under the FIDP. In addition, projects above a specified Free Limit (proposed as $5 million) will be presented for review and final disposition to the Interministerial Commission and the Bank.

1. APPRAISAL OF LOAN REQUESTS BELOW THE FREE LIMIT

25. All project applications will be submitted to a PB. The PB would: (a) appraise sub-project applications, reviewing them for conformity with eligibility criteria; (b) manage financial flows and carry out lending functions normally provided by commercial banks; and (c) carry the full risk on subloans.

26. Under EMLOC the borrower's application will include a financing plan that provides pro forma estimates of ongoing capitalization. The borrower will be required to undergo quarterly reviews and annual audits to assure that the firm maintains adequate capital and adheres to the

accepted corporate finance structure. Borrowers would be required to refrain from any distribution of assets, through excess dividend payments or other mechanisms, that could impair capital. Any such distribution would be grounds for requiring accelerated loan repayments.

27. The PB would review the loan application to ensure that (a) equity investors meet the eligibility criteria; (b) the investment project is eligible for financing; (c) the financing plan of the investment sub-project is sound; (d) the investment sub-project complies with all procurement procedures; and (e) the investment sub-project meets all environmental obligations.

28. Bank staff will provide a detailed review of the first two sub-projects submitted by each PB. After this initial screening the Bank will automatically authorize disbursement of loans below the free limit upon receipt of satisfactory summary sub-project documentation from the PB. This documentation will include information on the investors and borrowers, the investment subloan, the investment sub-project and its financing plan, a draft subloan agreement with the terms and conditions of the subloan, and a list of goods to be acquired under the investment sub-project.

2. APPRAISAL OF LOAN REQUESTS ABOVE THE FREE LIMIT

29. The IMC is an Interministerial Commission established by the Government partly for the purpose of representing the Government's interest in the administration of the Project. It consists of appointed members from the Ministry of Architecture and Construction (Minstroi), the Ministry of Finance and the Ministry of Economy, as well as other bodies. IMC was established by Resolution 595 of June 20, 1993 as the body responsible for implementation of the State-targeting Program Housing. The IMC intends to establish a smaller working group called the Loan Policy Review Committee (LPRC) to review guidelines for lines of credit under the project and to review and approve subloans above the free limit.

30. Subloans above the Free Limit of $5 million will be reviewed by the same process as all other sub-projects, with the following addition. After review by the PB, sub-project documentation will be forwarded to both the LPRC and the World Bank . The World Bank will provide a detailed review of the sub-project and report to the LPRC whether the sub-project meets all required criteria and is financially viable. However, even if the Bank informs the LPRC that it has no objection to its financing, the LPRC may reject the sub-project. If the LPRC rejects the sub-project, it will be requested to provide the reasons for its rejection to the Bank.

31. Other functions of the LPRC will be to monitor the progress and disbursement profile of the Equity Matching Sub-component, adjusting lending criteria as necessary in consultation with the World Bank. World Bank supervision missions will provide ongoing oversight of the operations of the IMC, the LPRC and the PBs.

F. LENDING TERMS AND CONDITIONS

32. Loan Security. Current deficiencies in the existing legal system may require that the subloan be secured by collateral in excess of the loan amount. Collateral requirements will be subject to adjustment based on improvements in the legal infrastructure supporting the enforcement of security

interests in property (e.g. implementation of a functioning collateral registration system). Case-by-case assessment of collateral thresholds will be part of the responsibility of the PBs.

33. Oversight of Firm Activities. The borrower will be restricted from deviating substantially from its proposed activities in the construction and building materials sectors. Each legal entity funded under the line of credit will be subject to accelerated loan repayments should it deviate substantially from the stated investment project without prior approval by the PB.

34. Capital Maintenance. The borrower's application will include a financing plan that provides pro forma estimates of ongoing capitalization. The borrower will be required to undergo quarterly reviews and annual audits to assure that the firm maintains adequate capital and adheres to the accepted corporate finance structure. Borrowers would be required to refrain from any distribution of assets, through excess dividend payments or other mechanisms, that could impair capital. Any such distribution would be grounds for requiring accelerated loan repayments.

35. Reflows. There would be no reflows available for re-lending under the Equity Matching sub-component.

G. DEMAND PROJECTIONS FOR THE EQUITY MATCHING SUB-COMPONENT

36. Market Analysis of Potential Borrowers. There is a large amount of private equity earmarked for investment in Russia. Through an informal survey, members of the project team have identified and discussed the line of credit with 10 venture capital funds chartered to invest in Russia. Together these funds represent over $850 million in equity capital. Initial estimates by managers of these funds indicate that demand could be as high as $85 million. Additionally, there are likely to be other funds of which the team is not aware.

37. The project team has also identified and discussed the line of credit with many domestic and foreign firms with projects in Russia's building materials sector and a willingness to finance their investments with venture capital. Based on these initial surveys of investor interest and activity in the sector, the funds available under the line should be quickly subscribed.

H. SUMMARY OF SAMPLE SUB-PROJECTS

38. The following is a list of sample sub-projects that have been developed for immediate financing. The firms sponsoring each of these projects have expressed interest in the Equity Matching sub-component and a desire to draw on the line of credit should it become available to finance these or other similar investments.

a. Production of Dimensioned Lumber. This potential project involves the expansion of an existing dimensioned lumber production facility in Karalia. The $5 million joint venture between a privatized Russian forestry firm and its foreign counterpart is seeking $1.65 million in expansion financing. The firm has been exporting 17% kiln dried, stress graded M.75 dimensional lumber to the U.K. since July 1992, with some sales to the domestic market. The new investment would be used to acquire equipment to build the capacity to diversify product output, secure adequate supply

and quality of raw material inputs, and allow it to begin production from cut logs rather than lumber. The proposed investment is as follows: (1) $1.15 million to acquire ownership and control of two firms with the logging rights to harvest 490,000 m^3 of timber annually and (2) $.5 million for the purchase of a log sorter, acquisition of a new kiln house to dry the additional timber, and rent of a mobile sawmill to process the additional inputs. The investment would result in the following annual incremental increases in building materials production: 6,000 m^3 of M75 lumber; 10,000 m^3 of Pallet components; 25,000 m^3 of high-grade pine; and 1000 m^3 of low-grade rejects.

b. Production of Hollow-Core Doors. This $5 million project would capitalize an interior hollow-core door production facility. Russian owners of the enterprise will be: (1) a building materials distribution company, (2) a privatized construction company, (3) two energy firms with large construction activities, and (4) a wood processing firm. Foreign owners will be (1) an American management and investment corporation, and (2) an international venture fund. Under the command economy, door production was controlled by the industrial concern Glavmosstroymaterial. The agency had construction facilities across the country and produced 4 million doors per month. This production has fallen off dramatically, and there is a shortage of even these sub-standard doors on the domestic market. This investment project intends to fill the gap between high-priced inputs and scarce, sub-standard production by supplying competitively-priced western-quality doors to the domestic market. Investors will maintain full-time foreign management presence in the enterprise. The required investment would be for the following: (1) total machinery purchase cost (including taxes and import duties): $3.4 million; (2) working capital for the first three months of operation: $1.6 million. Anticipated after tax profits: $.7 million in year 1, rising to $6.2 million in year 5. Product output: 220,000 doors/year in year 1, rising to 500,000 doors in year 5.

c. Integrated Production of Components for Single-Family Home Construction, Including: Joists, Trusses, Wall Panels, Insulation, Windows, Doors and Roof Shakes. This $9 million project would establish an integrated facility to produce manufactured housing for domestic sale, either as a system or as individual materials. The firm would be a greenfield enterprise owned by a domestic Russian investor and three foreign investors (including an international venture capital fund). The joint venture would establish a housing component production facility with the capacity to produce unfinished housing units (completed structural housing shells) for the region. The facility would consists of a saw mill to transform raw timber into production lumber, and six separate but integrated production facilities for each of the products listed above. The facility is designed to produce sufficient components for the sale of 1000 integrated housing units/year, with unit production cost of $15,000. Housing units of similar size built by local contractors sell for $30,000. If sold as integrated units, the firm will finish units (with material from sources in the United States and Canada) for an additional cost of $30,000. Again, locally-constructed finished units sell for $90,000. The required investment would be for the following: (1) $4 million for the purchase of all factory equipment and technology, (2) $3 million for

improvements and modernization of the facility site, and (3) $2 million for acquisition of a sawmill. Anticipated product output: components sufficient to supply 1000 units/year.

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STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 3.6
TECHNICAL COOPERATION AND TRAINING PLAN

A. CAPACITY BUILDING AND SECTORAL REFORM

1. Russian homebuilders, building materials manufacturers, local and national officials, investors, bankers, coordinators, managers and consultants that will be participating in the program are eager for the new skills that will be necessary for successful Project implementation. The cities, firms and institutions they represent want to build a sustainable capacity for the kinds of investments that the Project will demonstrate. Continued support for sectoral reform will be necessary to achieve the Project's Objectives.

2. Technical Cooperation and Training will be aimed at public and private participants in each component of the Project. Two interactive channels managed by the Central and Local Project Implementation Units (PIU's) will be put in place for this assistance.

a. The General Consultant (Annex 3.8) will assist with project implementation, design and engineering, procurement, construction supervision, management of credit lines and project accounting.

b. Sector studies, staff training, fellowships and evaluation will build institutional capacity and reinforce each of the Project components.

3. Technical Cooperation and Training will be funded with a combination of loan financing, in-kind local support and grant resources made available through USAID and other donors.

a. Consultants, staff and office equipment for Central and Local Project Implementation Units will be loan funded. Office space and operational support will be provided by the Ministry and local governments. Expatriate advisors will be grant funded and loan funded.

b. The General Consultant and contracts for site design and engineering work will be loan funded with any applicable taxes funded locally.

c. Sector studies, staff training, fellowships and evaluation can be both loan funded and grant funded. USAID and Project Implementation Units will consult regularly on programming of resources.

Approximate allocation of Resources for Technical Cooperation and Training:

Channel	Loan Funded	Locally Funded	Grant Funded	Total
Project Implementation CPIU, LPIU's, General Consultant(s)	13.5	1.5	1.0	16.0
Office Equipment, vehicles	1.3			1.3
Design and Engineering	6.0	0.5	0.5	7.0
Sector Studies, Staff Training, Fellowships and Evaluation	2.3	-	6.5	8.8
TOTAL	23.1	2.0	8.0	33.1

4. Grant funding includes $6.5 million committed to the Project by USAID. An additional $3.5 million from USAID was also provided for Project preparation and appraisal. Collaboration with the World Bank and first year support for the Bank supported Housing Project are detailed in Annex 3.7 which follows. This support, which began in January 1994, includes an ongoing program of workshops, market analyses and training in the U.S. and Russia. The Plan will be reviewed and revised in the Fall of 1994. Anticipated support for 1995 includes two or more advisors to the Project Implementation Unit, pilot land auction and title registration projects, support for sectoral studies and continued funding for ongoing workshops, and training.

5. In addition, other USAID activities indirectly support the Project. The Housing Sector Reform Project financed by USAID has been supporting the transition to a market economy and housing reform in Russia since 1992. Work undertaken under this project with the national government on housing policy, legislation and finance ties closely to the regulatory action plans (Annex 4.3) that will be undertaken by local governments in cities participating in the World Bank Project. A proposed program with the U.S. National Association of Homebuilders could directly support the building materials component of the Bank Project. Resident advisors based in local governments around the country are a resource for exchange of experience on pilot projects they have undertaken with cities participating in the Bank-supported Housing Project and USAID's Officer Resettlement Program will give builders and developers real experience with housing projects similar to those that will be financed by the Bank Project.

6. Other Donors including the Governments of Canada, France, Ireland and Netherlands have also indicated interest in participation in the Bank-supported Housing Project and about $1.5 million has been committed for construction industry training, including pilots. If the Government is successful in obtaining other bilateral grants for this purpose, then the use of Bank funds would either be reduced correspondingly or reallocated to other components following appropriate review and approval by the Bank.

B. OBJECTIVES

7. The Technical Cooperation and Training Plan will support overall project goals, as well as the objectives of each component of the Project (see Chapter 3). It's targets are the Russian homebuilders, manufacturers of building materials, local and national officials, investors, bankers, coordinators, managers and consultants that will be participating in the Project and the cities, firms and institutions they represent.

8. An important objective of the Technical Cooperation and Training Plan is institutionalization of the principles, financial mechanisms and processes supported by the Project. While the Sub-projects will demonstrate the feasibility of new policies, financing mechanisms and planning processes, the institutionalization objective will be critical in establishing a practical framework for implementation of the sub-projects and making the impact of the Project sustainable in the long term. Principal initiatives for institutionalization of relevant principles and practices the processes will be, as follows:

a. To provide technical assistance and training to relevant institutions and personnel involved in implementation of the Project;

b. To provide training targeted to larger audiences of Russian experts and decision-makers to introduce various policy and project level concepts; and

c. To ensure that the practices and procedures introduced by technical assistance is transcribed into brief and simple written guidelines. These guidelines should principally be developed and written by the relevant Russian experts themselves, with assistance from (foreign or local) advisors, where necessary;

d. Specific assistance will be provided for the development of important norms and standards related to each stage of implementation of the Project, such as zoning and land-use regulations, construction permitting procedures, fees and taxes related to land development, building codes and standards, regulation of building materials, real estate lending, and procurement etc.;

e. Where necessary, recommendations and technical assistance will be provided for institutional restructuring and reform.

f. In order to achieve a long term multiplier effect, the basic strategy will be to work with and train a select group of progressive professionals and officials in the relevant principles and practices of market oriented housing development. These experts may then provide principal technical assistance for the subsequent stages of the project, reducing the necessity of foreign involvement to the minimum.

C. KEY ELEMENTS OF THE TECHNICAL COOPERATION AND TRAINING PLAN

9. Assistance with Project Implementation: The General Consultant (Annex 3.8) will act as the Government's agent in promoting, administering and monitoring the Project. The consultant will report to the Director of the Central Project Implementation Unit and will supervise disbursement and collection of the subloans, manage funds, certify payments, inspect works, and account for and report on Project expenditures. The General Consultant will also advise Local Project Implementation Units with design, engineering, procurement and construction supervision. Finally, the General Consultant, in coordination with USAID and other donors, will provide advisors, training and technical expertise on each component of the Project.

10. Two or more advisors will also be placed in the Central Project Implementation Unit to assist it and Local Project Implementation Units in monitoring sectoral development, maintaining Project linkages with national and local policy, ongoing evaluation of Project impact and coordination with the World Bank, USAID, other donors, the Interministerial Group and Local Coordinating Committees.

11. Assistance with Transformation of Land and Real Estate Markets: An ongoing program of workshops has already gotten underway. These have included development of affordability models for project design, principles of land allocation and regulation, project development and project finance. The next series will be built around "kick-off" of the Project and guidelines for procurement. These will be followed by more specific workshops on each phase of land development and construction projects.

12. Another set of consultancies and workshops has been built around support to participating cities on implementation of their regulatory action plans. This assistance is detailed in Annex 3.7 Key to success will be pilot land auction and title registration projects in each of the participating cities. These are detailed in Annex 3.2 .

13. A land development regulatory audit (Annex 3.8) would help adapt existing norms and development standards to new market conditions. The study would provide a framework for calculating the impact of norms and standards on land development costs including land costs, infrastructure costs and the cost of administrative controls, registration fees and permits. The study would provide each city with a menu of options including cost implications, performance based alternatives and mechanisms for distribution of costs borne by developers and costs recovered through tariffs, specific city budgets and general taxation.

14. Assistance with Construction Finance: Workshops aimed at Participating Banks will review the Project, subsidiary agreements, sub loan responsibilities, procurement, disbursement, repayment and reporting. Subsequent workshops on assessment and underwriting of real estate and construction loans will address project application and review processes and guidelines for bankers on real estate development risks, construction practices and alternative technologies.

15. A second set of workshops will be aimed at developers and builders to help them understand the loan application and review process. Also important will be workshops and events that get

participating banks and developers together to build professional relationships between them and for discussion of problems and opportunities in the sector.

16. A specialist will work with participating banks and developers in each stage of the loan process including marketing, appraisal and loan management as well as to facilitate technical cooperation and training in risk management, valuation of collateral, and financial planning specific to real estate and construction loans.

17. Assistance with Transformation of the Building Materials Industry: Workshops aimed at participating banks, similar to workshops on construction financing, will review the Project, subsidiary agreements, sub loan responsibilities, procurement, disbursement, repayment and reporting on the EMLOC Sub-component. Subsequent workshops on assessment and underwriting of loans for investments in the building materials industry will address equity matching loan application and review processes and guidelines for bankers on risks, practices and alternative technologies in the building materials industry.

18. A Kick-Off Conference will bring together Russian enterprises, foreign investors, participating banks and representatives of international technology to explain the credit line, encourage collaboration and stimulate business ventures.

19. Subsequent roundtables will focus on subsets of the industry, particularly wood, brick and masonry and energy conserving building products. These workshops will be designed to stimulate technology transfer as well as investment.

20. Workshops aimed at Russian building materials firms will help them understand joint venture practices, assessment of business proposals and preparation of loan applications. Workshops aimed at international investors in the building materials industry will help them understand business practices and opportunities in Russia.

21. The U.S. National Association of Homebuilders will explore assistance to the Ministry and representatives of the Russian homebuilding and building materials industries in creation of a building and information technology center to foster transfer of technology and help promote joint venture investments. The center will be designed to facilitate participation by other countries, not just the U.S., and will seek to become a self-supporting private sector organization.

22. Assistance on regulations for building materials and housing construction (Annex 3.8) would aim to facilitate local approvals of housing designs, building materials, and construction methods to be financed under the project and provide technical cooperation to advance reforms in building material standards, building codes and enforcement methods in the housing construction sector.

23. A specialist will work with Participating Banks and to help promote the equity matching line of credit in each stage of the process including marketing, appraisal and loan management as well as to facilitate technical cooperation and training in risk management and business planning specific to the building materials industry.

24. Training: In addition to ongoing programs and workshops, fellowships will be made available for individual and group participation in short term courses and programs in Russia, the U.S. and other donor countries. The Central and Local Project Implementation Units and the General Consultant will facilitate identification of needs, potential programs and selection and processing of candidates.

25. Sectoral Studies and Preparation of New Projects: The Central Project Implementation Unit, the World Bank, USAID and other donors will consult on needs for analysis related to continued sectoral development and preparation of new projects. Terms of Reference for a proposed housing finance study are detailed in Annex 3.8. Other areas where assistance may be provided include, divestiture of enterprise housing, rehabilitation of historic inner-cities and municipal infrastructure.

D. REVIEW AND EVALUATION

26. The Technical Cooperation and Training Plan must remain flexible and adaptable to changes in the Project as it evolves. The plan will be reviewed and revised annually.

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STAFF APPRAISAL REPORT

RUSSIAN FEDERATION
HOUSING PROJECT

ANNEX 3.7
USAID TECHNICAL COOPERATION AND TRAINING PLAN

A. USAID SUPPORT FOR SECTORAL REFORM

1. USAID's Housing Sector Reform Project has been supporting the transition to a market economy and basic reforms in the housing sector of Russia (and other Newly Independent States of the Former Soviet Union) since 1992. Resident and short term advisors have been working with the Federation and with local governments in Moscow, Novosibirsk and Ekaterinburg. They are working with private banks, developers, realtors and management companies and have contributed to the formulation of housing policies based on privatization of existing stock, private development of new housing, private ownership, private financing, market pricing, and improved targeting of subsidies. They have helped introduce market oriented legal and financial instruments, organized dozens of seminars, distributed more than 25,000 handbooks and have developed a growing cadre of Russian professionals and firms. USAID has already extended this assistance to Nishny Novgorod and will begin extending it to other cites participating in the World Bank loan program.

2. USAID's advisors have also helped put together demonstration projects testing competitive contracting for management and maintenance, auctioning of development rights and the feasibility of mortgage financing. Approximately 450 homes for demobilized military officers funded by the U.S. to test the capabilities of private sector design/build firms are nearing completion in half a dozen cities, and a test of vouchers for open market purchases will also soon be launched.

3. USAID's Housing Sector Reform Project has thus far committed about $25 million to efforts in Russia (including support for the World Bank Loan). With continued progress toward reform and demonstrable results from current USAID support, additional funding could be possible.

4. Other USAID projects support reform in the sector as well. The Municipal Finance Project provides advisors and training to Moscow and Nishny Novgorod on financial management. The Association and Educational Development Project provides opportunities for training and linkages with U.S. professional associations and the USAID Mission in Moscow is currently designing a major land privatization project that will support policy and legal reform including the framework for urban land and private sector development.

B. USAID AND WORLD BANK COLLABORATION

5. In discussions of economic reform with the G-7, the Government of Russia placed housing as one of its top five priorities. After the April 1993 G-7 discussions, USAID and the World Bank agreed to collaborate and accelerate loan assistance in the sector. In June 1993, USAID approved an additional $10 million through the Housing Sector Reform Project for project preparation and technical cooperation supporting the proposed World Bank loan.

6. The grant funding approved by USAID includes:

- A Trust Fund managed by the Bank for project preparation ($2.0 million);
- Assistance with project preparation through contracts managed by USAID (1.5 million);
- Technical Cooperation and Training designed and managed by USAID ($6.5 million).

7. USAID support for project preparation (total $3.5 million) has funded the Project Review Unit in Moscow, support in Washington, consultant assistance with preparation and appraisal, developer and demand surveys, the environmental assessment and reviews of site and infrastructure planning. Preparation funded through the Trust is to be completed by June, 1994.

8. The Technical Cooperation and Training Program ($6.5 million) is already underway. A summary of accomplishments to date and plans for the first year is attached. These include workshops, specialist assistance, training and some funding for resident advisors. The Program will be evaluated and revised semi-annually. Full funding for the Program has been authorized and USAID is agreeable to expenditures of up to $2.0 million even before loan approval, though all activities funded must be completed by September, 1996.

9. Specific assistance may also be available through other USAID projects. Some training, for example, may be available through a project designed to support needs across all sectors. Pilot projects in land titling and cadastre may be included in the Land Privatization Project that USAID is now designing. Importantly, USAID's Housing Sector Reform Project, through which support for the World Bank loan is funded, will continue to provide assistance with sectoral reform at the national and local level including assistance with housing policy, privatization, the legal and regulatory framework, project development, maintenance and management, mortgage finance and housing allowances.

C. GOALS AND OBJECTIVES

10. Goal of USAID's Housing Sector Reform Project:

- transition to a market based economy

Objectives:

- formation of private housing markets
- promotion of private production
- reform of housing policy and legal frameworks
- reduction and targeting of subsidies
- development of housing and infrastructure finance systems

Purposes of USAID collaboration with the World Bank:

- accelerate preparation for World Bank lending in the sector;
- build capacity to implement World Bank financed investments; and
- build capacity to implement sectoral reforms.

Objectives: • private investment in the building materials industry;
• privatization and development of urban land for moderate income housing; and
• construction financing for private production of moderate income housing.

D. SUMMARY OF THE TECHNICAL COOPERATION AND TRAINING PLAN

11. The Technical Cooperation and Training funded by USAID will support each of the components of the World Bank Loan. Support will include workshops and individual training programs, resident advisors backed up by short term specialists and arrangements with U.S. and Russian academic institutions, institutes and professional associations. Support will be targeted to builders, developers, and building materials manufacturers, selected banks, local officials responsible for land privatization and infrastructure and Federal officials responsible for the policy and regulatory framework.

12. Land privatization and development: Assistance will focus on: policy planning and procedures for making land available for residential development, cadastre, valuation, subdivision and transfers, market and financial analysis, project development and finance, infrastructure planning and finance.

13. Construction finance: The World Bank-financed Financial Institutions Development Project will provide technical assistance to selected banks. USAID assistance will focus on underwriting loans for land development and construction.

14. Building materials: The World Bank-financed Enterprise Support Project will provide technical assistance on business planning and management. USAID assistance will help building materials manufacturers access that assistance, help them access information and technology from the U.S. and facilitate identification of potential joint ventures.

E. IMPLEMENTATION

15. Assistance that is already underway and a substantial part of the activities that will be undertaken even before the loan is approved will be provided through contracts in place under USAID's Housing Sector Reform Project. Those firms, and other institutional contractors to be determined in consultation with Minstroi, will field advisors, provide training and subcontract with Russian firms, institutes, academic institutions and individuals to form joint U.S. and Russian teams. An important precept of USAID contracting is emphasis on teaming of Russian and foreign specialists and building linkages between Russian and western organizations in the public and private sector to maximize Russian participation in the design and implementation of the Technical Cooperation and Training Program.

16. The Program is managed by the USAID Mission in Moscow and the Office of Urban Programs in the Bureau for Europe and Newly Independent States of USAID in Washington. A contract advisor will be assigned to the World Bank Project Implementation Unit in Minstroi to coordinate with the Interministerial Committee, the World Bank and Local Project Implementation

Units in each of the participating cities. Russian Coordinators will be contracted in each of the cities to work with the Local Project Implementation Units.

F. TECHNICAL COOPERATION AND TRAINING INITIATED STARTED IN 1993

- **Building Materials Advisor**: An American advisor and a Russian consulting firm are helping Minstroi identify building material investment opportunities and potential joint ventures suitable for financing through the World Bank equity matching line of credit.

- **Study Tour on Housing Finance**: Russian officials from Minstroi and the Ministry of Finance traveled to Chile, to examine housing voucher and finance systems operating in an inflationary economy.

- **Action Planning for Legal and Regulatory Reforms:** A legal advisor has been working with Minstroi and the six cities to elaborate actions plans for legal and regulatory reforms necessary for land privatization.

- **Developer and Housing Demand Surveys** are underway in the six cities. The surveys are designed to support the land development program by identifying suitable housing developers and by providing market research.

- **Training to evaluate land development options and assess residual land values**: Computer equipment and software was provided to each of the six cities and staff was trained to use software, evaluate land development options and assess residual land values.

- **Support for land development project formulation**: U.S. and Russian professionals helped the cities of St. Petersburg, Tver, Novgorod, and Nizhny Novgorod prepare preliminary land development programs for World Bank financing. This supplemented ongoing support by the Project Review Unit in Barnaul.

- **Seminar on Land Registration and Allocation**. A seminar involving more than 90 representatives from the federal government and six participating cities was held to discuss issues and action plans.

- **Seminar on Land Privatization and Allocation**. A seminar involving the six cities and minutes from federal ministries was held in Nizhny Novgorod in May, 1994, to discuss methods of land privatization.

G. 1ST YEAR PLAN FOR TECHNICAL COOPERATION AND TRAINING

- **Support for building and building material technologies**
  Ongoing support will result in:

  - **Promotion of Foreign-Russian Joint Ventures** in residential construction and building material enterprises.

- **Building and Technology Information Centers and private sector association building** The U.S. National Association of Homebuilders has proposed to help Russian private sector builders and building materials suppliers establish building and technology information centers and help strengthen professional associations in the industry.

- **Workshops on selected building materials**: Workshops will be designed to bring foreign manufacturers of selected homebuilding materials together with Russian manufacturers to discuss current technologies, manufacturing, marketing and business planning

o **Local Government Policy and Management Systems** Linkages and information exchanges will be sponsored between the Russian Union of Cities and the International City/County Management Association.

o **Framework for Legal and Regulatory Reforms:**

USAID will support work undertaken by participating cities in the implementation of local legal and regulatory reforms including:

- **Property Rights**: Replicate, in participating cities, programs undertaken under USAID's Housing Reform project involving housing privatization, condominium regulations, private management of new housing, housing association training, condominium documentation.

- **Land Allocation Guidelines:** Local policies on land allocation, auction/tender regulations, land codes, lease/purchase options, local conveyance documents, rules and procedures, training.

- **Revised Land Use Regulations:** Review of local town planning codes, master planning and development regulations, and approval procedures; guidelines for town planning orders.

o **Workshops on Project Development**

Project development support provided in December and January will continue with organization of workshops to assist public planners and private developers formulate, refine, and implement market-oriented housing projects.

- **Workshops on project development and finance :** Using market and cost data, participants including private developers will identify target groups, define housing design parameters, conduct project financial and affordability analyses, assess environmental risk, and prepare necessary town planning orders. Public and private roles in land and housing development will also be examined.

- **Workshops on land privatization**: For each disposition option, test-case procedures for public and private parties will be reviewed, criteria for selection established, and negotiation and financing strategies will be discussed.

- **Workshops on procurement of off-site infrastructure:** The workshop will review current procurement practices, discuss desirable reforms, and clarify World Bank procurement rules and regulations.

- **Workshops on Construction Management, Marketing and Sales** Techniques and procedures will be reviewed for managing and monitoring construction including scheduling, work-in-place certification, cash-flow analysis, billings, and marketing/sales.

- **Workshops on Construction and Building Material Finance** Workshops will be aimed at business planning and the establishment of credit policies and procedures involving sound lending practices for construction finance and lending to building material firms and joint ventures.

o **Short-term Training in Russia and the United States**

- **U.S. Based Training:** An inventory of short-term training courses has been completed. The roster includes more than 100 courses of potential relevance to the program.

- **Russia Based Training:** An inventory of relevant short-term courses available in Russia will also be prepared. Funding will be made available to help improve those programs and to reach a broad base of Russian professionals involved in the program.

H. MEDIUM TERM TECHNICAL COOPERATION PLAN 1995-1996

17. The Medium Term Technical Cooperation Plan will grow out of activities initiated in the first year plan, provide more in-depth support of these programs, and provide for their replication in other cities. The Medium Term Plan will also investigate additional programs for World Bank financing and avenues for public/private investment. Elements could include:

o **Assessment of Planning and Infrastructure Standards and Regulations**

The study will: a) examine existing norms and development standards and propose revisions in light of new market conditions, b) provide a framework to assess the impact of norms and standards on land development costs, and c) examine cost allocation and recovery procedures.

- **Building Material Codes and Standards**

  A review to identify necessary revisions to building standards (GOST), Building Codes (SNIP), and Standards for Building Material Products will be initiated in February/March 1994. This will result in an action plan for further technical cooperation and training. Institutional linkages between U.S. and Russian agencies responsible for these functions will also be promoted.

- **Land Titling and Registration**

  Demonstration projects for automated land titling and registration systems will be instituted in selected districts where land development projects will take place. This will entail the provision of hardware, software, and associated training.

- **Pilot Projects for Land Auctions and Tenders**

  Land disposition procedures and test cases involving auctions and competitive tenders will be established in each of the six cities.

- **Working Group on Local Government and Infrastructure Finance**

  A workshop on this subject will be organized under the auspices of a complementary USAID project.

- **Local Working Groups on Housing Policy and Investment Strategies**

  Local workshop will help cities review progress on reforms and map out alternative strategies for sustained development of private housing and land markets. It will include other cities benefitting from Housing Reform Project assistance.

- **Mayors' Workshop- Progress Review and Institutional Coordination**

  A project review workshop will be held to assess progress in light of housing reform and project formulation objectives.

- **Housing and Land Policy Seminar**

  Minstroi will sponsor a national seminar on land and housing policy with World Bank, USAID, and other bi-lateral support. The seminar will review issues, opportunities, and advances in housing reform.

- **Housing Finance Study**

  A housing finance study will be undertaken to determine what measures necessary to sustain housing and banking reforms.

o **Infrastructure Finance Studies**

Methods to finance and recover costs of off-site infrastructure extensions and development of pre-allocated residential land will be examined.

o **Rehabilitation of Central St. Petersburg.**

An analysis of market opportunities for Rehabilitating Central St. Petersburg will be led off by a seminar attended by foremost Western authorities and their Russian counterparts on legal/financial technologies for structuring public/private partnerships. The program could also be replicated in Nizhny Novgorod and other cities.

o **Land Registration and Titling**

A program will be developed to expand pilot demonstration projects in each of the six cities and Moscow.

I. SUSTAINED SUPPORT

18. Sustained support, potentially involving long-term resident U.S. and Russian experts, will be discussed between USAID, the World Bank, Minstroi, and participating cities at forthcoming progress review meetings. The program would be designed to: a) provide management support and coordination for sustained short-term technical cooperation and training; b) offer the services of seasoned consultant/practitioners in land and housing development, building and building material technologies, construction management, finance or a designated field of high priority.

19. A request by Minstroi for a seasoned housing and urban development expert to support its reform programs and coordinate the USAID Technical Cooperation Program will be considered.

J. SUPPORT FOR WORLD BANK LENDING: RUSSIA PROGRAMMING

	1993	1994	1995	1996	Total Planned
Project preparation: Trust managed by the Bank	1,000,000	1,000,000			2,000,000
Project preparation: contracts managed by AID	750,000	750,000			1,500,000
Technical cooperation: designed and managed by AID		2,000,000	2,500,000	2,000,000	6,500,000
	1,750,000	3,750,000	2,500,000	2,000,000	10,000,000

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 3.8
DRAFT TORS FOR PROJECT IMPLEMENTATION AND PROJECT STUDIES

A. INTRODUCTION

This annex presents draft terms of references for Project Implementation and project studies: (i) General Consultants, (ii) Land Development Regulatory Audit and Building Regulation, and (iii) Housing Finance.

I. GENERAL CONSULTANT TERM OF REFERENCE

a. Background

1. Implementation of the Housing Project to be supported by a loan from the World Bank is a complex undertaking that requires experienced, strong management and accurate monitoring at both the central and local levels. The project includes a diverse range of activities including infrastructure construction, sales of land to private developers in conjunction with six participating cities and loans through private banks to finance construction and an equity matching line of credit requiring foreign participation to finance building material businesses. The Government of Russia (GOR), will realize the full benefits of the project, only, if it has a qualified management team representing it. Effective management will require the adoption of approaches which are new to Russian trained professionals and detailed requirements for both assisting and monitoring progress in cooperation with the responsible governments (federal and local) and the commercial banks. The project will introduce new financing methods, competitive purchasing procedures, appraisal requirements responsive to international standards and be held to standards of both the GOR and the World Bank.

2. The introduction of new financial and business practices in the rapidly changing economic, financial and political environment of Russia will require; constant monitoring of progress, on-going adjustments and the possibility of significant program revisions. The assumptions made in the planning process (Project Preparation), need to be implemented, tested and fined tuned based on the actual project experience. In spite of recent housing market studies and information provided by the participating government entities there is a shortage of reliable data. Unreliable data, informal markets, a transitional market system and evolving conditions demand a strong, responsive management team with special sensitivity and flexibility toward loan disbursement, sub-loan progress and the ability to recommend and implement adjustments which will ensure a successful loan program.

3. The project will be managed by a central project implementation unit in the central government (CPIU) and a local project implementation unit (LPIU) in each of the participating cities. The CPIU will report directly to the Interministerial Group (IMG), and be authorized to perform

prescribed functions on behalf of the GOR. Participating banks (PB) will administer loans for construction financing and building materials industries. The General Consultant will provide staff support services to the CPIU and technical assistance to the LPIU's and PB's. The Project its components and the specific functions of each of these units is described below.

b. Project Description

4. The primary goal of the Project is to support the GOR's effort to develop private housing markets and create housing market systems. To implement federal reforms at the local level and demonstrate how markets can produce housing, the proposed project will include three components: (a) Land and Housing Market Development, with land development and construction finance sub-components in the Participating Cities (St. Petersburg, Tver, Novgorod, Nizhny Novgorod, Barnaul and Moscow/Demonstration only); (b) Transformation of the Building Materials Industry, through an equity matching line of credit to encourage modernization and restructuring of the supply side and (c) Technical Cooperation and Project Management with supporting technical cooperation and project management sub-components.

5. Land Development. For the land development sub-component, the Government will on-lend funds to local Governments in the Participating Cities (PC's), to carry out demonstration sub-projects, implement reforms and institutionalize procedures. Sub-projects will service residential land and privatize it through auctions and competitive tenders. Coordination of both local and federal government as well as the introduction of many new procedures will require strong central management and strong local representation.

6. Construction Finance. For the construction finance sub-component, the Government will on-lend funds to participating commercial banks for residential sub-projects in the Participating Cities (PC's), which have demonstration value and which meet eligibility criteria. This sub-component is viewed as an experimental effort to demonstrate real estate lending, design innovation and new building methodology.

7. Transformation of the Building Materials Industry. For the Equity Matching Line of Credit (EMLOC) the Government will on-lend funds to participating commercial banks (PB's), for sub-projects that meet eligibility criteria. New foreign equity will be matched with two equal amounts of debt, one guaranteed by the GOR and the other by the participating bank. The participating bank will act as both a commercial bank and the agent of the Government. Technical eligibility will encourage products suitable for mid and low-rise residential construction and support the GOR's housing policy "DWELLING."

8. Technical Cooperation and Project Management. The Project includes technical cooperation (TC) that will support and reinforce each of the components and provide assistance and training

support for overall project management. Technical cooperation will be both loan financed and come from donors such as USAID. Support will be provided for project promotion, project implementation, training, implementation of institutional reforms and to institutionalize procedures.

c. Objectives

9. The General Consultant will promote, administer and monitor the components of the Housing Project. The Consultant will report to the CPIU Project Director and be responsible to:

a. Supervise the disbursement and collection of the sub-loans;
b. Set up an office including physical place, personnel and complete administrative, communication, accounting and reporting systems;
c. Successfully promote all components of the Project to the Participating Cities (PC), Participating Banks (PB), private developers, private enterprises, international investors and international housing technology purveyors;
d. Identify and resolve implementation problems;
e. Assist the cities in procurement and contract supervision;
f. Evaluate the progress on the project and Regulatory Action Plans (RAP);
g. Propose program modifications to redirect resources into the most effective programs;
h. Effectively manage funds, reviewing documents supporting the use of funds by local governments and participating banks;
i. Certify payments under the land development sub-component;
j. Effectively cooperate with supporting technical cooperation efforts for maximum program impact; and
k. Provide reports to the Government and the Central Project Implementation Unit .

d. Responsibilities -- General

10. Office Operations. Within 30 days of contract announcement, the Consultant will be responsible for establishing a physical office complete with adequate work stations, office equipment, computers and communication systems including local and international telephone & fax lines and electronic mail). The Consultant will receive all information necessary for his activity from the CPIU, Bank staff and consultants who have worked on preparation of the project. The Consultant will be responsible for maintaining a responsive and professional office atmosphere throughout its obligation period.

11. Project Promotion. The Consultant will be responsible for promoting the Project and its individual Components and Sub-components. The Consultant shall work through the CPIU (and upon coordination with it) with the participating cities, participating banks, private developers, building material enterprises, international building material companies and international financial investors to encourage qualified applications which result in successful loan disbursement and recovery. Project promotion should be coordinated with and through existing networks and organizations both domestic and foreign. The Consultant will be informed by the CPIU on technical assistance from USAID and other institutional donors, as well as technical assistance offered through other Bank loan projects, such as the Financial Institutions Development Project (FIDP).

12. Procurement. Following World Bank procurement Guidelines, documents and procedures, the Consultant will advise the PC's and the PB's on procurement on a day to day basis. The Consultant will also sponsor workshops and provide advice on procurement to other interested parties, including developers, enterprises etc. This work will entail the following:

a. Develop a procurement manual including essential steps for Local and International shopping and International Competitive Bidding actions. The manual should include procedures and flow charts that describe each type of procurement action and sample documentation packages for each type of purchase;
b. prepare packages for bidding including advertising, registering expressions of interest, drafting bidding documents, reviewing and if necessary modifying specifications;
c. organize workshops through its Training & Technical Assistance effort on bidding, procurement and contract management;
d. establish a "hot line" or designated personnel for general questions and case by case problems;
e. evaluate the bidding documents proposed by cities;
f. prepare proposals on applications for all required CPIU approvals, including "no objection" letters; and
g. for the selection of consultants for the Project, the Consultant will provide similar bid packages as described above (12 b.), including the preparation and/or review of Terms of Reference (TOR), the evaluation of proposals and negotiations with successful consultants.

13. Accounting. The Consultant will be responsible for all aspects of project accounting. The Consultant will:

a. Set up accounting system, documentation controls, and data bases covering financial, technical and procurement information which will accord with the World Bank's requirements as explained in the World Bank Disbursement Handbook;
b. develop accounting and record keeping requirements for borrowers' sub-project activities;
c. be responsible for accounting for Components and Sub-components financed by the World Bank as well as components financed through grant funds from donors such as USAID;
d. confirm supplier and consultant invoices, facilitate in the making of payments and will assist in preparing request for reimbursement and/or disbursement;
e. report, as required, but not less than monthly on project disbursement and collection performance;
f. prepare requests for funds to the Government and the Bank;
g. assist with the preparation of the annual Audit of the Project and in any subsequent discussions with the Bank concerning the Audit;
h. assist with any GOR auditing requirements;
i. supervise collection of repayments of subsidiary loans;
j. maintain complete files, suitable for audit, of all documents supporting procurement and payment actions; and

k. provide regular reviews of all payment documents to ensure adequacy of records for audit.

14. Special Account. The CPIU will establish the Special Account on behalf of the Russian Federation Government and will control deposits and withdrawals of funds from the account. On commission of the CPIU the Consultant shall: provide for servicing of the Special Account; contribute to disbursements and payments to private banks and suppliers/contractors and arrange for periodic replenishment of the Special Account. The Consultant will be responsible for: coordination of the account, timely estimation of needed funds volume, office work, control of available funds and timely disbursements.

15. Training & Technical Assistance Programs. The Consultant will prepare for the CPIU proposals on the training and technical assistance program necessary for successful realization of the Project.

16. Monthly Reports. The Consultant will closely monitor the progress on each of the Project's Components and Sub-components to determine if changes are necessary to make the program more effective. Reports will include progress on meeting Project objectives listed In "C" above and on meeting the individual objectives set out within the regulatory action plans of the participating cities and those objectives established within the individual components. Monthly reports will include the number of loan applications received, disposition of applications, disbursements approved and any transactions with the cities, participating banks and enterprises. The monthly report will also include specific accomplishments, problems, resolutions and recommendations. Preparation of the monthly reports will require verification of information received from the cities and the participating banks. This will require verbal, visual (site visits), or other forms of reliable confirmation. Regular trips to the participating cities and to sub-project sites are envisioned. The format and level of detail of the monthly reports must be acceptable to both the GOR and the Bank. Reports will be due on or before a mutually agree upon, day of the month.

17. Annual Reports and Program Modifications. The Consultant will review progress on the Project to identify both positive and negative trends based on stated objectives and the disbursement rate of the individual components and sub-components. As a result of these reviews, the consultant will recommend changes and adjustments in the operations of individual components and sub-components to the IMC and the Bank, which may result in the reallocation of funds, based on criteria and objectives established at the beginning of each year with the GOR and the Bank. The Consultant will prepare an annul report including recommendations for funding, program changes, component modification and administrative adjustments for the subsequent year before October 1.

18. Day to Day Advice. As with administering any project, issues will arise on a day to day basis. The Consultant should be prepared to assist with resolution of these and/or obtain assistance in their resolution. The Consultant should be prepared to provide regular information on short notice to designated representatives of the GOR and the World Bank and to assist these representatives at meetings, etc. The Consultant must also be available to Bank representative who might be conducting industry research or in loan preparation for other Bank loans.

e. Land Development Sub-Component

19. The land development sub-component will require co-ordination of diverse activities under tight time deadlines. Serviced or possibly unserviced land must be brought to the market and funded quickly with as little risk as possible. Many of the basic concepts are untried in Russia, especially on this scale. The sub-projects are complex because they include the full range of infrastructure development: water and waste-water facilities; roads; schools; heating plants and transmission systems; gas, electricity and telephone transmission systems; schools, clinics and other social facilities. Since local governments face serious financial problems, careful planning and management of the substantial local funding necessary for the project will be necessary. The Consultant must maintain professional competence to properly perform the duties described herein.

20. Sub-project Plans. The Consultant will develop a computer program and procedures for developing and monitoring sub-project phasing. The Consultant will assist the cities in preparing detailed sub-project phasing schedules that co-ordinate the engineering, site preparation, and sales (land auction) activities. Plans should take both engineering and sales constraints into account. The Consultant will maintain a master copy of the most recent phasing plan from each city. The Consultant will be prepared to make decisive recommendations if the sub-project plans fall significantly behind schedule.

21. Infrastructure Design. The Consultant will review the cities' detailed designs for infrastructure development, including soil analysis and other environmental analyses where necessary, to ensure that the plans are adequate for both bidding and construction and are consistent with regulations (Russian & World Bank), and with agreed upon site plans.

22. Procurement The Consultant will assist the cities in:

a. evaluating pre-qualification of bidders;
b. advertising;
c. evaluating bids;
d. securing necessary World Bank approvals and comments at each stage; and
e. ensuring that Bank and GOR procurement guidelines and procedures are adhered to.

23. Inspect Construction. The Consultant will inspect construction to ensure that construction is proceeding on schedule, that quantities conform with bidding documents and payment requests and that quality is acceptable. The Consultant will develop a system for managing change orders in the cities, train the cities in their use and maintain a file of approved change orders. The Consultant will certify the accuracy of all billings. The CPIU, the Consultant and designated local officials from the relevant city must sign off on invoices to qualify for World Bank disbursement on these invoices.

24. Environmental Assessment and Mitigation. The Consultant will ensure that all necessary environmental tests are carried out and that steps for mitigating any environmental problems are completed. If relocation is necessary, the Consultant will ensure that it is done on schedule in accordance with all applicable laws (Russian) and World Bank guidelines.

25. Land Disposition. The Consultant will assist the cities in:

a. Developing a land marketing plan that provides for maximum competition and maximum revenue to the local government in accordance with project objectives and design;
b. aggressively attracting and assisting potential purchasers;
c. educating potential purchasers in the land disposal process; and
d. selling land through an open and competitive process.

26. Monitor Funding Availability. The Consultant will monitor local budgets to ensure that they include adequate funding to meet sub-project schedules and monitor billings and payments to ensure that contractors are being paid on time.

27. Monitor Local Use of Land Sales Proceeds. The Consultant will monitor the use of land sales proceeds by local governments until loans are repaid to ensure compliance with Subsidiary Loan Agreements and sub-project Agreements.

f. Construction Finance Sub-component Responsibilities

28. The construction finance sub-component will require coordination of diverse sub-projects in the participating cities and Moscow. Sub-projects are intended to serve as a demonstrations and therefore might include innovation, new design, unfamiliar materials and other forms of experimentation which will require specific expertise and significant attention. Sub-projects will involve private enterprises and will be financed through a participating bank. Promotion of credit line to and with the participating banks and to the private developers will be critical to successful, timely disbursement and loan recovery.

29. Credit Operations. The Consultant will be responsible for all matters dealing with the development and administration of Subsidiary Loan Agreements between the MOF and the participating banks (PB), and the monitoring of PB's sub-projects. Specifically, the Consultant will:

a. prepare draft Subsidiary Loan Agreements for MOF - Private bank signatures to be approved by the CPIU;
b. administer Subsidiary Loan Agreements - including collaborating with private banks regarding committed/undisbursed balances, posting of principal increments, setting current interest rates, and processing and recording Private bank repayments of principal and interest back to the MOF; and
c. refer sub-projects requiring prior review to the Bank;

30. Project Plans. The Consultant will develop a computer program and procedures for monitoring sub-project progress. The Consultant will assist the PB's in preparing schedules which coordinate; design, engineering, construction, marketing and sales. The Consultant will monitor sub-project progress based on these plans and make recommendations for adjustments if progress deviates from the plan.

31. Promotion. The Consultant will:

a. introduce and work closely with the participating banks to insure the PB's are knowledgeable and prepared to; promote, accept, appraise and process loan applications;
b. assist Russian developers in drawing up loan applications;
c. advise developers on meeting city regulations; and
e. remain aware of and take full advantage of technical cooperation and training opportunities to better prepare applicants, PB's and PC's for implementing successful private market development.

32. Inspect Construction. The Consultant will monitor construction on a spot basis to assure that construction is proceeding on schedule, that PB's are regularly supervising construction, and that construction is proceeding according to plans and in accordance with sub-loan criteria and guidelines. The Consultant also will confirm that quantities and quality of construction is in conformance with plans and specifications and that progress is consistent with the agreed upon payment schedule. The consultant will also certify the accuracy of billings on a sample basis.

33. Environmental Conformity. The Consultant will ensure that all necessary environmental tests are performed and that any necessary mitigation measures are completed. Sub-projects must conform to federal and local environmental laws as well as the World Bank's Environmental Guidelines.

34. Monitor Funding Adequacy. The Consultant will monitor adequacy of on-lending guidelines including credit limit and free limits and submit proposals to the CPIU for consideration during the yearly project review.

35. Procurement. While the PB and sub-borrowers will be responsible for the procurement of all goods and services under the loan, the Consultants will:

a. provide information of guidelines and procedures;
b. assist with document preparation and the provision of technical support on a case by case basis; and
c. provide or help arrange for advice or technical support, as needed, for private banks and major sub-borrower market searches, solicitations, procurement/contracting and/or inspection and other logistics management action.

g. Building Material-Equity Matching Responsibilities

36. The Equity Matching Component requires the Consultant to work closely with four diverse groups; domestic building material enterprises, international building material enterprises, international investors and the domestic participating banks. The Consultant will need to promote this component to these groups which may require the assistance of one or more international sub-contractor(s). The Consultant is advised to include a senior level expert to promote this component to the international investment and technology communities. The Consultant will also establish contacts and the ability to confirm information submitted for both domestic and foreign participants.

It is advisable that the Consultant maintain senior level positions for a building material expert and a equity finance specialist.

37. Promotion. The Consultant will:

a. introduce and work closely with the participating banks to insure the PB's are knowledgeable and prepared to; promote, accept, appraise and process loan applications;
b. assist Russian building material enterprises in completing loan applications and in identifying potential foreign partners of both financial and technological interest in Russia;
c. inform the international investment community on this component and on investment opportunities in the building materials industry;
d. work with foreign entities to encourage international investment and participation from international building materials companies; and
e. remain aware of and take full advantage of technical cooperation and training opportunities to introduce potential partners and to better prepare applicants for loan application.

38. Procurement. The Consultant will:

a. develop or adopt procedures, flow charts and a monitoring mechanism that describe and define the procurement of equipment, training and services;
b. assist participating commercial banks in following and documenting procurement procedures;
c. review equipment and service contracts and supporting documentation for conformity to established procedures;
d. assist the commercial banks in securing necessary Bank approvals, comments and clarification where necessary; and
e. provide technical cooperation for procurement to participating commercial banks and loan applicants.

39. Environmental Conformity. The Consultant will ensure that all necessary environmental tests are performed and regulations adhered to during the manufacturing and equipment installation phase. The Consultant will ensure that the eventual production output and process including; binders, finishes, waste, by-product and effluent will be in accordance to all applicable laws and World Bank guidelines.

40. Enterprise Verification. The Consultant will verify and maintain files on the legal structure and registration of the loan recipient. Included in this verification will be; legal registration of the enterprise, legal and financial relationship to enterprise of contributing participants (foreign investors and/technological partners), distribution of shares within enterprises and audited financial records of the enterprise and its contributing participants.

41. Sub-project Plans. The Consultant will develop computer program and procedures for developing and monitor sub-project phasing. The consultant will work directly with the participating

commercial banks and the sub-borrowers to develop and monitor specific sub-project schedules including; equipment procurement, manufacturing, transportation, on-site preparation, delivery and assembly, training and production. Progress against this sub-project schedule will be including in the monthly reporting of the Consultant.

42. Files to be Audited. The Consultant will maintain complete files, suitable for audit, of all documents supporting; enterprise legal and financial structure, procurement, work in progress, transportation (schedule, liability, insurance) and payment actions.

43. Supervise Progress. The Consultant will verify progress, relative to both agreed upon schedule and payments, of equipment manufacture (notarized documentation), on-site preparation (visual inspection), transportation, on-site assembly, training and production start-up to ensure that progress is proceeding on schedule and that; design, quality and quantities are in conformance with accepted plan.

44. Manage Cash Flow. The Consultant will:

a. monitor sub-loan projects to ensure that they include adequate funding to meet sub-project schedule;
b. monitor billings and payments to ensure that payments are being made according to approved progress schedules and to ensure that the borrower is being paid in a timely manner; and
c. prepare request for payment to the GOR and the Bank according to agreed upon procedures.

h. Technical Cooperation and Project Management Responsibilities

45. Technical Cooperation is envisioned as essential to both the financial viability of this project and its successful implementation. Due to the World Bank's lack of experience in Russia and the lack of working experience between the Bank and the GOR (only a couple of loans and a very short history), this loan will encounter a significant learning curve (with commensurate costs). Experts familiar with the Bank's procedures and guidelines (typically foreign), will be necessary for both long and short term assistance. Competitive bidding, procurement, private investment, appraisal, new technologies, cost estimating all present new methodologies and a represent a dangerous experience gap which can be at least partially bridged through training and technical cooperation.

46. Promotion. The Consultant will promote technical cooperation (TC), according to the intention and function of the TC to the appropriate audience. The Consultant will work with the participating cities, developers, participating banks, international investors, international building material companies, the GOR and funding agencies to ensure that the supporting technical cooperation is well utilized by those who might benefit and that the technical cooperation achieves its agreed upon objectives.

47. Coordinating Technical Cooperation. The Consultant shall assist in the logistical coordination of technical cooperation programs to assure professional delivery of information and training.

48. Advising/Consultation The Consultant will through its direct involvement with the technical cooperation programs and through communications with participating parties provide advise and consultation to providers of technical cooperation regarding content, delivery, subject matter, audience and timing in an effort to provide the most cost effective technical cooperation.

49. Soliciting Technical Cooperation. The Consultant will investigate and solicit technical cooperation from all available sources including programs which directly support the loan as well as, those supporting other related programs. The Consultant will attempt to attract TC which provides greater assurance of successful disbursement and recovery of loans. The Consultant will work with known donors to attract more assistance as well as searching for new sources of assistance.

i. Technical Cooperation and Project Management Responsibilities

50. The Consultant will be responsible for assembling and securing the services of a qualified team within 30 days of contact award. Short term contributors must be secured and integrated in a manner which ensures program continuity and steady loan promotion, disbursement and recovery. The designated Project director, component managers and other significant contributors must be identified in the proposal (with CV attached).

51. Minimal Requirements. The Consultant will assemble a staff adequate to; a.) promote the project so that is disburses in a timely manner, b.) receive and process applications and requests for funding in a timely fashion (10 business days), c.) coordinate technical cooperation, d.) assist all parties in taking full advantage of the loan program and e.) provide adequate accounting and record keeping and to produce the reporting required by the GOR and the Bank.

52. Mandatory Responsibility. The Consultant's proposal should indicate the positions that are to be filled along with CV's for key personnel. It is expected that the unit would include the following positions, however, the consultant may propose less or more positions or a different staffing pattern. Expected positions to be filled by qualified persons include: Project Director, Project Promotion Manager (or sub-contractor), Finance Manager with international accounting experience, Land Development Manager, Construction Finance Manager, Building Material Manager, Accounting Specialist, Procurement Specialist (familiar with Bank procedures), Computer Systems Manager, Appraisal Specialist, Banking Specialist, Office Manager.

53. Technical, Support and Short Term Staff. The consultant will provide an adequate staff for technical, clerical, secretarial, data entry and general support staff. The PIU will also maintain adequate staff either through permanent staff, short term consultants/specialists, sub-contractors or a combination of these to provide a minimum of the following professional expertise.

Land Planning	Soils Engineering
Civil Engineering	Production Engineering
Quantity Surveying	System Analyst
Construction Inspectors (several)	Appraisal-Construction
Construction Finance	Appraisal-Equipment

Cost Estimating
Environmental Engineering
Promotion/Public Relations
Sanitary Engineering
Marketing

54. Management Ability. The Consultant must clearly display management ability and experience necessary to administer a complex project. Experience of the team as a whole or the individual managers must be clearly presented and verifiable. The Project Director must have experience with successful management of complex organizations and construction projects, World Bank procedures and requirements, Russian municipal government organizations and functions, banking and finance, especially as they relate to financing development of public land. In addition, the director should have a proven ability to work well with people with different backgrounds and objectives.

55. Component Managers and Department Heads must also have proven management experience and skills. Specific technical and professional experience should be exhibited for each of the individual management positions established. Experience and understanding of World Bank and/or western accounting and business practices will be considered favorably and encouraged.

j. Staffing

56. The proposal should include provision for:

a. adequate office space, including meeting rooms;
b. equipment, including computers (w/ adequate & compatible operating systems and electronic mail, printers and fax machines;
c. local and international telephone lines (phone & fax); and
d. general office equipment & supplies.

57. Office Location. The main office of the PIU will be located in Moscow. All central staff should be accommodated in one centrally office to facilitate communication and maintain efficiency. The office should be convenient to loan participants, the GOR and World Bank representatives Subsidiary offices and staff would need to be maintained in each project city.

k. Taxes

58. The Consultant and all of its employees, sub-contractors and consultants will be subject to all of the normal taxation laws of the Russian Federation.

l. Russian Consulting Participation

59. It is the policy of the Russian Government and the Bank to utilize Russian consultants to the maximum extent possible.

m. Period of Performance

60. The Consultant and its primary management team should be prepared to assume responsibilities for this project for a period of not less than five (5) years. Final contractual arrangement will be arrived through negotiation between the GOR and the Consultant based on the Consultant's proposal. Proposals should distinguish between a two-year project start-up period and a series of one-year renewable contracts. Commencement of work is projected to be after May 1, 1995.

n. Level of Performance

61. The level of effort for the first two years (24 months) of this contract will be determined through negotiation between the GOR and the Consultant after the Consultant has been selected through the competitive bidding process. All Consultant proposals will require a total level of effort in person months, PM's (for example a staff of 10 for three years would represent 360 PM), as well as a breakdown in PM of all key participants and regular responsibilities. This level of effort will become a part of the contract between the GOR and the Consultant and be one indicator of performance.

o. Budget

62. The Consultant will provide within their proposal a full budget for all envisioned operating costs including; personnel, overhead, office operations, travel, communications, report production, etc. Inflation should not be considered in the preparation of this budget. Personnel should include at least the following; permanent, sub-contracted, consultants and short term or part-time participants. Office should include rent, utilities, equipment and supplies. Within the overall budget breakdowns will include by department or function and by month expenses.

p. Conflict of Interest

63. Due to the possibility that members of the current PRU and of Minstroi may choose to participant as a part of a group submitting a proposal for consideration as the Consultant the committee will make every effort to avoid issues of Conflict of Interest. Notification of this solicitation will be circulated within the PRU and Minstroi. Individuals who are considering participation with any submitting group should decline any participation in the selection committee.

q. Schedule

64.

Announcement of Program	January 25, 1995
Meeting with Potential Firms	February 2, 1995
Final Proposals Deadline	March 13, 1995
Selection Consultant	May 18, 1995
Mobilization (Projected)	June 16, 1995

II. TOR: TECHNICAL ASSISTANCE FOR LAND DEVELOPMENT REGULATORY AUDIT, REGULATIONS FOR BUILDING MATERIAL AND HOUSING CONSTRUCTION

a. Background

1. Existing Russian city planning approach was created by old administrative-command system. The main principles of urban planning included: (i) centralized economic planning; (ii) the full nationalization of land; (iii) extremely normative land use, and (iv) extreme standardization of urban service. Concerning a housing construction, the Russian system was controlled through a collegial process wherein a few large clients procured buildings from a few large contractors with the help of a fe v large architectural/engineering institutes. All of them were entities of the government and all of them, including the clients, had in-house technical expertise. The ministerial departments and municipal departments provided the ultimate technical expertise not as regulators, but more as mediators.

2. Under a market economy, with the potential for creating an adversarial construction process, the traditional roles must change. The government's role in the construction process of a market economy is as regulator. As such, the government is responsible for protecting health, safety and welfare of individual building users and the society at large, as it may be affected by buildings. The government is not responsible for the various other goals of the different building process participants (i.e., economy, functionality, esthetics, technological development, social and political goals). These other goals are accomplished through the play of market forces and through the terms of contractual agreements between the various participants.

3. The government's role as regulator is accomplished by promulgating up to date building codes and standards, enforcing these codes and standards by means of a process of competent building design review and inspections during the construction process, and instituting licensing and certification processes for key participants in the process. Through a series of enactments and supporting rules, the system for regulating building materials and products and building construction in Russia has started to be reformed. Much remains to be accomplished.
For the purposes of this effort the overall system can be thought of as consisting of four components:

a. The system for development and elaboration of standards (GOST) and norms (Snip).
b. The system for product approvals and certification.
c. The system for licensing building material and product manufacturers, building construction contractors, and building design and construction professionals.
d. The system for enforcement including permits and inspections.

4. Under the current system, during the transition toward a market two key questions are central to the urban economy and urban development:

a. What changes in existing urban land use approach will be needed to operate sound urban land markets.
b. What changes in existing laws, institutions, and various town planning documentation will be needed to operate sound urban land markets.

The development of market-oriented land use system for Russian cities has too many legal, technical, institutional, social, environmental, and economic dimensions. The point is that land use is not only a system of standards, but also a system of legal rights and relationships among the various areas of documentation; what the hierarchy of the authority among master plan, regulations, and special permits; for instance, can the master plan be waived or modified, and if yes, how, etc.

5. Two main consultancy contracts will be let under the technical assistance:

a. **Contract No.1**: Land Development Regulatory Audit.
b. **Contract No.2**: Regulations For Building Materials and Housing Construction.

b. Terms of Reference for Contract No. 1

1. OBJECTIVES

a. The main objective of the land development audit is to adapt existing norms and development standards to the new market conditions prevailing in Russia. The study would provide a framework for calculating the impact of norms and standards on land development costs. This will require taking into account (i) the cost of the land, (ii) the cost of the infrastructure and (iii) the cost of administrative controls, registration fees and delivery of subdivision and building permits. The aggregate cost of the development implied by norms will first be calculated; then a proposed break-down between costs borne directly by developers, and those recovered through tariffs, specific city budgets and general taxation will be proposed.

b. The study aim at providing each city with a menu of quantified options which then can be adjusted by each city depending on its own situation and the existence of local constrains. While each city might adopt different norms to reflect its own situation and its own set of priorities, it is important to maintain a uniform format in the definition of norms and the presentation of regulation in order to make the law transparent and to facilitate periodic revision as required by predictably changing economic and technological environment.

2. SCOPE OF WORK

a. The study would record all the norms and regulations related to land development. These would be divided into six regulatory topics:

(i) Spatial norms regulating distances and areas.
(ii) Engineering norms and practices regulating the design of infrastructure.
(iii) Community facilities norms and practices concerning the provision of superstructure.
(iv) The development cost sharing system between private and public.
(v) Administrative control process regulating the provision of subdivisions and building permits.
(vi) Fees and taxes related to land development.

b. The above topics will be analyzed quantitatively in a matrix form. The impact of the above regulatory environment on development costs will be tested on 3 types of sites: (i) small scale (2 hectares); (ii) medium scale (15 hectares); (iii) large scale (100 hectares).

c. The six regulatory topics will be analyzed in a quantitative manner for the three site types mentioned above using the following indicators:

(i) Spatial norms will be expressed in square meter of land per square meter of floor space built.
(ii) Engineering practices will be expressed as infrastructure costs in US$ per square meter of land and floor space.
(iii) Community facilities cost in US$ per square meter of land and floor space.
(iv) Cost sharing will be expressed in cost for the public and private sector per m2 of land and usable floor space developed.
(v) The administrative process will be expressed in months between initial request and final approval.
(vi) The taxes and fees will be evaluated in cost per m2 of land and floor space.

d. Finally, the different land use and costs will be assembled for the three site types and presented following the Land Use Development Model currently used in the project. Iterations will then be made by adjusting some standards to be able to reduce the minimum cost of land development. These iterations will be presented to different cities as possible adjustments in the norms.

e. The scope of services consists of two types of activities. Phase One is in direct support of the efforts to develop land in the five participating cities. Phase Two is in support of the Project's goals related to general land use reform throughout the Russian Federation. Phase One - Working in close cooperation with Cities and the LPIU, the consultant shall undertake the local (regional) aspects of this study, specifically related to each of the five participating cities. Phase Two - Working in close cooperation with the CPIU and Minstroi to prepare a draft of a New Land Use Regulation.

3. CONSULTANTS QUALIFICATIONS

The consultant providing the services noted herein must have:

a. A thorough knowledge of land use regulatory system as it operates in a free market economy.
b. Knowledge of the existing Russian system for land use regulation.
c. Experience in the development, writing, and modification of land use norms and standards.
d. Knowledge of and experience with system of spatial norms, engineering standards and practices regulating the design of infrastructure, cost estimation, etc.
e. Knowledge of community facilities norms.
f. A thorough knowledge of and experience with administrative control process, experience in fees and taxes related to land development.

4. REPORTING ARRANGEMENTS

The consultants would prepare a draft of a New Land Use Regulation Norms (in Russian and English) as an output of this study. The consultants would report to the CPIU, and Minstroi.

5. LEVEL OF EFFORT

Approximately 16 person-months of foreign and 40 person-months of local consultant time is envisaged. The work period would be approximately 4 months, undertaken by a multi-disciplinary team consisting of an architect/urban planner, infrastructure engineer, urban economist, urban planning and management system specialist.
This team would work with local city's consultants and nominated counterparts from municipalities. The local consultant should be experienced in land development, city planning and infrastructure cost estimation.

c. Terms of Reference for Contract No. 2

1. OBJECTIVES

The overall objectives of this effort are to:

(i) Facilitate and receive local level approvals of housing designs, building materials, and construction methods to be financed under the project.

(ii) Provide technical cooperation to advance reforms in building material standards, building codes and enforcement methods in the housing construction sector.

2. SCOPE OF CONSULTING SERVICES

a. The scope of services consists of two types of activities. Phase One is in direct support of the efforts to develop housing in the five participating cities. Phase Two is in support of the Project's broader goals related to housing reform throughout the Federation.

b. Phase One - Working in close cooperation with Minstroi, the CPIU, and the LPIUs, the consultant shall undertake the following activities specifically related to each of the five participating jurisdictions:

(i) Detail regional systems (both as a regional entity and as administrator of national system) for licensing of construction contractors and building material firms, and granting permits and conducting inspections of housing construction projects. In addition to general requirements, special attention should be paid to determining the specific organizations and individuals responsible for fire safety, sanitary, and electrical approvals.

(ii) Identify the housing designs, building materials, and/or construction methodologies that are likely to be regarded as non-traditional in Russia and therefore may require some type of special exception or waiver.

(iii) Determine the earliest point in time when housing designs can be presented to the local authorities and develop a schedule of subsequent reviews and site inspections that will be required.

(iv) Prepare a comparative analysis of the local perception of the product approval and permitting systems with the system as defined by Minstroi and develop a strategic plan for building materials/products approvals and permitting.

c. Phase Two - Working in close cooperation with Minstroi and the CPIU, the consultant shall undertake the following activities related to building regulatory reform:

(i) Review and modify the list of candidate activities including but not limited to the following:

- Further refinement of the system for development and elaboration of standards and norms;
- Analysis of the use of ISO 9000 standards in construction;
- Development of a performance based, low-rise housing code;
- Development of GOSTs and Snips for products and processes that are new and/or unfamiliar in Russia;
- Develop a performance based approval process for "non-traditional" materials and methods;
- Elaboration and modification processes related to familiar products and/or processes, with emphasis in areas such as fire safety, seismic design, wind loads, indoor air quality, and energy conservation;
- Comparative study of present Russian system for product approval and certification with other systems;
- Joint analysis of role of product approval and certification system in market economy versus command economy, including appropriateness of central vs. decentralized product approval system and government vs. private sector system;
- Study comparing the present Russian system with the U.S. and other free market systems for licensing of professionals and construction contractors;
- Study comparing the present Russian system with the U.S. and other free market systems of code enforcement;
- Development of a new inspectors' guide for low-rise residential construction; and
- Develop training program for plan review and field inspectors related to low-rise residential construction.

(ii) Assist in establishing priorities, budgets and schedules based on a. above.

(iii) Arrange for Initial Information Exchanges (IIE) regarding selected topics. This effort shall include:

- Development of a resource pool of key individuals and organizations appropriate to each area of work;
- Development of program for each IIE;

- Manage all logistics for each IIE;and
- Prepare reports and disseminate to all participants.

(iv) Conduct meetings of Working Groups (WG), when deemed appropriate follow-up to IIEs. This effort shall include:

- Development of a resource pool of key individuals and organizations appropriate to each area of work;
- Development of program for each WG;
- Manage all logistics for each WG;and
- Prepare reports and disseminate to all participants.

(v) Provide direct technical consulting services and guidance related to the development of standards, codes, tests and other documents, as deemed appropriate by the IIEs, WGs, and Minstroi.

3. REPORTING ARRANGEMENTS

a. The consultant will initiate activities within two weeks of receipt of authorization to proceed. Phase One activities and Phase Two activities will be conducted in parallel to the extent deemed appropriate by the CPIU and Minstroi. Milestones for Phase One activities will be coordinated with sub-project schedules for each jurisdiction. Phase Two milestones will be developed after review of the candidate programs.

b. In addition to routinely required financial and management reports, the consultant will provide a brief monthly report on the status of all activities to the CPIU and Minstroi. In addition a list of deliverables will be developed based on the tasks described above, and these will be presented as draft and final reports in both Russian and English.

4. CONSULTANTS QUALIFICATIONS

The consultant providing the services noted herein must have:

a. A thorough knowledge of building regulatory systems as they operate in a free market economy;
b. Experience in the development, writing, and modification of building codes, quality and performance standards, and tests and test procedures;
c. Experience working with model codes, standards setting, and testing organizations;
d. Technical knowledge of building materials and housing design;
e. Knowledge of and experience with systems for building products approval and professional licensing in the building industry;
f. Knowledge of and experience with systems for enforcement of codes and standards;
g. Knowledge of the Russian system for regulating building design and construction; and
h. Experience in performance based codes.

5. LEVEL OF EFFORT

The level of effort envisaged is 36 person-months for Phase One and Two above, and all 36 person-months to be by a foreign consultant, supported by 48 person-months of local consultant time.

III. TERMS OF REFERENCE FOR HOUSING FINANCE STUDIES

a. Introduction

1. Housing finance during the Soviet Era was completely controlled by the State: Soviet banks served mainly as conduits to carry out state-determined investment programs, and lending to households for privately-owned housing was minuscule. In addition, the ability of households to finance investments was severely limited by circumscribed property rights and heavily taxed savings.

2. The Government of Russia has started restructuring the housing sector from a centralized model of housing provision to a self-financed one. The "Law on Federal Principles of Housing Policy in the Russian Federation" proposes to make the housing sector "loss-free" and capable of contributing to the overall macroeconomic performance of the country. In this context, the development of a sustainable system of mortgage finance is critical for moving from a supply-driven system of state-owned housing to a demand-driven system of privately-owned housing, within which households as final owners would help determine what is produced.

3. The GOR took several important actions in 1992 and 1993 to initiate a market-based housing finance system. First, the GOR established the legal foundation for real mortgage lending and by adopting the Law on Collateral[1]. Next, in 1993 the GOR submitted to the Parliament for approval the "Law on Mortgage". This bill is designed to address the lack of clear foreclosure and registration procedures, currently a major impediment to the development of mortgage lending, Finally, in December 1993, a Special Presidential Decree "On Development and the Introduction of Non-Budget Forms of Investment into the Housing Sector" introduced the basic institutional framework for mortgage lending. The decree created the Agency for Mortgage Lending which was given the following primary responsibilities: (a) to act as a liquidity facility for mortgage lenders and to have the power to issue mortgage-backed securities to generate funds, and (b) to work with trade groups, such as the Association of Mortgage Banks, to develop the necessary training for bankers engaged in mortgage lending. In addition, the Agency would serve as the industry's regulator by working closely with the Central Bank of Russia.

4. The Government believes there is a political and economic imperative to move quickly on establishing a workable mortgage finance system. Such a system could indirectly increase housing construction and provide the means for some people who are not presently housed to purchase a dwelling unit. However, local governments still retain monopolistic control over land and development rights, building materials are scarce, wages are heavily taxed, and household savings

1/ Russian Federation Law on Collateral, May 29, 1992.

are "confiscated" by high inflation[2]. Any credit policy that would fuel housing demand under current conditions of low price elasticity in housing supply would further inflate housing prices which would make housing even more unaffordable for the majority of Russians.

5. At present, Russian banks invest only a tiny percentage of their assets in long-term residential mortgages (usually earmarked for their own employees). High and volatile inflation rates generate major liquidity and interest rate risks for long-term lending, because the banking system's liabilities are heavily concentrated in short-term accounts. Economic uncertainty and the lack of information on potential borrowers create high credit risks exacerbated by the difficulty of foreclosing in case of default.

6. These institutional and economic constraints pose an enormous challenge to creating an appropriate structure for housing finance in Russia. In this context, the GOR indicated a strong interest in a Program that would help identify the macroeconomic and sectoral prerequisites to the development of a sustainable system of housing finance in Russia; and they have asked the Bank to assist in coordinating technical cooperation in this area and in analyzing its results.

b. Objectives

7. Technical Cooperation in housing finance should culminate in an agreed perspective on the characteristics of a well-functioning market- based housing finance system. It may also lead to future Bank supported operations to help initiate a housing finance system. The specific objectives of the three studies carried out in this Technical Cooperation Sub-component include:

a. To articulate the critical components of a viable system of housing finance;
b. To identify sectoral and macroeconomic prerequisites that would make introduction of mortgage finance successful; and
c. To define the steps necessary to fulfill the prerequisites and move from the current system of housing finance operative in Russia toward a more effective, sustainable one.

c. Scope of Work

8. Consultants are required to submit a detailed research proposal and a work plan for conducting studies on any or all of the three tasks. The tasks are fully interrelated and would require consultants working on individual components to coordinate their efforts. Consultants would work closely with the working group described under "General Design and Organization." A general terms of reference for each of the task as is given below:

TASK A:

9. The consultants would review the existing systems of housing finance in well-developed Western market economies to determine critical components of a sustainable system of housing

2/ Although the housing construction industry is currently operating at about half capacity, it is not equipped to respond to the demand for new type of housing such as low-rise and cottage construction.

finance. The review is expected to result in a report that would lay the groundwork for a series of workshops for Russian policy-makers involved in housing finance reforms. In particular, the report would cover the following issues:

a. Mortgage Lending Institutions. Major types of lending institutions (public and private) that specialize in mortgage lending in market economies should be examined. The review should outline the functions of different financial institutions including depositary institutions, financial companies, and mortgage insurance agencies in the mortgage market.
b. Sources of Funds. The report will examine fund-raising practices for mortgage lending. It will review the role of capital markets, deposits, and savings contracts in mobilizing household savings.
c. Mortgage Instruments. The consultants will review the mechanisms, the major risks, and the pricing of mortgages mostly-used in volatile economic environments including existing major classes of alternative mortgages, such as the PLAM (Price-Level-Adjustable-Mortgage).
d. Role of the State. The report will outline the role of the government in different systems of housing finance including regulatory, tax, insurance, subsidy, and direct credit policies. The report should be able to assess different types of government intervention in mortgage credit markets in terms of its welfare and cost effects under different economic and cultural regimes.

TASK B:

10. The consultants will review the relevant experience of other countries, including Mexico, Bolivia, Argentina, and countries of Eastern Europe, in developing sustainable systems of long-term housing finance in conditions of economic transition and high-level inflation. A further study should be conducted to determine the prerequisites and constraints on the development of long-term housing finance in Russia. In this context, the study will:

a. articulate *macro-economic stabilization - housing finance* relationship in transitional market oriented economies;
b. identify the impacts of housing and macro-policies on the effective demand for mortgage finance under different policy regimes;
c. explore welfare and cost implications of substituting government subsidies for housing with mortgage finance instruments *under different economic scenarios* including different rates of inflation and wage tax;

a. *Housing Finance Institutions*. The study is directed at studying current practices of mortgage lending in Russia and will investigate the institutional capacity of existing mortgage lenders (both private and public including Sberbank) to compete for and properly utilize financial resources. In particular, the study will analyze the following issues:

- Mortgage interest setting;
- Tax incentives and cost of credit;

- Maturity structure of banks' assets and liabilities;
- Pricing of savings instruments used by the mortgage banks to attract financial resources;
- Financial infrastructure and regulatory systems including refinancing facilities, mortgage insurance, credit risks and underwriting standards, housing bank supervision; and
- Organizational structure and managerial ability to assess and supervise mortgage credit and to monitor collections.

b. *State Subsidies*. The study will evaluate government options in allocating resources for housing. It will review fiscal instruments used by the GOR in the housing sector including subsidies, housing allowances and tax policies in terms of their economic and social implications for the housing sector and macroeconomic stabilization.

c. *Legal Environment*. The consultants will scrutinize existing real estate laws and banking regulations to identify possible regulatory impediments to the development of long-term sources of housing finance. The Program will pay particular attention to the enforceability of housing-finance contracts in the Russian context. As a part of this effort, the Program will also assess the impact of existing tax laws on the effective demand for housing and mortgage finance.

d. *Secondary Market*. The study will explore the potential for a secondary mortgage market and/or a facility for providing liquidity for primary lenders. It will also help the GOR outline specific policies to facilitate the development of such a facility and market.

d. General Design and Organization

11. *Agency Responsible*. To oversee the Program, a Consultative group will be formed from the Government of Russia, including Minstroi, Ministry of Finance, Central Bank, major Russian commercial banks, and other private institutions. The World Bank will also actively work with this Consultative group. A study team will be identified to carry out the outlined tasks and specific assignments of the Consultative Group. The Group will periodically review and advise the study team on the proposed scope of work and the studies themselves.

12. *Study Team*. The Program will be carried out by a group of Russian and international consultants and will consist of experts in the fields of housing, housing finance, banking, and macroeconomics. This group would be also responsible for arranging meetings of the Consultative Group and integrating received feedback into the research.

13. *Seminars*. Under the supervision of the Consultative Group, the study team will prepare and conduct a series of seminars, round-tables, and workshops for a limited group of Russian policy-makers including representatives of the Agency for Mortgage Lending, private banks, and Sberbank on the issues of housing finance examined by the studies, as outlined above. The outcome of these seminars is expected to introduce corrections and finalize the agenda for the research of long-term housing finance in Russia.

e. Output

14. The Program is expected to identify the long-range strategic options for the development of a market-based system of housing finance in Russia. The Program would help the GOR establish housing finance reform objectives, develop an action plan, and define specific needs for capital, technical assistance and regulatory reforms. In particular, the study will result in three study reports and three seminars based on the findings of the reports:

a. Mortgage Lending in the Western Economies: Institutions and Lending Practices.
b. Housing Finance and Macroeconomic Environment in the Period of Transition in Russia.
c. Building a System of Housing Finance System in Russia: Assessment of Current Lending Practices and Potential for Expansion.

f. Timetable

15. The consultants will be expected to submit detailed research proposals and work plans for the studies/tasks in accordance with above outlined terms of reference by _____(date). The consultants will begin work by _____(date) and thereafter will carry out an action plan developed with full consultation with USAID and satisfactory to the Bank, and the Government of Russia. The final study reports are to be presented to the Bank and USAID by _____(date).

16. The entire Program will take place over 20 months. Inception reports for all three tasks will be produced within 3 months, and interim reports within 6 months. A draft final report will be made available by the end of 18th month. Recommendations for reforms will be included in the report at this stage.

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 3.9
SUMMARY OF ENVIRONMENTAL ASSESSMENT

A. INTRODUCTION

1. This environmental assessment (EA) was conducted in the Russian Federation by a consultant team contracted and financed by the United States Agency for International Development (USAID) under a grant in support of the Housing Development and Reform Project. This EA covers all the housing sites proposed for initial development under the Infrastructure and Land Development Sub-component of the Project. The other sub-components of the Project, The Construction Finance Sub-component and the Equity Matching Sub-component do not have specific site or sub-project selection at this initial stage and, therefore, environmental guidelines define the environmental assessment requirements for the sites and sub-projects to be proposed. These guidelines are referenced later in this Annex. For the purposes of this EA summary, the term "project" represents mainly the package of initial development sites.

B. BACKGROUND TO THE PROJECT

2. Affordable and suitable housing is a pressing need in most major cities of Russia. The project goals are to alleviate this need as well as establish a new pattern of environmentally-sound land development in Russia. The goal of the project is also to support the replacement of the historical State financing and construction of dwellings with the concept of land purchase and construction by individuals and enterprises. Funds for the project would finance site development, such as infrastructure and the cost of bringing off-site infrastructure services to the sites. Funding for the project is provided by the World Bank as well as by regional and city administrations. The project is targeted to benefit middle income families. A total of 14 sites in the participating cities of Nizhny Novgorod, Barnaul, St. Petersburg, Novgorod and Tver comprise the project. During the environmental assessment, three additional sites in the city of Rostov-on-Don and one additional site in Tver were included (for a total of 18 sites) but the development of these three sites is postponed. The currently proposed 14 sites are summarized in Table 1, along with the anticipated number of direct beneficiaries to receive dwelling space. The dwelling units are the combined total of the single family, townhouse and apartment units. City populations are also noted to show the relative magnitude of the developments.

C. ENVIRONMENTAL ASSESSMENT FRAMEWORK

3. The EA conducted is consistent with the World Bank Operational Directive 4.01. The proposed project was assigned to Category B by the World Bank prior to the EA work. Under Category B, environmental analysis is required but a full EIA is not required. To meet the Category B requirements, this EA addresses the entire project package at preliminary design level. Before this project is permitted, more comprehensive Environmental Impact Assessments will be performed by

MINSTROI on a site-by-site basis in accordance with the current Russian regulations. These comprehensive assessments will include evaluation of on-site and off-site impacts of construction and review compliance with construction standards. MINSTROI will also include: background environmental data routinely collected and complied by meteorological centers, state epidemic and sanitary inspections boards, and water resource boards. Environmental sampling of on-site soils and groundwater is also required for all sites to verify site suitability.

TABLE 1: PROJECT SUMMARY

CITY/ SITE	*AREA (hectares)*	*DWELLING UNITS*	*CITY/SITE POPULATION*
Nizhny Novgorod			**1,445,000**
Bughri	55.0	1,256	3,767
Beshentsevo 1	73.8	3,942	12,220
Beshentsevo 2	19.8	364	1,128
Novo Prokovskaya	32.5	1,422	4,408
Delovaya	22.0	2,881	8,931
Barnaul			**606,800**
Salnechnaya Polyana	82.0	5,206	18,221
St. Petersburg			**4,466,800**
Yugo-Zapadny	42.0	2,495	7735
Severnaya Dolina	34.0	2,240	6,000
Severo Primorskaya	22.7	2,528	6,000
Kolimnaki	19.8	1,702	4,680
Kamenka	14.3	1,654	4,548
Novgorod			**233,800**
Pskovskaya Ploschad	81.0	2,566	8,458
Tver			**455,300**
Youzhny	34.9	716	2,292
Batino	39.0	2,522	6,500

D. METHODOLOGY

4. The EA conducted in March and April 1994 consisted of three phases: (a) project scoping, (b) site visits, and (c) evaluation and presentation of data.

a. **Project Scoping.** Meetings were organized at the Project Review Unit involving Bank officials, the consultant team, MINSTROI and representatives of the six project cities (including Rostov). Bank requirements for the projects were presented along with data requirements for the environmental assessment and infrastructure review components.

Sub-contracts were negotiated with six local design institutes for data collection. Scopes of work for the Design Institutes were prepared and issued in English and Russian.

b. **Site Visits.** Consultant teams conducted visual inspections of the 18 initially proposed sites and discussed environmental and engineering issues with city officials and Design Institute staff. The teams used existing studies, plans, maps, and statistics to evaluate and identify the significant environmental issues present. Additional teams consisting of two or three local environmental engineers were concurrently dispatched to each Design Institutes to assist in the collection of the required data. The primary focus of the assessment was the sighting of the developments and their associated environmental impacts.

c. **Evaluation and Presentation of Data.** After the site visits were completed, the data collected (including on-site and off-site infrastructure data) and reports from the field engineering teams were compiled and evaluated.

5. Following the EA work in March and April 1994, additional environmental studies were conducted until August 1994 with particular focus on environmental investigation of site soils. Soil investigation plans for the 14 sites were developed by detailed study of baseline data and on-site and off-site past and present land uses .

E. ENVIRONMENTAL IMPACTS

6. The socio-economic impacts of the proposed projects should be highly beneficial. The need for additional housing in Russia is critical. The proposed housing developments target middle income families and should assist in relieving general over-crowding in housing. The successful completion of the project should also have far-reaching positive impacts in the general housing market of Russia by launching the much needed housing reforms. It is against these overwhelming benefits that the proposed project is evaluated.

7. A wide range of environmental issues were addressed in the evaluation. The Physical Environment component addressed local geology, topography, soils, climate, meteorology, air quality, hydrology, water quality and site history. The Biological Environment component evaluated existing flora, fauna, rare or endangered species, sensitive habitats, species of commercial importance, pest species, and disease vectors. The Socio-Cultural Environment component identified land use, planned development activities and cultural properties. Additional areas of evaluation included local landfills and disposal areas, site soil/groundwater contamination, radiological standard exceedance areas, and nearby hazardous waste sites and industrial facilities.

8. In the light of recent findings and site visits it became clear that an absence of documented data on site contaminations can not be considered a proof of the absence of negative environmental impacts (Novgorod as an example).

9. Adverse environmental impacts associated with the project are minimal. The sites are considered suitable for development within the constraints and recommendations presented in this Annex. There are, however, some potential environmental problems at one site (Novgorod) that need to be addressed. These problems include the existence of an undocumented landfill , a leaking

petroleum product pipe and the need for an exploratory excavation for artifacts. These problems may cause some delay in the construction schedule or modifying the site. Based on the findings, there are no major environmental issues (except the Novgorod site) as a whole that would preclude the World Bank from proceeding with this much needed housing development project[1]. The feasibility of the sites are more a function of the availability of nearby municipal infrastructure services than existing environmental factors. The development schedule for some of the sites will be governed by the schedule for installation of nearby municipal services. However, environmental soil investigations are required on all sites to determine the presence and absence of soil contamination as discussed further later.

10. The sites are mostly extensions of the existing urban environment within the cities or its suburbs. The background conditions for most of these sites are representative of a stressed urban area. The most significant urban problem is the municipal water supply and particularly wastewater treatment in some cities. In the metropolitan St. Petersburg, there is a water deficit of about 0.5 million m3 per day during peak demand. The maximum supply is 3.6 million m3 day. The wastewater treatment capacity is deficient and about 1.0 million m3 of sewage is untreated. However, the impacts due to the residents of proposed developments in St. Petersburg can be mitigated in the short-term. Water and wastewater services to the site residents and a high number of other St. Petersburg residents can be provided by financing a package of high priority projects. In Rostov, the one overriding environmental factor associated with the projects is the required improvements to the city's wastewater treatment facilities. Currently, there is a severe treatment under-capacity causing deterioration in receiving water quality and there is a formal moratorium on new construction. The construction component in Rostov will not be considered for financing in the early stages of project implementation. Water and sewer infrastructure in Rostov will be reviewed by Bank missions as the subject of a possible separate Bank infrastructure project. The completion of the water treatment facilities, that is outside the scope of work of this project, will need to be monitored during project implementation. In Novgorod, currently, there is a need for additional wastewater treatment capacity but the treatment plant expansion is locally funded and is expected to be on schedule.

11. During this assessment special attention was given to potential presence of contamination and hazardous media (soils, groundwater, and air) within the proposed sites. This initial evaluation based on limited information did not identify the presence of hazardous soils or contaminated groundwater. However, there was concern that the local practice for industries had been to dispose of their wastes by their own means without any outside controls and, therefore, potential undocumented contamination could exist. The EA report of May 1994 specifically recommended detailed characterization of all media (soils, groundwater and air) given the limited available information. During the June 1994 visit of the World Bank Mission to St. Petersburg, the consultants contacted several agencies and found that the State Sanitary and Epidemiological Service claimed that some of the proposed sites have soils contamination and some have not been tested. On the other hand, limited tests by one Finnish firm on one of the sites with claimed contamination did not show any contamination. A detailed baseline study for all of the 14 sites was initiated by the consultants in July 1994 to develop soils/groundwater investigation plans including sampling and analysis for

1/ The Novgorod site is included thus far in the tables of this SAR as a first year site.

potential contamination. Screening for radioactive contamination was also performed at all sites by taking measurements at ground surface. Based on this recent work all sites still appear suitable for development except the Pakovskaya Poschad site in Novgorod which may have serious soil contamination problems. This site is adjacent to an old landfill which is believed to contain industrial wastes and also a petroleum products pipeline runs through the site, with leakage that was not visible earlier under snow cover.

12. Past soil contamination on any site, naturally, is not a result of the proposed development project and therefore cannot be regarded as an impact of the project. Removal or treatment of such contamination is site remediation (per hazardous and solid waste terminology). Significant site remedial work would require a long schedule and high costs, and therefore, development on such sites would not be feasible.

13. A summary of environmental issues for each site is presented in Table 2. The impacts and mitigation summary refers to the environmental impacts of the project. Soil contamination is a basic site selection and site suitability issue and is not included in rating of the potential impacts (e.g., minimal or moderate) of the project.

F. INFRASTRUCTURE ACCESSIBILITY

14. BARNAUL

a. **Salnechnaya Polyana** - Most of the off-site infrastructure is in place, including water and sewer mains, gas service and telecommunications. District heating for kindergarten, the schools, and the Medical Center will be supplied from an existing facility located 1 km from the site. Residential housing will be on gas heating. Some improved street lighting access will be required. A substation is located at 1.5 km but a new power substation must also be constructed to meet the demands of a fully developed site. Construction on this station has not begun but is scheduled to be completed by the end of 1995. This could be delayed due to potential disputes between the municipality and the power company over unresolved bills. Overall, the site is well suited for construction.

15. TVER

a. **Youzhny** - The on-site services will be connected to adjacent or nearby municipal networks which have sufficient capacity to support the proposed development. Currently, the site is bordered by a school, a high-rise housing complex and a State-run fueling station.

b. **Batino** - On-site services will be connected to adjacent or nearby municipal networks which have sufficient capacity to support the development.

16. NOVGOROD

a. **Pskovskaya Ploschad** - The on-site services will be connected to adjacent municipal networks which have sufficient capacity to support the proposed development. The existing

municipal wastewater treatment plant is being expanded by local funding and is expected to be completed before the completion of the housing development on this site.

17. ST. PETERSBURG

a. **Yugo-Zapadny.** According to the City, it will be necessary to install 12-km long main water and sewer lines, as well as a hot water line of 4-km and a gas line of 18-km to extend services to the site and adjacent areas. The South West Wastewater Treatment Plant that would serve this site is about 30% complete but construction has been halted due to lack of funds. These conditions require the phasing of this development to a later date.

b. **Kolomnaki.** The off-site services are in the vicinity. There are deficiencies in the municipal water and wastewater services but the impacts of the site can be mitigated as discussed later.

c. **Kamenka.** The off-site services are in the vicinity. There are deficiencies in the municipal water and wastewater services but the impacts of the site can be mitigated as discussed later.

d. **Severo Primorskaya.** The off-site services are in the vicinity. There are deficiencies in the municipal water and wastewater services but the impacts of the site can be mitigated as discussed later.

e. **Severnaya Dolina.** The off-site services are in the vicinity. There are deficiencies in the municipal water and wastewater services but the impacts of the site can be mitigated as discussed later.

18. NIZHNY NOVGOROD

a. **Bughri.** No on-site infrastructure currently exists. Adequate power and gas are available near the site, however no water or wastewater facilities are present. The nearby village is served by a local well. The proposed plan provides for the drilling of four or more wells for water supply and the construction of a package wastewater treatment plant (the treatment plant will be shared with other developments). The need for multiple wells is based on the production of the one existing well and must yet be field tested to assure that adequate volume with acceptable quality is available. Heating will be supplied by individual gas units. The existing access to the site will require upgrading. A 2.5 km road is planned to connect the site directly with the main highway to the west. The environmental impacts of this off-site road construction has not been evaluated and should be studied as part of the comprehensive studies. In general, the site is adequate for the development, but because of its remoteness it must depend on stand alone utility services for water, sewerage, and possibly snow removal, as well as solid waste disposal and local transportation services.

b. **Beshentsevo 1.** Adequate gas, sewer and water mains are near the site as well as power lines. New water main and collector are planned by the Municipality. A new

substation is planned will be shared with other developments. A new access road is required. The development will use individual gas heating units rather than district heating.

c. **Beshentsevo 2.** Conditions are similar to Beshentsevo 1, except the conditions to off-site utilities and road access are of greater distances. Heating will be by individual gas units.

d. **Novo Prokovskaya.** Utilities are in the area, and are adequate to support the development. New water main is planned. Only a short sewerage connection is required. An existing substation will serve the site. A new access road will be built. Individual gas heating units will be used.

e. **Delovaya.** The site is at the junction of two major highways and borders a hospital heating plant on one side. A major district heating plant is also nearby. All other necessary utilities are in the vicinity and individual gas heating units will be used.

G. MITIGATION PLANS SUMMARY

19. Based on a review of the available information and construction details for the proposed development projects, no significant negative impacts are expected. There are, however, some important environmental issues for the Novgorod site and a number of minor environmental issues for the others that mitigation measures should be considered for.

a. **Loss of potential farm land.** In the cities of Barnaul and Nizhny Novgorod, 82 and 164 ha respectively of fertile land previously used for farming are being developed as project sites. In all cases the land is currently fallow. No farmers will be displaced because of development and as such the net environmental impact is expected to be positive because of the mitigative positive impacts of the project (landscaping, tree plantations, improved drainage). Mitigation measures are not needed.

b. **Displacement.** The issue of displacement is a socio-economic one. In the case of the displacement of 16 families in Novgorod and the kitchen gardens in St. Petersburg, compensation and resettlement should be considered. The best solution in the case of Novgorod would be to resettle the families into the development project's improved housing sites. If this is not possible, resettlement elsewhere with appropriate monetary compensation would be an equitable solution. Monetary compensation would also be equitable for displacement of the kitchen gardens at the St. Petersburg site. For the relocation of the 16 families at the Novgorod site, the current relocation plans and the associated local regulations clearly provide equitable solutions and should be adopted as the mitigation plan. Budgeted relocation costs include $42,000 for each family (cost of a new unit) plus compensation for useful trees and moving expenses. Local regulations governing relocation are strict: families will be offered choice of new housing either on or off-site; they have the opportunity to refuse what is offered. Initial contact with the families normally occurs 24 months prior to relocation. Written consent to relocate is needed. The relocates may stay in their homes until Phase 1 is complete. Families which are currently doubling-up will get two separate new units. Families who do not wish to move from the site, or to accept City-offered

housing may also be offered alternative accommodation by builders who wish to bid for the site area on which the existing homes are located.

c. **St. Petersburg Water and Wastewater Services.** The critical municipal services in St. Petersburg are the water and wastewater (the developments will use gas heaters and therefore demand on heat plants is not an issue). The basic plan for mitigation is to finance a package of high priority and clearly definable projects in the Metropolitan area with benefits to the Northern part of the City. This plan will mitigate the impacts of all the St. Petersburg development sites except the Yugo (South) Zapadny site. The budget is about $12 to $20 million which is roughly equivalent to what would cost to provide off-site utility extensions and connections to the Northern sites with residents of about 20,000. For example one project in the package for discussion is a proposed 6 km water main from the new water treatment plant in the Southern suburb of Kolpina (observed to be 95% complete) which will bring 125,000 m3 of water to the metropolitan distribution system to serve about 300,000 people at an estimated cost of $3 million. Similar investment in the Northern Wastewater Treatment Plant will bring on line an added capacity equivalent of 1 million users, again providing high cost-benefit ratio. Other high priority projects will bring the cost to the $20 million range. The budgetary relief brought by this finance package will allow the City to complete other minor off-site infrastructure items related to the sites such as power connections or gas line extensions. The above described projects package is short-term and addresses the impacts of the housing developments only. There are also system wide and sectoral problems in St. Petersburg that should be addressed within the context of long-term metropolitan programs. These include excessive water use due to low water rates, water loss due to system leaks, untreated wastewater discharges and unfinished facilities.

d. **Historical areas.** The Novgorod site is in a historical area and exploratory excavations for artifacts is required to be done prior to construction. The Director of the Novgrod Kremlin which overlooks the site has also raised aesthetic issues concerning the height of the proposed housing which needs to be resolved. This site, of course, needs to be free of suspected soil contamination problems as a prerequisite to any development activity.

e. **Other environmental issues.** Other issues that were present include: removal of top soil (Severnaya Dolina) and airport noises (Barnaul, Tver). These impacts are reversible and can be mitigated with engineering controls or noise mitigation plans.

H. ENVIRONMENTAL GUIDELINES FOR CONSTRUCTION FINANCE AND BUILDING MATERIALS SUB-COMPONENTS

20. Environmental guidelines for sub-projects to be proposed under the Construction Finance Sub-component are identical to the requirements for the proposed sites under the Land Development Sub-component. All sub-projects must comply with the environmental requirements of the Russian Federation and the World Bank. As part of their application for credits, the participating bank and its borrower will complete and submit for each site a preliminary environmental assessment carried out by a qualified independent consultant. This assessment will follow Russian guidelines and shall be consistent with World Bank Operational Directive 4.01. As part of the site assessment and

selection, potential contamination of site soils and groundwater will be investigated and documented. Upon appraisal and approval, a detailed environmental Impact Assessment for each site will be carried out. The cost of the assessment is to be born by the participating bank and/or its borrower, and can be financed under the credit.

21. Environmental guidelines for the sub-projects to be proposed under the Building Materials (Equity Matching) Sub-component will be identical to the "Environmental Review Procedures for Participating Banks, Russian Federation, Enterprise Support Project" dated June 14, 1994 or its revised versions.

I. CONCLUSIONS AND RECOMMENDATIONS

22. Adverse environmental impacts associated with this project are generally minimal. All sites are considered suitable for development within the constraints and recommendations presented in this appendix. However, environmental problems at the Novgorod site need to be further investigated. Based on these findings, there are no major environmental issues that would preclude the World Bank from proceeding with this project, provided that environmental safety of site soils is demonstrated or remedial action can be taken economically. An assurance should be obtained that detailed site investigations satisfactory to the Bank should be carried out and reviewed by the Bank prior to awards of contracts and commencement of works.

23. Individual and comprehensive environmental impact assessments according to Russian Regulations should be conducted for each site as part of the earliest design activities. These assessments should also address infrastructure construction details such as the best routes for off-site roads and utility connections. Construction details are not yet well developed as the designs are at preliminary stages.

24. Selection of one or two sites in each city for the first year of the development program is being planned by the World Bank. These first year sites should be selected from those sites that appear to have no or minimal soil contamination potential. Environmental soil investigations should be initiated on these sites as the next activity on the basis of the investigation plans developed in August 1994.

TABLE-2 SUMMARY OF SITE ENVIRONMENTAL ISSUES

CITY/SITE	ENVIRONMENTAL ISSUES	IMPACT	MITIGATION PLAN
Barnaul Salnechnaya Polyana	Loss of 82 ha of fertile land previously used for farming.	Minimal	None required. The land is currently not being used for farming - no displacement of farmers.
Tver Youzhny	No significant impacts.	None	None required.
Batino	No significant impacts.	None	None
Novgorod Pakovskaya Poschad	13 households with 16 families are currently occupy a portion of this site. Resettlement of this population is an issue. Site is in historical area and in view of the Novgorod Kremlin. An old landfill is adjacent and is suspected to have industrial wastes. A petroleum products pipeline with apparent leakage goes through the site.	Moderate	The current relocation plans and budgets are fair and appropriate and the local relocation regulations impose very strict rules for the protection of the rights of the relocates. Exploratory excavations for artifacts is required prior to construction. Architecture and height of residences should be reviewed in terms of the historical setting. Environmental soil investigations are required as a prerequisite to any development.

St. Petersburg			
Yugo-Zapadny	No significant impacts expected as long as there is no hydrofilling conducted on-site. Off-site municipal water supply and wastewater treatment systems may not be completed in the short term.	Minimal	Municipal water and wastewater improvements in the South of the City is required.
Kolomnaki	Contaminated site soils is claimed but detailed information is not available. Municipal water and wastewater system deficiencies.	Minimal	Financing of high priority water and wastewater system improvements (see mitigation plan summary in this Annex). Environmental soil and groundwater investigations are required for this and all sites.
Kamenka	Existing kitchen gardens will be displaced by construction. Municipal water and wastewater system deficiencies.	Minimal	Land not currently occupied. Compensation should be given for kitchen gardens. Financing of high priority water and wastewater system improvements (see mitigation plan summary in this Annex)
Severnaya Dolina	Significant excavation and removal of topsoil (not suitable for construction) will be required. Radioactive contamination is claimed to be removed from the site in the past. Municipal water and wastewater system deficiencies.	Minimal	Engineering controls (dust suppression, etc.) should be implemented during construction. Financing of high priority water and wastewater system improvements (see plan summary in this Annex)
Severo Primorskaya	The site is presently cluttered with non-hazardous debris from previous on-site activities. A disposal area for electronic equipment is located on the south side of the site. There is a small lumber mill on the site.Municipal water and wastewater system deficiencies.	Minimal	Non-hazardous debris should be cleared prior to project. Environmental soil and groundwater investigations are required as for all sites. Relocation with compensation should be considered for the lumber mill. Financing of high priority water and wastewater system improvements (see plan summary in this Annex)

CITY/SITE	ENVIRONMENTAL ISSUES	IMPACT	MITIGATION PLAN
Nizhny Novgorod			
Bughri	Loss of 70 ha of fertile land previously used for farming.	Minimal	None required - land is currently fallow. No farmers will be displaced.
Beshentsevo 1	Loss of 74 ha of fertile land previously used for farming.	Minimal	None required - land is currently fallow. No farmers will be displaced.
Beshentsevo 2	Loss of 20 ha of fertile land previously used for farming.	Minimal	None required - land is currently fallow. No farmers will be displaced.
Novo Prokovskaya	No significant impacts.	None	None required.
Delovaya	No significant impacts.	None	None required.

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 4.1
DETAILED PROJECT AND COMPONENT COSTS

Financing Plan By Financiers (US$ Millions)

	AID and Donors	Local Government		Private		IBRD		Total	Foreign Exchange	Local
Housing Market Development Component										
Land Development Sub-Component	0.00	203.30						404.30		
Civil Works		12.00	9%			201.00		213.00	101.00	112.00
Land Donated by Cities		93.10	100%					93.10		93.10
Acquisition Expenses		7.10	100%					7.10		7.10
Taxes on Civil Works		46.00	100%					46.00		46.00
Interest During Construction		45.10	100%					45.10	45.10	
Construction Finance Line of Credit				98.50	55%	80.00	45%	178.50	71.40	107.10
Transformation of Building Materials Industry Component				44.70	32%	96.00		140.70	140.70	
Equity Matching Sub-component										
Technical Co-operation & Project Management Component	8.00	2.00	6%			23.00	79%	33.00	27.60	5.40
Total	8.00	205.30	27%	143.20	19%	400.00	63%	756.50	385.80	370.70

Financing Plan - Base Costs (US$ Millions)

	AID and Donors	Local Government		Private		IBRD		Total	Foreign Exchange	Local
Housing Market Development Component										
Land Development Sub-Component	0.00	180.10				161.20		341.30		
Civil Works		10.60	9%			161.20	94%	171.80	80.50	91.20
Land Donated by Cities		89.40	100%					89.40		89.40
Acquisition Expenses		6.60	100%					6.60		6.60
Taxes on Civil Works		36.80	100%					36.80		36.80
Interest During Construction		36.70	100%					36.70	36.70	
Construction Finance Line of Credit				98.50	55%	80.00	45%	178.50	71.40	107.10
Transformation of Building Materials Industry Component				44.70	32%	96.00	68%	140.70	140.70	
Equity Matching Sub-component										
Technical Co-operation & Project Management Component	8.00	1.80	5%			22.00	79%	31.80	27.60	6.20
Total	24% 1%	181.90	27%	143.20	21%	359.20	52%	692.30	356.90	334.30

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	Financing Plan Including Contingencies						
	1995	1996	1997	1998	1999	2000	Total
Housing Market Development Component							
Land Development Sub-Component							
Civil Works Sub Total	10.60	49.90	57.80	46.10	35.20	11.40	211.00
Water, Sewerage & Drain	4.10	19.40	22.50	18.00	13.70	4.50	82.20
Gas & Heating	1.90	9.00	10.40	8.30	6.30	2.00	37.90
Roads	1.60	7.50	8.70	6.90	5.30	1.70	31.70
Social Facilities	1.40	6.50	7.50	6.00	4.60	1.50	27.50
Other	1.60	7.50	8.70	6.90	5.30	1.70	31.70
Land Donated by Cities	46.10	31.50	15.50				93.10
Acquisition Expenses	1.00	2.10	2.20	1.80			7.10
Taxes on Civil Works	2.40	11.40	13.30	10.60	8.10	2.60	48.40
Interest During Construction	0.50	3.40	8.50	10.70	11.90	10.10	45.10
Construction Finance Line of Credit	3.40	35.60	35.60	35.60	35.60	32.00	177.80
Transformation of Building Materials Industry Component							
Equity Matching Line of Credit (EMLOC)	8.50	28.20	39.60	41.00	23.00	3.00	143.30
Technical Co-operation & Project Management Component							
Technical Co-operation Component	3.00	8.00	8.00	7.00	4.00	3.10	33.10
Construction Services	1.10	5.00	5.80	4.60	3.50	1.10	21.10
Technical Co-operation	1.90	3.00	2.20	2.40	0.50	2.00	12.00
Total	75.50	170.10	180.50	152.80	117.80	62.20	758.90

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION
HOUSING PROJECT

ANNEX 4.2
LAND DEVELOPMENT COMPONENT FINANCIAL ANALYSIS

A. INTRODUCTION

1. Local Governments have two financial obligations under this component: they must provide counterpart funding during the project execution and they must repay the loan together with interest. For the first phase of the project, the cities will provide the counterpart funding from their capital budgets. In subsequent phases, the cities will supplement their capital funds with the profit from sales of land in earlier phases while the profits from land sales will provide funds for the repayment of loans. As additional security for the loans, the participating governments will pledge their own revenues for debt repayment in the event that the proceeds from the land sales are not inadequate for debt repayment. In addition, in cities other than St Petersburg (which is an independent city), the oblast or krai will also provide a guarantee for the repayment of the loan.

2. The cities have carried out detailed examinations of the proposed cost recovery from land sales. They have modified site designs, project phasing, and eliminated sites to make the sites more viable financially as per cost recovery guidelines presented in Annex 3.2, Attachment B. Financial viability of the proposed sites are crucial because of the uncertainty of city budgetary finances. USAID has funded independent reviews of both sales and engineering estimates. The cities' expectations to repay the loans from the proceeds of the land sales appears reasonable even if key assumptions fail to fully materialize. By phasing the projects and holding land auctions before signing infrastructure contracts, the cities will minimize their financial exposure under the project.

3. If the cities do not fully recover the money from the sale of land, they should still be able to meet debt service from their own revenue, although it will mean curtailing other programs. The cities have a substantial revenue base, even though the revenue available to cities is determined mainly by higher level authorities. Although the cities' authority to set tax rates is very limited at present, it is increasing. In any case, the local governments do have the authority to structure their own expenditures. In addition, the property tax is a potential source of revenue that is under the control of local governments. If, for some reason, the cities do not meet their obligations, the oblasts will step in with a guarantee and their revenue is substantial. Guidelines developed to ensure cost recovery from the Land Development sub-projects are presented in Annex 3.2, Attachment D. The Financing Plan by Financiers and Base Cost for the Project are presented in Annex 4.1.

B. LOCAL GOVERNMENT FINANCIAL POSITION

4. Russian cities face a great deal of fiscal uncertainty. Their funding sources and spending responsibilities are uncertain from year to year, and, sometimes, from quarter to quarter. There is no question that local governments in Russia face serious financial problems. In general, funding is not available to carry out all of the programs that would be desirable. But the cities are working

to improve their financial position and management and are designing a project implementation strategy that will minimize their exposure and their financing requirements.

5. St. Petersburg provides an example of the problems that the governments face and their response to them. In 1992 St Petersburg's share of the Value Added Tax was increased by the federal government from 20% to 50%; then in 1993 it was cut back to 25%. The VAT is a major revenue source, accounting for 21% of the city's 1993 revenue. Additional changes in national tax laws allowed businesses to defer many of their first and second quarter payments - further reducing city funds. There was also an increase in business tax exemptions, an increase in the allocation of the personal income tax to the national government and a reduction in federal transfers. The net result was an expected loss of 21% in the city's revenues.

6. The city felt that it could not increase taxes by enough to fully compensate for the losses without adversely affecting business development and local residents' incomes. So, they introduced a combination of cost cutting measures and revenue increases. As a result, they were able to maintain a capital budget in excess of US$ 100 million for the current year. They will be able to provide the funding necessary for the initial project sites within this budget.

7. Reorganizations included combining the city's Economy and Finance departments to strengthen financial management and combining a number of construction departments to improve both the planning and implementation of construction activities. Both of these moves will improve their capability for successful project implementation.

C. STRATEGY FOR DEALING WITH THE CITY FINANCIAL PROBLEMS

8. Even though the cities face serious problems, they still have significant resources available. Table 4.4 in Chapter 4 show the ratio of revenue to potential debt service and counterpart funding requirements. So long as the program is a high priority, funding can be provided. The cities see this project as a high priority because it will meet immediate needs but, more importantly, because it provides the start of a process that will generate net revenue. By establishing a procedure for developing and selling land, the cities will increase their net revenue capability. Moreover, this increase will take place very quickly - within one or two years from the start of the project.

9. The loan is providing start-up capital that will allow the city to undertake further projects from land sales proceeds in this project but the impact goes beyond strengthening the cities' own development potential. Developers will also be strengthened as they sell the houses that they build on the sites that the cities provide. In addition, the banks will be strengthened through interest earnings on loans that they provide for the developers and housing purchasers. All of this will lead to an on-going self-sustaining development program.

C. MARKETING PLANS TO MINIMIZE RISK AND BUDGET REQUIREMENTS

10. Because of the uncertainties over the cities' financial positions, it is important to minimize the potential use of city funds and their risk exposure. As a result, the cities will develop plans for marketing the sites that minimize their financial risk. The plans for call for early land sales with a minimum of investment. This will provide funds for the counterpart financing in later stages and

help assure that the sites that are being developed are financially viable. If the early stages of a project do not achieve the expected return, the cities can stop the development.

11. In addition, the cities may sell the land without infrastructure with an arrangement to develop it later in accordance with plans agreeable to both the cities and the developers. This offers several advantages to both the cities and the developers. The lack of on site infrastructure is likely to improve the marketability of the land by allowing the developers more flexibility in site design. The cities' risks will be greatly reduced because they will not have the on site infrastructure development in place before they sell the land. The cities will also benefit by requiring the developers to provide the counterpart funding for the loan. City development of the infrastructure will ensure proper quality control and timely completion. Without the use of the loan funds for the development of the infrastructure, the developers are likely to find it difficult to get financing for timely completion.

D. CITY FINANCIAL MANAGEMENT CAPABILITIES

12. Traditionally, the cities have had very limited financial management responsibilities. Consequently, they are in the process of developing financial management systems and procedures in response to the changing conditions in Russia.[1] The financial crisis that they find themselves in has provided pressure to introduce new systems but, at the same time, has limited the funding and the time available for developing new approaches. This limits the information available for financial analysis.

13. Nevertheless, cities are reorganizing, computerizing and introducing new budgeting and accounting processes. The financial staff in the cities generally seem interested in change and anxious to learn new techniques. In the past, their function has been largely clerical but now there is a new management dimension that has been added to their responsibilities. While they are hampered by a lack of data, training and equipment, they appear to be moving to improve their management capability.

1/ The Bank identified a program to demonstrate the development of new municipal financial systems that has been funded by USAID and is now being implemented in Moscow and Nizhny Novgorod.

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 4.3
SUMMARY OF PROCUREMENT ACTIONS

A. INTRODUCTION

1. The following tables summarize procurement activities envisioned for the project. As planned, approximately fifty percent of Bank loan funds will be expended on housing infrastructure construction and supporting equipment purchases. About forty-four percent of the loan will be allocated through the EMLOC and Construction Finance credits. The remaining six percent will finance construction supervision, engineering and program management services with the CPIU/LPIUs. Procurements will be consistent with the Bank's *Guidelines* for purchases of goods, works and technical assistance. Applications of funding under the lines of credit will be in accordance with commercial practices, as allowed in Bank procedures for intermediate credit institution loans.

2. As indicated in the tables, there are expected to be about fifty civil works contract actions (two or three per year per region), twenty-five large and small equipment purchases and about two dozen technical assistance contracts over the life of the project. Since equity participants have yet to be fully defined, the number and types of equipment purchases under the EMLOC is currently undetermined. A considerable portion of them are, however, expected to be of a size and kind which would warrant ICB procedures. Some of these purchases might, however, be proprietary in sourcing or otherwise require prior Bank staff review and approval. Such are not expected to cause undue complications for project participants or generate an inordinate workload for Bank staff.

3. The presence of procurement and construction management expertise in the CPIU and LPIUs, staff training, and operating procedures that will detail procurement requirements and documentation are expected to ensure satisfactory implementation. Special Bank supervision efforts will be directed to transactions under the Construction Finance component of the loan, as well as to actions under the Equity Matching credits, to ensure participating banks and borrowers understand and implement agreed to procurement procedures and documentation requirements. Retaining experienced project management consultants to advise and assist LPIU staffs in construction supervision and approvals of disbursement authorizations will also ensure quality controls for infrastructure contracts.

4. The following tables summarize planned procurement categories and expected implementation schedules of major steps.

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Summary of Procurement Activities - Housing Project[1]				
Category	# Contracts	Loan Funds (US$x000)	NBF/Taxes (US$x000)	Total (US$x000)
Civil Works	**49**	**195500**	**202300**	**398200**
ICB Housing Infrastructure	14	114100	26350	140450
ICB Utility Improvements	20	75200	29850	105050*
LCB Housing Infrastructure	8	3100	350	3450
LCB Utility Improvements	7	3500	450	3950
Land, Acquisition, Interest	N/A	0	145300	145300
Equipment & Goods	**26**	**6300**	**1000**	**7300**
ICB	6	3400	500	3900
DC	2	900	160	1060
IS	4	500	90	590
LCB	5	1100	180	1280
LS	9	400	70	470
Lines of Credit	**N/A**	**176000**	**145100**	**321100**
Construction Finance	N/A	80000	97800	177800
Equity Matching	Indet.	96000	47300	143300
Construction Supervision, TA & Training	**23**	**21800**	**10000**	**31800**
CPIU & Works Supervision	1	13,500	2,500	16000
Engr. Services	12*	6000	1000	7000
Training/Studies (Loan/Grant)	10*	2300	6500	8800
Program Totals	**98**	**400000**	**358400**	**758400**

* May include 6-8 contracts with individuals.

[1]Includes the estimated distribution of contingencies.

Note: Table below includes Loan Funds Only.

RUSSIAN FEDERATION - HOUSING PROJECT PROCUREMENT PLAN AND SCHEDULE								
Category of	Lot /		Est.	Proc.	Major Activities Schedule (Dates)			
Procurement	Grp.#	Nature of Package	Cost ($ x 000)	Method	Issue of Docs.	Bid/ Prop. Rec'd.	Contract Signat.	Start Date / Begin Delivery
INFRASTRUCTURE CONSTRUCTION	1	Group "A" - Civil Works (6 Contracts)	23.7	ICB	3/24/95 - 4/17/95	5/22/95 - 6/19/95	7/10/95 - 8/15/95	5/15/95 - 9/19/95
	2	Group "B" - Civil Works (9 Contracts)	48.9	ICB	1/15/96 - 7/14/96	3/17/96 - 9/15/96	5/18/96 - 11/10/96	6/10/96 - 12/1/96
	3	Group "C" - Civil Works (12 Contracts)	71.8	ICB	3/15/96 - 8/10/96	5/20/96 - 10/10/96	7/15/96 - 11/30/96	8/1/96 - 12/15/96
	4	Group "D" - Civil Works (8 Contracts)	43.9	ICB	11/14/96 - 8/10/97	1/20/97 - 10/10/97	3/15/97 - 12/1/97	4/1/97 - 12/20/97
	5	Group "E" - Civil Works (7 Contracts)	3.4	LCB	6/15/95 - 9/1/95	8/15/95 - 11/1/95	10/15/95 - 1/4/96	11/5/95 - 1/20/96
	6	Group "F" - Civil Works (8 Contracts)	4.2	LCB	6/15/95 - 9/1/95	8/15/95 - 11/1/95	10/15/95 - 1/5/96	11/10/95 - 1/20/96
		Subtotal	**195.9**					
EQUIPMENT AND GOODS	7	Vehicles, etc.	0.8	ICB	3/15/95 - 6/15/95	5/15/95 - 8/10/95	6/30/95 - 10/1/95	7/10/95 - 10/20/95
	8	Utility Systems Equipment	2.6	ICB	2/15/95 - 9/15/95	4/10/95 - 11/10/95	6/15/95 - 12/31/95	7/1/95 - 1/15/96
	9	Centrifuges and Parts	0.9	DC	4/16/95	6/15/95	8/10/95	9/15/95
	10	Instrumentation Equip. and Materials	0.5	IS	3/11/95 - 12/20/95	4/30/95 - 2/15/96	6/20/95 - 4/15/96	7/10/95 - 5/15/96

	11	Substation Equipment, Controls, Valves, etc,	1.1	LCB	4/20/95 - 9/30/95	6/15/95 - 11/15/95	8/1/95 - 12/31/95	9/15/95 - 1/20/96
	12	Office Furniture, Equipment, etc.	0.4	LS	2/20/95 - 7/31/95	4/15/95 - 9/11/95	6/10/95 - 10/27/95	7/1/95 - 11/15/95
		Subtotal	**6.3**					
CREDIT LINE PROCUREMENT	13	EMLOC Purchases (<$250,000)	Ind.	LS	6/9/95 - 2/15/97	8/23/95 - 4/26/97	10/25/95 - 6/30/97	11/10/95 - 7/15/97
	14	EMLOC Purchases (<$4.0 Million)	Ind.	IS	7/16/95 - 2/15/97	9/13/95 - 4/26/97	11/15/95 - 6/30/97	12/1/95 - 7/20/97
	15	EMLOC Purchases (>$4.0 Million)	Ind.	ICB	7/22/95 - 3/1/97	9/25/95 - 5/1/97	11/15/95 - 6/15/97	12/10/95 - 7/5/97
	16	Construction Finance Expenditures	80	GCP	N/A	N/A	N/A	N/A
		Subtotal	**176**					
TECHNICAL ASSISTANCE	17	CPIU/LPIU - Construction Consultant	13.5	S-List*	2/10/95	3/23/95	5/18/95	6/16/95
	18	Engineering Services	6	S-List*	1/10/95 - 8/10/96	3/15/95 - 10/15/96	5/20/95 - 12/20/96	6/15/95 - 1/10/97
	19	Staff Training and Fellowships	0.7	S-List*	4/11/95 - 9/20/96	6/20/95 - 11/5/96	8/25/95 - 12/3/96	9/10/95 - 1/15/97
	20	Technical Studies and Evaluations	1.6	S-List*	3/16/95 - 8/10/96	5/15/95 - 10/12/96	7/20/95 - 12/15/96	8/5/95 - 1/10/97
		Subtotal	**21.8**					
		Program Total	**400**					

*May include 6-8 smaller-value contracts with individuals entered into in accordance with procedures in the Guidelines.

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 4.4
DISBURSEMENT SCHEDULE

DISBURSEMENT SCHEDULE

YEAR	PERIOD	PROJECTED DISBURSEMENTS (in US$ millions)
FY95		**19.3**
	January-June	19.3
FY96		**88.0**
	July-December January-June	45.0 43.0
FY 97		103.2
	July-December January-June	60.0 43.2
FY98		**92.4**
	July-December January-June	50.0 42.4
FY99		**67.8**
	July-December January-June	35.0 32.8
FY00		**29.3**
	July-December January-June	20.0 9.3
TOTAL		**400.0**

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 5.1
COMPOSITION OF THE INTERMINISTERIAL COMMITTEE FOR HOUSING REFORMS AND CENTRAL OFFICE OF MINISTER OF CONSTRUCTION

A. INTRODUCTION

1. This Annex presents composition of (a) the Interministerial Committee for Implementation of the State "Targeted Program "Housing," and (b) Central Office of Minister of Construction. The composition of the Interministerial Committee was approved by the Resolution of the Council of Ministers - Government of the Russian Federation as of June 20, 1993, #595 and amended by the Russian Federation Government Ordinance as of May 25, 1994, #782-p.

B. COMPOSITION OF THE INTERMINISTERIAL COMMITTEE

1.	Basin, Ye.V.	Minister of Construction (Minstroi) of Russian Federation (Chairman of the Interministerial Committee)
2.	Shapovaliants, A .G.	First Deputy Minister of Economy of Russian Federation
3.	Vavilov, A. P.	First Deputy Minister of Finance of Russian Federation
4.	Krivov, A. S.	Deputy Minister of Construction of Russian Federation
5.	Poryadin, A.F.	First Deputy Minister of Environment Protection and Natural Resources of Russian Federation
6.	Surov, P.S.	Head of the Department of Investments and Construction, Apparatus of the Russian Federation Government
7.	Zaydfudim, P.Kh.	Deputy Minister of Nationalities and Regional Policies of the Russian Federation
8.	Chelyshev, A.N.	Deputy Minister of Civil Defense, Emergency Situations and Liquidation of Natural Calamities' Consequences of the Russian Federation

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9.	Kisilev, S.G.	Deputy Minister of Social Security of Russian Federation
10.	Tsagolov, K.M.	Deputy Minister of Nationalities and Regional Policies of the Russian Federation
11.	Khandruev, A.A.	Deputy Chairman of Central Bank of Russia
12.	Alakoz, V. V.	First Deputy Chairman of Roskomzem
13.	Avdeev, V.V.	Head of the Department of Housing and Communal Economy, Minstroi of Russia
14.	Shamuzafarov, A. Sh.	Head of the Department of Housing Policy of Minstroi (Secretary of the Interministerial Commitee)
15.	Tsalko, A.V.	Head of the Chief Department of the Ministry of Social Security of Russian Federation
16.	Krasheninnikov, P.V.	Head of Department of Housing and Economic Legislation, Ministry of Justice of Russian Federation
17.	Maslov, N.V.	Deputy Head of Department of Municipal Housing, Head of Privatization Department of the Moscow City Administration
18.	Solomatin, A. V.	Head of Construction and Military Relocation of the Ministry of Defense of Russia
19.	Nemtsov, B. Ye.	Governor of the Nizhniy Novgorod Oblast

The Interministerial Committee is assisted by:

1.	Sevenard, Yu.K.	First Deputy Chairman of the Committee of Industry, Construction, Transport and Energy, the State Duma of the Federal Assembly (upon coordination)
2.	Muravlev V.I.	Vice-President, Sberbank of Russia
3.	Kudryavtsev, V.A.	Chairman of the Administration Board of the Corporation "Housing Initiative"
4.	Ivanov, A.P.	President of the Mortage Bank

C. COMPOSITION

Approved by the Minister of Construction of the Russian Federation
August 5, 1994

Management
Department of Architecture*
Department of Housing Policy*
Department of Development of Building Materials Industry and Construction Industry*
Department of Housing Maintenance Service
Chief Department of Urban Development, Infrastructure and Territorial Development
Chief Department of Implementation of Investment Programs and Cooperation with Subjects of the Russian Federation
Chief Department of Economy, Investments and Labor in Construction
Chief Department of Establishment of Standards, Technical Norms and Certificates
Department of Mechanization, Technology and Leasing in Construction
Department of Licensing
Chief Technology Science Department
Chief Department of Design and Engineer Surveys
Chief Department of Improvement of Price Formation and Cost estimates in Construction
Chief Finance Department
Chief Department of Improvement of Forms and Structures of Management
Chief Department of Human Resources and Educational Institutions
Chief Department of Land Development and Protection
Chief Inspection Agency of State Architectural and Construction Supervision
Office Management Department
Legal Department
Special Department
Department of Information and Marketing
Department of International Relations
Department of Ministry Organizations and Social Security
Scientific and Technical Council

STAFF APPRAISAL REPORT

RUSSIAN FEDERATION
HOUSING PROJECT

ANNEX 5.2
PROJECT ORGANIZATION AND MANAGEMENT

A. ORGANIZATIONS RESPONSIBLE FOR IMPLEMENTING THE PROJECT

1. **The Interministerial Group on Housing Reforms** (IG) would provide policy level oversight and guidance for the CPIU, particularly on the issues that will require interministerial coordination and intervention. The members of the Interministerial Group would include a representative each from the Ministry of Finance, the Ministry of Economy, the Ministry of Architecture and Construction (Minstroi), and the Government Department authorized to coordinate World Bank projects in Russia. The IG would be headed by the Chairman of Minstroi.

2. **A Loan Policy Review Committee** (LPRC) would be established with members of the Interministerial Group to approve initial sub-loans and sub-loans above the free limit and to consider revisions to the eligibility guidelines proposed by the CPIU. Revisions to the guidelines would also require the agreement of the World Bank. Continuous oversight of the Project implementation by the Interministerial Group would also provide an important input into the World Bank supervision missions.

3. The executive agency responsible for implementation of the Housing Project is *Minstroi*. The Project will be administered by a *Central Project Implementation Unit* (CPIU) on behalf of the IG which would report to the Chairman of IG. The CPIU would be responsible for coordinating all the work related to budgeting, procurement, disbursement, audit, reporting and monitoring the implementation of Project's individual components. Most of the technical work assigned to the CPIU would actually be carried out by a consulting firm (General Consultant).[1/] *General Consultant* would provide assistance to the CPIU by performing the bulk of the administrative tasks, certifying payments and providing advice to the implementing agencies. *Local Project Implementation Units (LPIU's)* would administer the land development component in each city.

B. CPIU ORGANIZATION AND MANAGEMENT

4. **General Terms of Reference**. The CPIU would be responsible for the overall administration of the Housing Project. As such, the CPIU would supervise a General Consultant in carrying out implementation activities on behalf of the IG. The CPIU would be physically located in the Minstroi which would provide for this purpose appropriate office facilities but CPIU's operations would not necessarily be subject to all rules and regulations applicable to Minstroi departments. The CPIU would have three broad categories of supervisory responsibilities: (a) project administration activities; (b) project reporting activities; and (c) provision of technical cooperation.

1/ The Terms of Reference for the General Consultant are included in Annex 3.8.

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a. **Project Administration Activities**

i. administering through an established review process loan agreements with cities for the land development component, and Participating Banks for the Construction Finance and Equity Matching Sub-components.

ii. disbursing to and collecting funds from the cities for the land development component and Participating Banks (PBs) for the construction finance and equity matching sub-components.

iii. transmitting documents between the cities, the PB's, and the World Bank to ensure that timely clearances are received;

iv. organizing periodic auditing of project accounts with the cities, and the banks by an audit contractor;

v. opening and operating accounts in foreign and domestic currency.

vi. inspecting works to verify that quantities invoiced are correct and that the standard of work is to an acceptable quality.

b. **Project Reporting Activities**

i. monitor and report on overall project implementation, e.g., disbursement of funds, procurement of goods and services, audit activities, progress in technical assistance for the banks and building material enterprises;

ii. supporting the LPRC with information required for loan review process;

iii. providing assistance to World Bank supervision missions;

iv. monitoring and reporting on disbursements and repayments under the Loan, including the administration of the Special Account, and project accounts with PB's.

v. monitoring, accounting and reporting on the disbursement and uses of grant funds;

vi. collecting monthly/quarterly financial reports from cities, and the banks and preparing analyses and consolidated reports;

vii identifying implementation problems as they arise and offering recommendations for their resolution.

c. **Technical Cooperation Activities**

i. assisting PB's in strengthening their real estate lending capacity;

ii. assisting building materials enterprises in obtaining information regarding eligibility requirements for the equity matching and ERA lines of credit;

iii. providing information and guidance to qualified investors about equity matching line of credit;

iv. promoting project participation of Local Project Implementation Units (LPIU) by providing them technical assistance on the issues of land development and auctioning, construction, and property rights;

v. organizing training seminars for LPIUs' and banks' staff on land development and real estate underwriting;

vi. administering training and research support for Interministerial Group on the issues of project implementation, housing policy and reform.

5. **Functional Units.** Within the CPIU there will be four departments: (a) Land Development, (b) Construction Finance, (c) Building Materials, and (d) Procurement and Accounting/Disbursement. The CPIU will have a small staff of local and foreign experts, including a Director for each department, and a Finance Officer with appropriate qualifications and experience in international accounting practices. The CPIU staff's main function will be to supervise the work performed by a General Consultant financed under the loan. All Russian CPIU staff would be paid locally competitive salaries. Deputation from the civil service will be allowed on a temporary basis for specific assignments. CPIU staff might also be hired as individual consultants. All key CPIU staff will be expected to have a working knowledge of spoken and written English. The local CPIU staff would be supported by foreign advisors, as appropriate.

6. **Land Development Department.** The Land Development Department will have the responsibility for monitoring and reporting on the implementation of land development component. The Department (through the General Consultant) will closely monitor land values in the cities selected for the project and will immediately report to the Government (through CPIU Director) on any negative deviations from the projected land sales estimates. In addition, the Department will have the responsibility for assuring that the General consultant provides high quality advice and technical assistance to Local Project Implementation Units on the issues of land development, auctioning , construction, carries out inspection and certification of works to the required standard. The Department (through the General Consultant) will follow up by on-site visits to the selected sites. Many of the expected sub-projects have already been appraised; however additional or different sub-projects might also be requested. The CPIU will also review all such requests for credit from selected cities to assure that:

a. the cities will have within an acceptable time frame an adequately staffed LPIU to implement the proposed investment project successfully;

b. the cities have adequate arrangements for marketing the sites upon the completion of land development including an adequate marketing plan and the means to implement it;

c. financial forecasts for an investment project submitted by the city with the credit proposal (cash flow statements for the implementation period of the investment project and

for the two succeeding years with the assumptions on which such forecasts are based) show that the investment project will be financially viable and that debt service is adequately covered by proceeds from the sale of land.

e. the cities have followed the procurement procedures in acquiring goods and services from local and foreign contractors to be financed from the Housing Loan to ensure that Bank procurement procedures have been followed.

f. disbursement requests submitted by the cities are supported by required documentation and follow the agreed timetable; and

g. capital contributions of the cities take the agreed form and are made on the agreed timetable. For investment projects which meet the eligibility criteria, the CPIU will prepare a draft agreements with the city (in accordance with standard legal language to be agreed between the government and the Bank including lending terms, currency of repayment and interest rates).

7. **Local Project Implementations Units (LPIUs)** will be administratively attached to each of the Participating Cities, they will be directly responsible for implementing the land development sub-component. In those cities where all land development projects are within city boundaries, the LPIU will report to the mayor. In those other cities where there are project sites in both the city and the oblast or krai the LPIU will report to the chairman of the Local Coordinating Committee (LCC) and provide requested information to the CPIU. LCCs have been established in each Participating City and will be responsible for (a) approving the work plans of each LPIU, (b) recommending alterations to the Land Development component, and (c) coordinating the various entities which will be involved in implementing the project at the local level. The project implementation functions of the LPIUs will include the following: (a) project management, including supervision of detailed sub-project planning, infrastructure design, environmental analysis, construction supervision; (b) implementation of land auctions and land marketing; (c) monitoring of implementation of regulatory action plans; (d) coordination of local technical cooperation and training activities; (e) supervision of disbursements from local budgets and loan funds; (f) accounting, audits and reporting. The LPIUs will require a full-time staff.; however cities will have the flexibility to use LPIU's as implementation units or as coordinating entities with detailed implementation carried out by the City Department normally assigned to those functions. The General Consultant assigned to the CPIU must inspect works and sign off on all invoices for disbursement, but the LPIU will be responsible for detailed supervision of contracts. Hiring of a Project Director and a Procurement/Construction Advisor should take place as soon as possible.

8. **Construction Finance.** Implementation arrangements will precisely track those of the ESP, with the addition that CPIU of the Housing Project will take on the functions performed by the Ministry of Finance PIU in the ESP. Eligible banks to participate in the component will be limited to those that remain accredited by the Bank Review Unit of the FIDP. The CPIU Construction Finance Department (through the General Consultant) will (a) administer Subsidiary Loan Agreements with the participating banks on behalf of the Government; (b) administer the procurement and disbursement aspects of the component, which includes providing assistance and advice to the participating banks and sub-borrowers; (c) submit to the Bank sub-loan proposals

requiring their prior approval; (d) monitor, on an ex-post basis, the eligibility of sub-loans below the free limit; (e) prepare a yearly review of the lending guidelines and on-lending arrangements for discussion with the Bank; (f) promote and advertise the line of credit to housing developers; (g) provide regular reports to Government and to the Bank, and to prepare the portion of the Project completion Report for the Construction Finance component; and (g) coordinate technical assistance and training to developers and banks.

9. **Equity Matching**. The CPIU Building Materials Department will be directly responsible for implementing this sub-component (through the General Consultant) by (a) administering the Subsidiary Loan Agreement and Agency Agreement with the PB for the implementation of this component; (b) by authorizing the release of funds after prior review of the first four loans below the free limit and of subsequent sub-loans above the free limit; (c) by reviewing and then authorizing the first two sub-sub-loans to final borrowers from each participating bank; (d) checking conformity ex post of all loans with the eligibility guidelines, (e) preparing yearly reviews and recommendations, (f) promoting the sub-component; (g) coordinating technical cooperation and training, (h) audit, accounting, and reporting. A Loan Policy Review Committee (LPRC) will be established with members of the Interministerial Group to approve initial sub-loans and sub-loans above the free limit and to consider revisions to the eligibility guidelines proposed by the CPIU. Revisions to the guidelines will also require the agreement of the World Bank.

10. **Procurement, Accounting/Auditing and Disbursement Unit**. Working mainly through the General contractor for technical functions, the Unit would provide assistance to building materials enterprises on the Bank procurement guidelines/procedures, advise on document preparation, and help project participants develop procurement strategies on a case by case basis. The Unit would establish an information base on potential suppliers of goods and services which can be utilized by the project beneficiaries.

11. The Unit would also be charged with accounting functions and would maintain and report on project accounts including those with the banks and financial agents, and the disbursement of funds under the loan. The Unit would report on disbursement performance of the loan, administer a Special Account according to the World Bank procedures. It would also oversee Participating Banks and would set up project accounts, accounting system, documentation controls, and data bases covering financial, technical and procurement information. The Unit would authorize disbursements requests; collect and submit documentation for contracts above the free limit; submit statements of expenditures for contracts below the free limit; collect repayments of credit lines from banks according to a pre-approved by the Government schedule; arrange for audit of CPIU and all project accounts by acceptable audit firm; and report on collection performance.

C. CPIU STAFFING

12. The following staff will probably be provided through individual consultant contracts, although if Minstroi can find, and hire, qualified staff directly, they may do so.

13. **CPIU Director**. The CPIU would be headed by a Project Director with overall responsibility for project administration. The Project Director would be selected by Minstroi with concurrence of

the Bank. The Project Director will have responsibility to direct, oversee, and coordinate the management and implementation of the Housing Project. The Director will also liaise with Interministerial Group, Minstroi, and the World Bank. The Director must be a specialist in project preparation and implementation, should have one or more advanced degrees in a housing-related field, and must have had at least 10 years relevant experience in managing complex programs or projects. The Director would have one to three independent foreign advisors to provide technical assistance.

14. **Finance Officer/Accountant**. The Accountant will have a professional degree in accounting and extensive experience in accounting for project management. The Accountant will manage and report on project accounts, disbursements and collections, and arrange for project accounts to be audited.

15. **Implementation Unit Directors**. Technical specialists will be drawn upon to administer the implementation of three project sub-components. Depending upon the nature of the components, they should have advanced degrees in either economics, finance, management or urban planning and have at least three years of relevant experience in development project implementation.

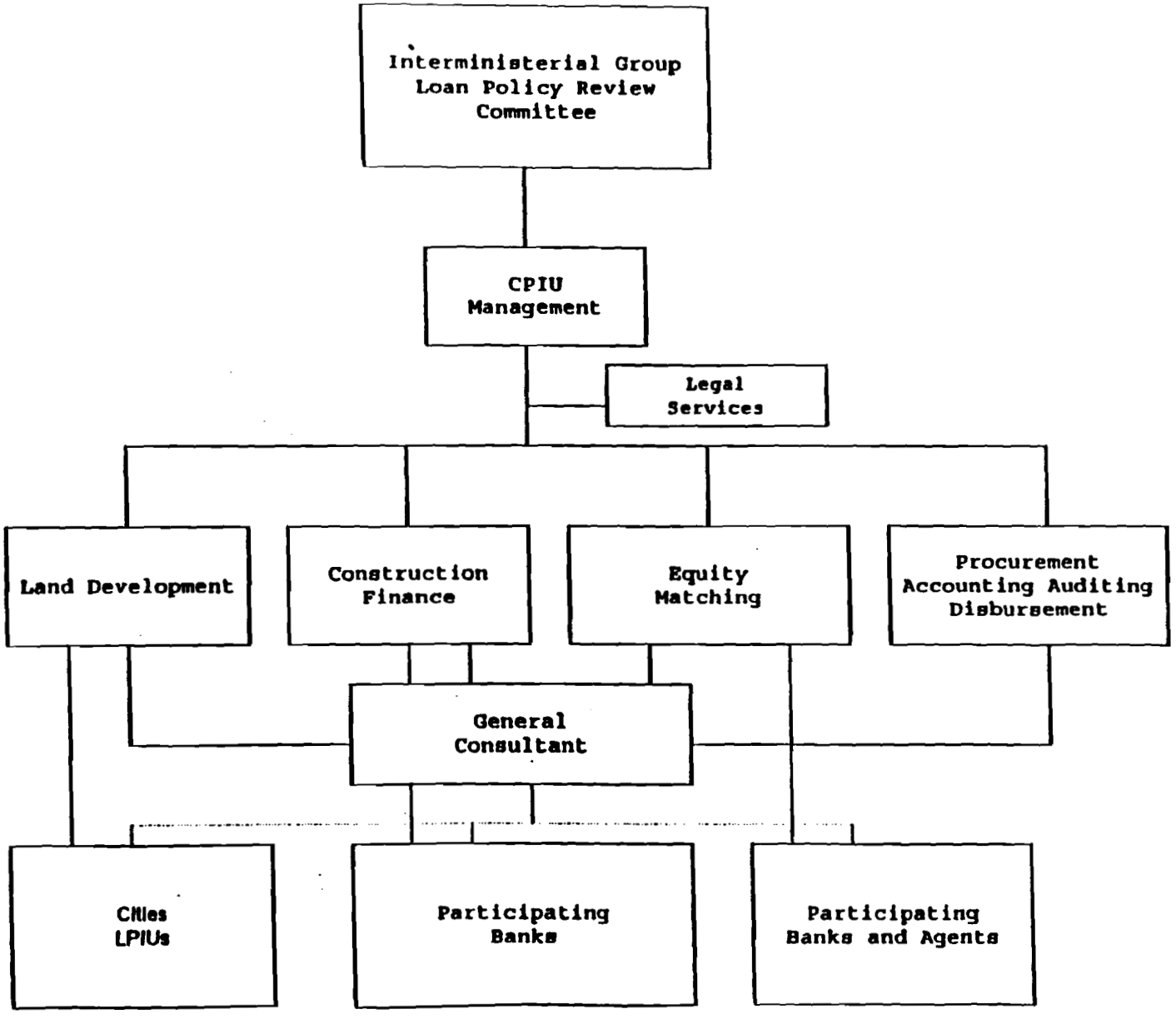

Figure 1: Housing Project Implementation and Management Chart

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RUSSIAN FEDERATION
HOUSING PROJECT

ANNEX 5.3
LOGICAL FRAMEWORK, PERFORMANCE INDICATORS, HOUSING POLICY INDICATORS, AND IMPLEMENTATION SCHEDULE

A. LOGICAL FRAMEWORK

1. This Annex begins with a description of the logical framework as applied to the proposed project. The logical framework focuses attention on the long term and intermediate results expected from the Loan by specifying the macro-level goals and purpose that the project is intended to impact , along with the more near term outputs and inputs under each sub-component. The proposed project implementation schedule up to effectiveness is presented in the final section of the annex.

2. The Logical Framework essentially defines the link between (a) a narrative summary of the general project objectives, (b) sub-component specific objectives; (c) objectively verifiable (measurable) indicators, and (c) the means of verification. The logical framework highlights the objectives and indicators at both the project and sub-component levels as stated in greater detail in the Annexes 3.2, 3.4, and 3.5.

3. The logical framework supports effective project design and implementation in several ways - (a) it helps communicate the project intent efficiently and effectively to the executives and other stake holder; (b) it summarizes, in a brief and systematic format, all of the essential elements of the project, and in so doing contributes to consensus and clarity among the various levels of Russian Government involved in implementation of the project, as well as among the Russian Counterparts and the World Bank Project Team, and (c) once completed the project framework provides an efficient basis for rapid project launch and subsequent implementation. By emphasizing the results, the framework provides the timing implementation, monitoring, supervision and evaluation. The Logical Framework and Performance Indicators for the Project is presented in Table 1 of this Annex.

4. There are two types of indicators for each component: project performance indicators and policy level indicators. Performance indicator targets are fixed for the first year of the project implementation. Thereafter they will be reviewed annually and adjusted proportionately to the changing allocation of funds between project components. The indicators will be calculated by project site, city, and for the entire project. The project should be considered successful in its demonstration effort if the practices and principles instituted by the project have resulted in market oriented housing development outside the Project. These may be measured by an increase in (1) use of competitive auction and tendering procedures for introducing public land into private housing market; (2) percentage of city area properties registered in Unified Real Estate Cadastre; (3) percentage of housing transactions to overall privately owned housing stock; (4) percentage of new housing construction by private developers to total housing stock; (5) increase in volume of lending to private parties from commercial banks for construction financing; and (6) increase in production of non-traditional building materials by private building materials industries.

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Table- 1 Logical Framework and Indicators By Project and its Sub-Components

Narrative Summary	Measurable Indicators	Units	Means of Verifications	Comments
I. General Project Objectives	**Policy Indicators**			
Create Competitive Housing Markets with Choice for Consumers and Competition Among Private Suppliers	. Percentage of City Area Properties Registered in Unified Real Estate Cadastre;	%	Municipal Progress Reports (MPR)	Measures progress with developing title registration system
Implement National Housing Policies in Receptive Cities	. Percentage of Recorded Housing Transactions to Overall Privately Owned Housing Stock;	%	MPR	Measures development of housing market
	. Percentage of New Housing Construction to Total Housing Stock;	%	MPR	Measures Performance of Construction Industry
	. Percentage of Privatized Units to All Units Subject to Privatization;	%	MPR	Measures progress of housing reforms
II. Component-Specific Objectives Housing Market Development Component				
A. Land Development Sub- Component	**Project Level Indicators**			
To Break-up the Present Government Monopoly on Supply of Land by Assisting Municipalities in Auctioning Land Sites	. Total Area of Land Auctioned;	ha	MPR	Progress of Land Auctioning
	. Total Area of Land Serviced and Ready for Construction;	ha	MPR	Progress of Land Development
	. Revenue Raised from Land Auctions (per year);	$,R	MPR	Progress of Land Auctioning

	. Final Cost of Civil Works Completed;	$/ha R/ha	MPR	Efficiency of Land Development
	. Ratio of Revenues from Auctions to Cost of Civil Works;	%	MPR	Efficiency of Auctioning
	. Housing Completed and Sold;	Units m2	MPR	Efficiency of Sub-component
	Policy Level Indicators			
	. Municipal Land Transferred to Private Users;	ha %	MPR	Progress of Land Reform
	. Aggregate Locational Land Index;	$/ha R/ha	Land Market Surveys	Development of Land Market; Benchmark for Land Auctions
B. Construction Finance Sub-component	**Project Level Indicators**			
To Increase the Volume of Medium-Term Lending for Private Sector Housing Construction	. Number of Housing Units Built, Financed, and Sold Under the Sub-component (per year);	Units	Project Bank Reports (PBR)	Sub-component Evaluation
	. Size of Housing Units;	m2	PBR	Sub-component Evaluation
	. Cost of Construction;	$/m2 R/m2	PBR	Efficiency of Construction
	. Ratio of Cost of Funds to Interest Charged to Developers by Project Banks;	%	PBR	Evaluation of Banks' Lending Practices
	. Composition of Loan Portfolio (Percentage of Construction Finance Loans to Overall Loan Portfolio of Project Banks);	%	PBR	Evaluation of Banks' Lending Practices

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	. Median Size of Construction Loans Made by Project Banks;	$,R	PBR	Evaluation of Banks' Lending Practices
	. Number of Non-Performing Construction Loans to All Construction Loans in Portfolios of Project Banks;	%	PBR	Evaluation of Banks' Lending Practices
	Policy Level Indicators			
	. Profitability of Construction (Average Housing Unit Sales Price to Construction Costs Ratio);	%	PBR, Market Surveys	Measures Economic Viability of Construction
	. Percentage of Construction Finance to Overall Investment in Housing;	%	Municipal Statistics	Measures Progress of Housing Sector Reforms
C. Building Materials Component: Equity-Matching	**Project Level Indicators**			
Restructuring of the Building Materials Industry	. Amount of Foreign Investment;	$	PBR	Measures viability of sub-component
	. Number of Loans Made (per year).	Units	PBR	The same as above
	. Number of Ventures (per year);	Units	PBR	The same as above
	Policy Level Indicators			
	. Adoption of Building Materials Standards	1/95	Government Regulations	Government Commitment to Reforms

Implementation Schedule: January 1 - Expected Effectiveness

ID	Task Name	Duration	Start	Finish	Predecessors	Resource Names
1	**Deadline for loan effectiveness**	**0w**	**7/6/95**	**7/6/95**	7FS+90ed	
2	**Make loan effective**	**130d**	**1/2/95**	**6/29/95**		
3	**Prepare Board Documents**	**2w**	**1/2/95**	**1/13/95**		Nassau
4	**Submit documents to Board**	**0w**	**1/13/95**	**1/13/95**	3	Nassau
5	**Bank board approval**	**0.2w**	**2/14/95**	**2/14/95**	4	Bank
6	**Russian Government approval**	**2w**	**2/15/95**	**2/28/95**	5	Minstroi
7	**Sign loan document**	**0.2w**	**3/8/95**	**3/8/95**	6FS+1w	MinFin,Bank
8	**Hold Project Launch Workshop**	**1d**	**3/9/95**	**3/9/95**	7	
9	**Furnish legal opinion that loan agreements is binding**	**1w**	**3/1/95**	**3/7/95**	6	IMG
10	**Sign subsidiary loan agreements with three cities**	**38d**	**1/9/95**	**3/1/95**		
11	Draft subsidiary loan agreements	3w	1/9/95	1/27/95		Minstroi
12	Agree on provisions	1w	1/30/95	2/3/95	11	MinFin,Cities
13	Send to IMG	0.2w	2/6/95	2/6/95	12	MinFin
14	IMG Approval	1w	2/7/95	2/13/95	13	
15	Send to World Bank	0.2w	2/14/95	2/14/95	14	IMG
16	World Bank review	2w	2/15/95	2/28/95	15	Bank
17	Sign agreements	0.2w	3/1/95	3/1/95	16	MinFin,Cities
18	**Furnish legal opinion that subsidiary loan agreements are**	**1w**	**3/2/95**	**3/8/95**	17	IMG
19	**Establish CPIU**	**11d**	**3/1/95**	**3/15/95**		
20	Draft order	2w	3/1/95	3/14/95		PRU
21	Approve CPIU	0.2w	3/15/95	3/15/95	20	IMG
22	**Appoint CPIU Director**	**2w**	**3/16/95**	**3/29/95**	21	IMG

ID	Task Name	Duration	Start	Finish	Predecessors	Resource Names
23	**Establish Special Account**	**51d**	**1/9/95**	**3/20/95**		
24	Draft special account contract	4w	1/9/95	2/3/95		PRU
25	Select bank	2w	2/6/95	2/17/95	24	IMG
26	Negotiate agreement	1w	2/20/95	2/24/95	25	PRU
27	Get government approval	1w	2/27/95	3/3/95	26	IMG
28	Send to World Bank	0.2w	3/6/95	3/6/95	27	PRU
29	World Bank review	2w	3/7/95	3/20/95	28	Bank
30	Sign agreement	0w	3/20/95	3/20/95	29	IMG,Private Bank
31	**Enter into agreements with two participating banks**	**42d**	**1/9/95**	**3/7/95**		
32	Draft participating bank contract	4w	1/9/95	2/3/95		PRU
33	Select banks	2w	1/9/95	1/20/95		IMG
34	Negotiate agreements	1w	2/6/95	2/10/95	32,33	PRU
35	Get government approval	1w	2/13/95	2/17/95	34	IMG
36	Send to World Bank	0.2w	2/20/95	2/20/95	35	PRU
37	World Bank review	2w	2/21/95	3/6/95	36	Bank
38	Sign agreements	0.2w	3/7/95	3/7/95	37	IMG,Participating Banks
39	**Establish interim project accounting and reporting system**	**4w**	**3/1/95**	**3/28/95**		PRU

290

290

ID	Task Name	Duration	Start	Finish	Predecessors	Resource Names
40	**Hire General Consultant**	**130d**	**1/2/95**	**6/29/95**		
41	Prepare short list	1w	1/2/95	1/6/95		PRU
42	Approve invitation letter	0.2w	1/9/95	1/9/95	41	IMG
43	Approve TOR	0.2w	1/9/95	1/9/95	41	IMG
44	Approve short list	0.2w	1/9/95	1/9/95	41	IMG
45	Send to World Bank	0.2w	1/16/95	1/16/95	42,43,44	PRU
46	World Bank review	3w	1/17/95	2/6/95	45	World Bank
47	Send invitation letters	0.2w	2/7/95	2/7/95	46	PRU
48	Appoint evaluation committee	1w	1/9/95	1/13/95		IMG
49	Receive proposals	0.2w	3/27/95	3/27/95	48,47FS+45ed	PRU
50	Evaluate proposals	2w	3/28/95	4/10/95	48,49	IMG
51	Get Government approval	1w	4/11/95	4/15/95	50	IMG
52	Send to World Bank	0.2w	4/17/95	4/17/95	51	PRU
53	World Bank review	2w	4/18/95	5/1/95	52	World Bank
54	Negotiate final contract	2w	5/2/95	5/15/95	53	PRU
55	Get Government approval	1w	5/16/95	5/22/95	54	IMG
56	Send to World Bank	0.2w	5/23/95	5/23/95	55	PRU
57	World Bank review	1w	5/24/95	5/30/95	56	World Bank
58	Sign Contract	0.2w	5/31/95	5/31/95	57	Minstroi
59	Mobilize	4w	6/1/95	6/28/95	58	General Consultant
60	Start Work	0.2w	6/29/95	6/29/95	59	General Consultant

ID	Task Name	Duration	Start	Finish	Predecessors	Resource Names
61	**Meet disbursement conditions for land development**	**45d**	**3/2/95**	**5/2/95**		
62	Establish and staff Local Project Implementation Unit	4w	3/2/95	3/29/95	17	Cities
63	Establish local record keeping and accounting systems	4w	3/30/95	4/25/95	62	Cities
64	Adopt land title registration procedures	0.2w	5/1/95	5/1/95		Cities
65	Adopt acceptable land auction procedures	0.2w	5/1/95	5/1/95		Cities
66	City sends letter to World Bank	0.2w	5/2/95	5/2/95	64,65	Cities
67	**Go out for bids for first year infrastructure construction contr**	**124d**	**1/2/95**	**6/21/95**		
68	Prepare revised drawings	4w	1/2/95	1/27/95		Cities
69	Conduct soil tests	4w	1/16/95	2/10/95		Cities
70	Prepare draft bid and contract documents	2w	1/16/95	1/27/95		PADCO
71	Arrange for specific procurement notice	1w	1/27/95	2/2/95		PADCO
72	Hold workshop	0.4w	2/6/95	2/7/95		PADCO
73	Prepare draft bid documents (Tver)	3w	1/27/95	2/16/95		Tver,PADCO
74	Get Government approval	1w	2/17/95	2/23/95	73	IMG
75	Send Tver documents to World Bank	0.2w	2/24/95	2/24/95	74	PRU
76	World Bank review	3w	2/27/95	3/17/95	75	World Bank
77	Hold workshop	0.4w	3/20/95	3/21/95	76	PADCO
78	Prepare final bid documents	1w	3/22/95	3/28/95	77	Cities
79	Get Government approval	1w	3/29/95	4/4/95	78	IMG
80	Send documents to World Bank	0.2w	4/5/95	4/5/95	79	PRU
81	World Bank review	1w	4/6/95	4/12/95	69,80	World Bank
82	Bid documents available for distribution to contractors	1d	4/13/95	4/13/95	81,71FS+8w	Cities
83	Prepare bids	8w	4/14/95	6/7/95	82	Contractors
84	Receive bids	0.2w	6/7/95	6/7/95		Cities

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292

ID	Task Name	Duration	Start	Finish	Predecessors	Resource Names
85	Evaluate bids	2w	6/8/95	6/21/95	84	Cities
86	**Take bids for land auction**	**102d**	**2/1/95**	**6/21/95**		
87	Draft auction procedures	3w	2/1/95	2/21/95		Cities/TA
88	Get government approval	1w	2/22/95	2/28/95	87	Cities
89	Send to World Bank	0.2w	3/1/95	3/1/95	88	PRU
90	World Bank review	3w	3/2/95	3/22/95	89	Bank
91	Develop offering documents and prospectuses	5w	3/28/95	4/28/95		Cities/TA
92	Work on site development guidelines	5w	3/28/95	4/28/95		Cities/TA
93	Prepare necessary city permits and approvals	5w	3/28/95	4/28/95		Cities/TA
94	Develop starting prices	4w	4/14/95	5/10/95		Cities/TA
95	Advertise	0.2w	5/11/95	5/11/95	94	Cities
96	Bidders's conference	2d	5/18/95	5/19/95		Cities/TA
97	Prepare bids	4w	5/11/95	6/7/95		
98	Receive Bids	0.2w	6/7/95	6/7/95		
99	Evaluate bids	2w	6/8/95	6/21/95	98	Cities
100	**Award construction contracts and sell land**	**37d**	**6/22/95**	**8/11/95**		
101	Compare construction bids and land bids	1w	6/22/95	6/28/95	99,85	Cities
102	Get local government approval	1w	6/29/95	7/5/95	101	Cities
103	Send to IMG	0.2w	7/6/95	7/6/95	102	Cities
104	IMG approval	1w	7/7/95	7/13/95	103	IMG
105	Send to World Bank	0w	7/13/95	7/13/95	104	PRU
106	World Bank review	3w	7/14/95	8/3/95	105	Bank
107	Award contracts	0.2w	8/4/95	8/4/95	106	Cities
108	Arrange for performance security	1w	8/7/95	8/11/95	107	

ID	Task Name	Duration	Start	Finish	Predecessors	Resource Names
109	**Promote Credit Lines**	**56d**	**1/16/95**	**4/3/95**		PRU
110	Issue task order for workshops	0.2w	1/16/95	1/16/95		AID
111	Plan workshops for banks, borrowers	3w	1/17/95	2/6/95	110	Workshop consultant
112	Hold workshops for banks, borrowers	8w	2/7/95	4/3/95	111	Workshop consultant
113						
114	**Prepare Construction Finance component**	**80d**	**1/17/95**	**5/5/95**		
115	Draft participating bank contracts	3w	1/17/95	2/6/95		IMG
116	Select participating banks	3w	4/4/95	4/21/95	112,115	IMG
117	Train banks and developers	2w	4/24/95	5/5/95	116	PRU
118						
119	**Prepare Equity Matching component**	**69d**	**2/1/95**	**5/5/95**		
120	Draft participating bank contracts	3w	2/1/95	2/21/95		IMG
121	Select participating banks	3w	4/4/95	4/21/95	112,120	IMG
122	Train banks and participants	2w	4/24/95	5/5/95	121	PRU

Implementation Schedule: January 1 - Expected Effectiveness

ID	Task Name
1	**Deadline for loan effectiveness**
2	**Make loan effective**
3	**Prepare Board Documents**
4	**Submit documents to Board**
5	**Bank board approval**
6	**Russian Government approval**
7	**Sign loan document**
8	**Hold Project Launch Workshop**
9	**Furnish legal opinion that loan agreements is binding**
10	**Sign subsidiary loan agreements with three cities**
11	Draft subsidiary loan agreements
12	Agree on provisions
13	Send to IMG
14	IMG Approval
15	Send to World Bank
16	World Bank review
17	Sign agreements
18	**Furnish legal opinion that subsidiary loan agreements are binding**
19	**Establish CPIU**
20	Draft order
21	Approve CPIU
22	**Appoint CPIU Director**

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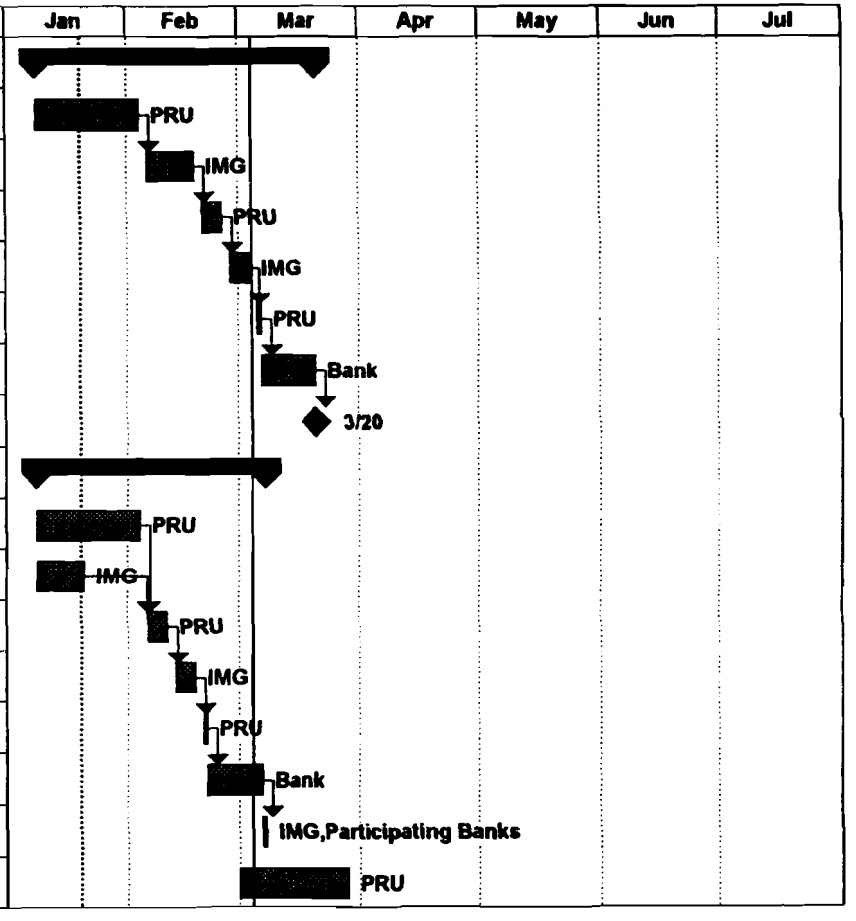
Implementation Schedule: January 1 - Expected Effectiveness

ID	Task Name
23	**Establish Special Account**
24	Draft special account contract
25	Select bank
26	Negotiate agreement
27	Get government approval
28	Send to World Bank
29	World Bank review
30	Sign agreement
31	**Enter into agreements with two participating banks**
32	Draft participating bank contract
33	Select banks
34	Negotiate agreements
35	Get government approval
36	Send to World Bank
37	World Bank review
38	Sign agreements
39	**Establish interim project accounting and reporting system**



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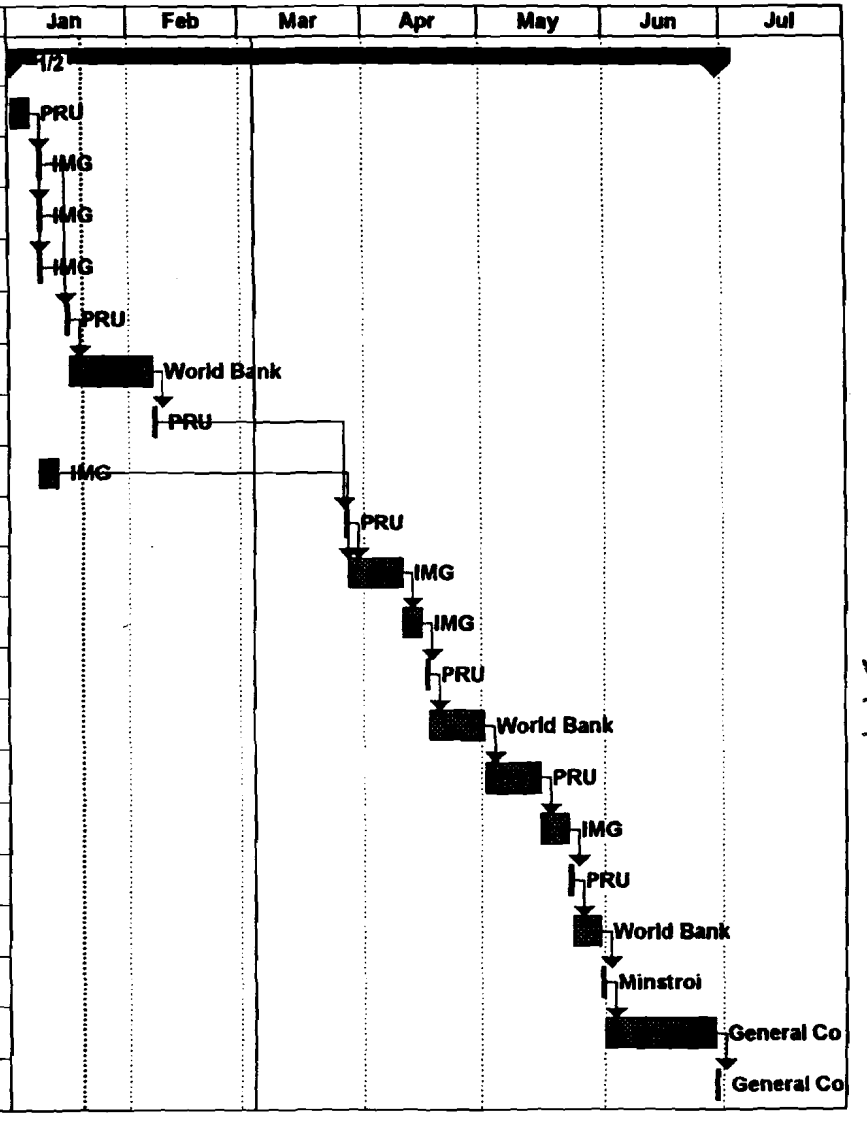
296

Implementation Schedule: January 1 - Expected Effectiveness

ID	Task Name
40	**Hire General Consultant**
41	Prepare short list
42	Approve invitation letter
43	Approve TOR
44	Approve short list
45	Send to World Bank
46	World Bank review
47	Send invitation letters
48	Appoint evaluation committee
49	Receive proposals
50	Evaluate proposals
51	Get Government approval
52	Send to World Bank
53	World Bank review
54	Negotiate final contract
55	Get Government approval
56	Send to World Bank
57	World Bank review
58	Sign Contract
59	Mobilize
60	Start Work



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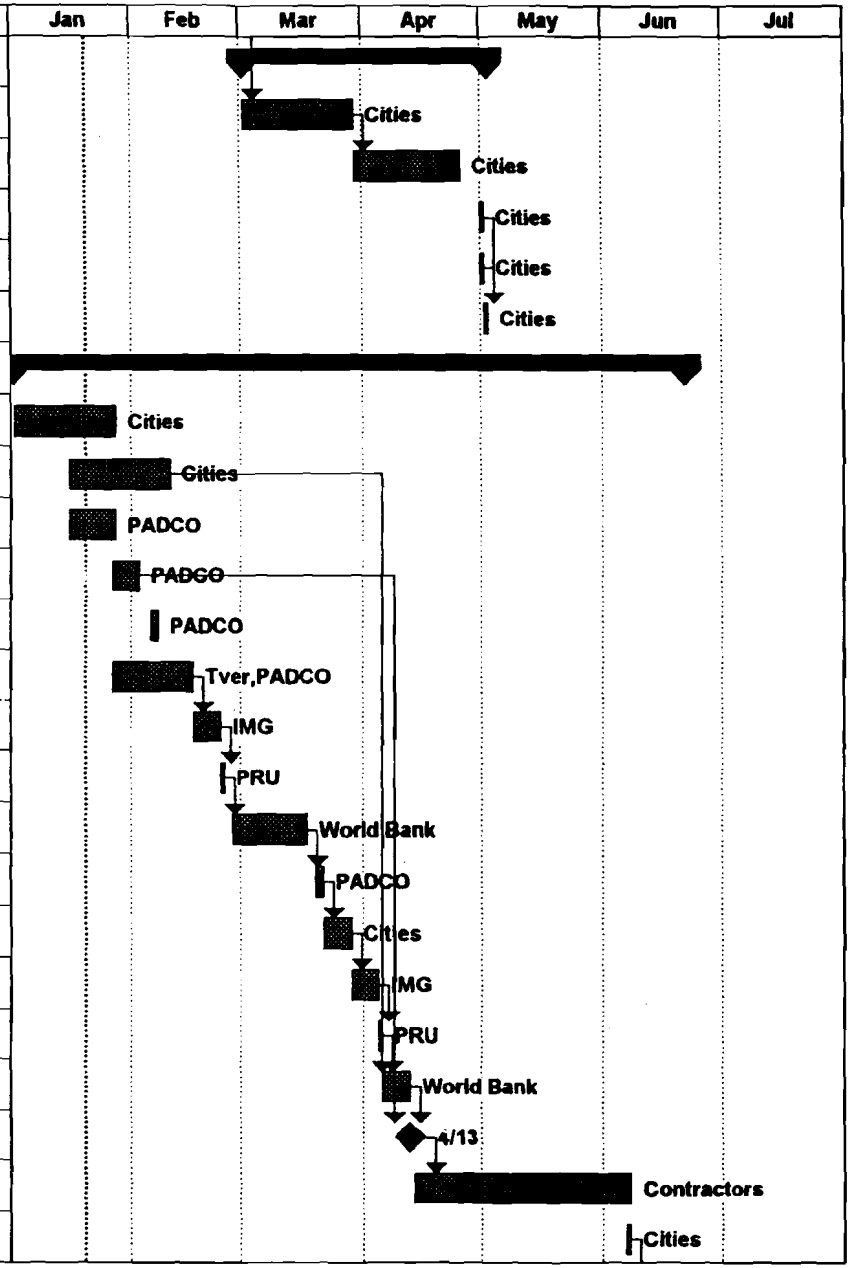
Implementation Schedule: January 1 - Expected Effectiveness

ID	Task Name
61	**Meet disbursement conditions for land development**
62	Establish and staff Local Project Implementation Unit
63	Establish local record keeping and accounting systems
64	Adopt land title registration procedures
65	Adopt acceptable land auction procedures
66	City sends letter to World Bank
67	**Go out for bids for first year infrastructure construction contracts**
68	Prepare revised drawings
69	Conduct soil tests
70	Prepare draft bid and contract documents
71	Arrange for specific procurement notice
72	Hold workshop
73	Prepare draft bid documents (Tver)
74	Get Government approval
75	Send Tver documents to World Bank
76	World Bank review
77	Hold workshop
78	Prepare final bid documents
79	Get Government approval
80	Send documents to World Bank
81	World Bank review
82	Bid documents available for distribution to contractors
83	Prepare bids
84	Receive bids



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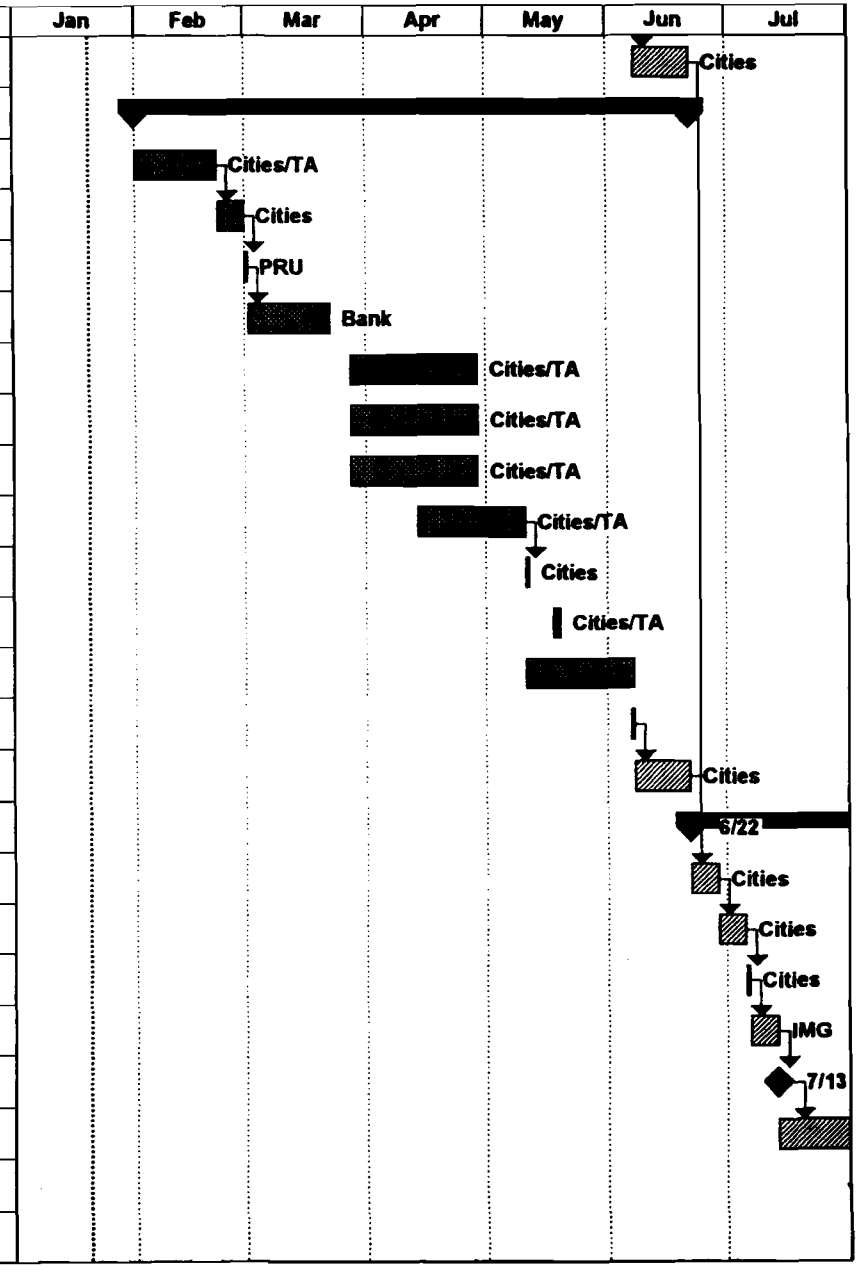
Implementation Schedule: January 1 - Expected Effectiveness

ID	Task Name
85	Evaluate bids
86	**Take bids for land auction**
87	Draft auction procedures
88	Get government approval
89	Send to World Bank
90	World Bank review
91	Develop offering documents and prospectuses
92	Work on site development guidelines
93	Prepare necessary city permits and approvals
94	Develop starting prices
95	Advertise
96	Bidders's conference
97	Prepare bids
98	Receive Bids
99	Evaluate bids
100	**Award construction contracts and sell land**
101	Compare construction bids and land bids
102	Get local government approval
103	Send to IMG
104	IMG approval
105	Send to World Bank
106	World Bank review
107	Award contracts
108	Arrange for performance security



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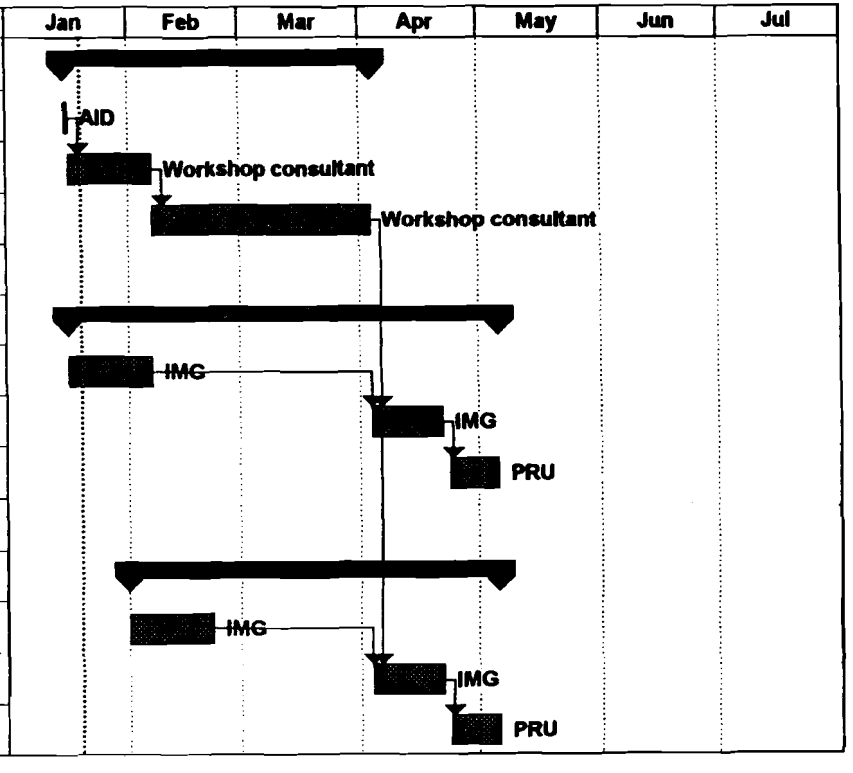
Implementation Schedule: January 1 - Expected Effectiveness

ID	Task Name
109	**Promote Credit Lines**
110	Issue task order for workshops
111	Plan workshops for banks, borrowers
112	Hold workshops for banks, borrowers
113	
114	**Prepare Construction Finance component**
115	Draft participating bank contracts
116	Select participating banks
117	Train banks and developers
118	
119	**Prepare Equity Matching component**
120	Draft participating bank contracts
121	Select participating banks
122	Train banks and participants



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STAFF APPRAISAL REPORT

RUSSIAN FEDERATION HOUSING PROJECT

ANNEX 5.4
SUPERVISION PLAN

As per the Supervision Plan shown below -- Bank inputs for Supervision Missions, sub-loan reviews, regular and consistent review of progress reports, procurement actions, and correspondence, are estimated to require 40-70 staff weeks per year for the next three years.

FY	Activity	Skills Requirements	Staff Weeks	Cost (US$'000)
95	3/95 (Launch)	Finance Urban Regulatory Engineering/Procurement Environment Urban Planning (2) Banking Architecture Enterprise Reform	25	200
	4/95	Finance Urban Planning Engineering	12	96
	6/95	Finance Engineering Urban Regulatory Urban Planning	8	64
	Sub-Loan Review 12 Sub-loans	Finance Technical	12	96
		Subtotal	**57**	**456**
96	Missions 9/95 (Annual Review)	Finance Engineering Urban Planning (2) Urban Regulatory Banking Enterprise Reform	20	160
	1/96	Finance Engineering	8	64
	5/96	Finance Engineering Urban Planning Urban Regulatory	10	80

FY	Activity	Skills Requirements	Staff Weeks	Cost (US$'000)
	Sub-Loan Review 8 Sub-loans	Finance Technical	6	48
		Subtotal	**44**	**352**
97	Missions 9/96 (Annual Review)	Finance Engineering Urban Planning Urban Regulatory Enterprise Reform	15	120
	1/97	Engineering Urban Planning Housing Finance	6	48
	5/97	Finance Urban Regulatory Engineering Urban Planning	10	80
	Sub-Loan Review 5 Sub-loans	Finance Technical	5	40
		Subtotal	**36**	**288**
98	Missions 9/97 (Annual Review)	Finance Engineering Urban Planning Urban Regulatory Banking Enterprise Reform Housing Finance Environment	20	160
	1/98	Engineering	3	24
	5/98	Urban Planning Engineering Finance	6	48
		Subtotal	**29**	**232**
99	9/98 (Annual Review)	Finance Engineering Urban Planning Urban Regulatory Housing Finance Environment	16	128

FY	Activity	Skills Requirements	Staff Weeks	Cost (US$'000)
	1/99	Engineering	2	16
	5/99	Urban Planning Finance Engineering	5	40
	9/99	Finance Engineering Urban Planning Urban Regulatory Housing Finance	12	96
		Subtotal	**35**	**280**
00	1/00	Urban Planning	2	16
	5/00	Urban Planning Engineering	4	32
	9/00 (Annual Review)	Finance Engineering Urban Planning Urban Regulatory Enterprise Reform	12	96
	5/00	Engineering	2	16
		Subtotal	20	160
	9/00 (PCR preparation)	Institutional Finance Urban Planning Engineering	15	120
		Subtotal	**15**	**120**
		TOTAL	**236**	**1,888**

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RUSSIAN FEDERATION
HOUSING PROJECT

ANNEX 7.1
LIST OF DOCUMENTS AVAILABLE IN PROJECT FILES

A. INTRODUCTION

1. This annex presents a list of the major documents in project files including contributions by consultants, articles, reports, laws, decrees and resolutions relating to the housing project and housing reform.

B. MAJOR DOCUMENTS

Project Reports

1. Housing Project Aide Memoire. World Bank Identification Mission, July 27, 1993.

2. Housing Project Aide Memoire. World Bank Preparation Mission, November 5, 1993.

3. Housing Project Aide Memoire. World Bank Preappaisal Mission, February 24, 1994.

4. Housing Project Implementation Report. April 8, 1994.

5. Housing Project Staff Appraisal Report ("White" cover). May 1, 1994.

6. Housing Project Aide Memoire. World Bank Appraisal Mission, July 8, 1994.

Market Surveys

7. Final Reports of Household Surveys in Barnaul, Moscow, Novgorod, Nizhny Novgorod, Housing Project Aide Memoire. World Bank Identification Mission, May 9-21, 1993.

8. Final Report of the Survey of Sales Transactions in the Housing Markets in Moscow, Nizhni Novgorod, and Barnaul. Center for the Analysis of Real Estate Markets. Moscow, May 1994.

9. Final Reports of Developer Companies' Surveys in Barnaul, Moscow, Novgorod, Nizhny Novgorod, Rostov-on-Don, Tver, and St. Petersburg. AUREC and "Polis-3", Moscow 1994.

10. Household Surveys: Housing Needs and Housing Demand in Barnaul, Moscow, and Nizhny Novgorod. Guzanova A., Ptchelinsev O., Diachenko G. Moscow 1994.

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11. Analysis of Effective Demand for Housing in Moscow. The Urban Institute, Moscow, 1994. Tver, and St. Petersburg. AUREC and "Polis-3", Moscow 1994.

12. Sociological Survey of Families in Moscow, Rostov-on-Don, and Tver. Abalkina T., Zuev S., Makarov N. Moscow 1994.

Land

13. Cadastres and Land Records. A Technological Perspective on Land Title Registration. Dennis Robinson. Moscow, January 1994.

14. Conceptual Considerations for Title Registration in the Russian Federation. Joseph K. Eckert. Moscow, January 1994.

15. Criteria for Land Development Sub-Project Selection. Sergei Istomin. April 4, 1994.

16. Land Planning and Regulation. Robert C. Einsweiler. Moscow, January 1994

17. Infrastructure Assessment Report. CDM, 1994.

18. The Relationship of Urban Land Use Regulation to Private Land Markets. Stephen Butler, January 27-28, 1994.

19. Trends in Information Technologies with Applications to the Development of Fiscal and Legal Cadastres. Joseph K. Eckert.

20. Land Development Component/First Year Sub-projects/First Phase. Sergei Istomin.

21. City Reports (Nizhny Novgorod, Tver, Barnaul, Novgorod, St. Petersburg). John Pickard. September, 1994.

22. Guidelines for the Land Development Component. John Pickard. September 27, 1994.

Legal Issues

23. The Legal and Regulatory Action Program for Land and Housing Reform. Steven Butler, 1994.

24. The Law of Registration of Real Property Rights in the Russian Federation. Stephen B. Butler. Moscow, January 1994.

25. Legal Issues in The Russian Federation. Stephen Butler, Moscow, July 1994.

Constrcution Finance

26. Banking Team Report on Commercial Banks -- Russia Housing Loan. Preparation Mission, Oct/Nov. 1993.

27. Construction Finance Line of Credit. The Project Objectives and Summary Description. March 27, 1994.

28. Construction Finance Line of Credit: Rationale and Terms. Robert Buckley. March 1994.

29. Banking/Finance Component of Housing Loan Preparation. Robert Buckley, March 1994.

30. Thermo-resistance Standards. Piet Nankman and Alain Davet, August, 1994.

31. Thermal and Technical Characteristics of Residential Building Enclosures. V.A. Belianov and A.J. Bograd (Zhilconsult), July 20, 1994.

Building Materials Component

32. Survey of Potential Joint Venture Capital Fund Borrowers. Kevin Villani and David Sullivan, 1993.

33. Building Materials Component. Kevin Villani. 1993

34. Building Materials Industry Report. John Lyons, Moscow, 1993

35. Equity Matching Guide. 1994.

36. Equity Matching Line of Credit: Back to Office and Pending Decisions. Kevin Villani. March 29, 1994.

Environment

34. Environmental Assessment Report for Six Cities by CDM. April 1994.

Recent Laws and Decrees

35. Law on Fundamental Principles of Federal Housing Policy, December 24, 1992.

36. Law on Ownership on the Territory of the RSFSR, July 14, 1990.

37. Law On the Privatization of the Housing Stock in the RSFSR, July 4, 1991, as amended. by the Law of the Russian Federation On Introducing Changes and Amendments into the Law of the RSFSR On Privatization of the Housing Stock in the RSFSR, December 24, 1992.

38. Legal Cadastre and its Role in a Real Property Information Systems. Joseph K. Eckert and Natasha Kalinina, Moscow, January 1994.

39. Presidential Decree On Issue and Circulation of Housing Certificates, No. 1182, June 10, 1994. Permits registered housing developers to issue housing bonds to the public.

40. Presidential Decree On Housing Credits, No. 1180, June 10, 1994.

41. Presidential Decree On Development and Introduction of Non-Budget Forms of Investing Into the Housing Sector, No. 2281, December 24, 1993.

42. Russian Federation Law on Collateral, May 29, 1992.

43. Presidential Decree On Measures to Provided for Completion of Unfinished Apartment Houses, No. 1181, June 10, 1994.

44. Presidential Decree On Approval of the Provisional Regulations on Condominiums, No. 2275, December 1993.

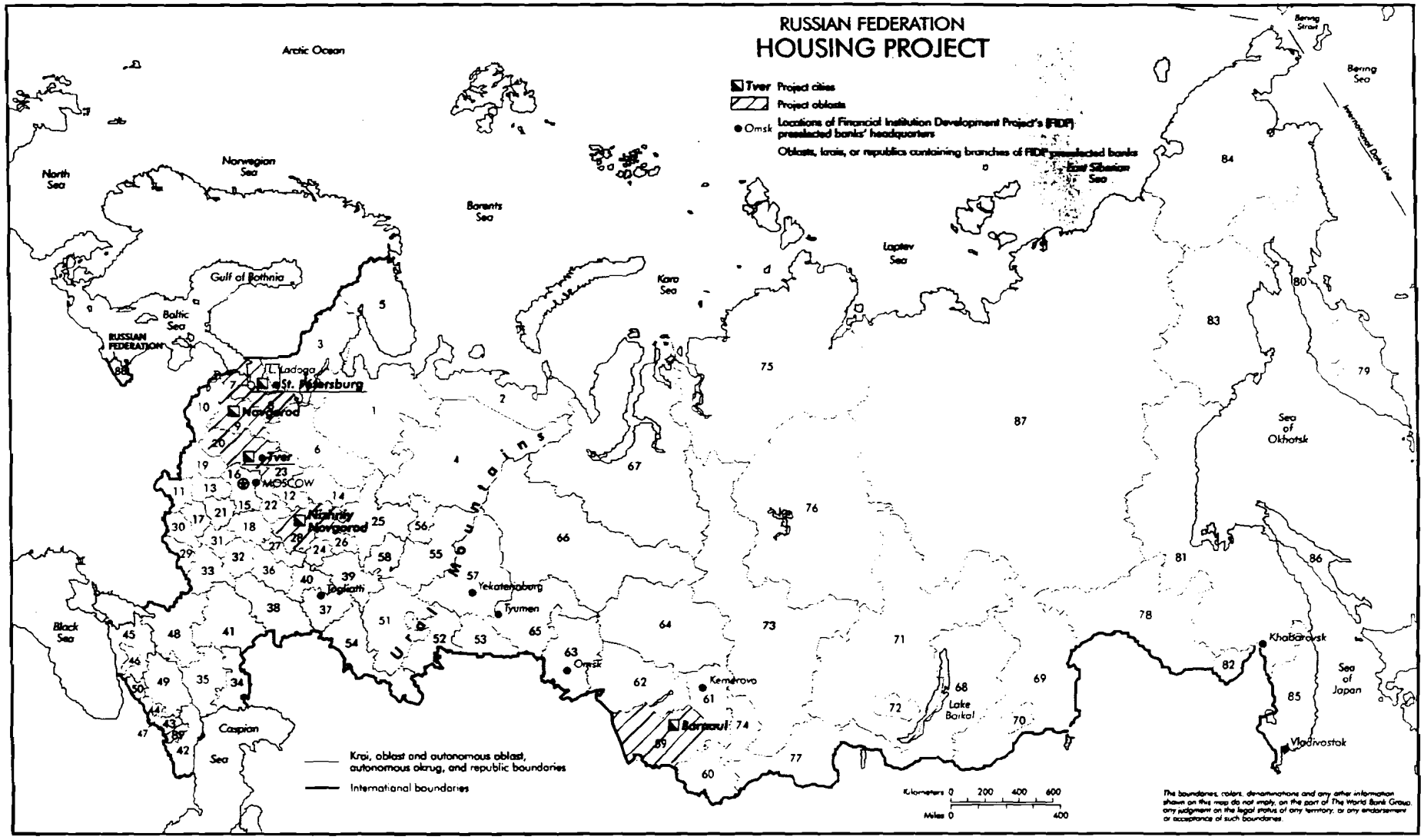
45. Russian Federation Government Decree On Approval of the Regulations on Allocation of Allowances (Subsidies) Free of Charge for Construction or Purchase of Housing to Citizens in Need of Improved Housing Conditions, November 3, 1993.

Miscellaneous

46. Project Structure and Our Operational Approach to It. Robert Buckley, 1993.

47. Housing Finance in Hungary and Russia: A Framework for Measuring the Movement to Market. Robert Buckley and Eugene Gurenko, Washington, December 1993.

48. Action Plan: Regulations and the Regulatory System Effecting Building Materials and Building Construction. Joel P. Zingeser. February 11, 1994.



1) This map reflects the location of FIDP preselected banks and their branches in fall 1993.
2) In the list below, krais/oblasts/okrugs/republics containing bank branches, followed by the number of branches, are shown in green.

1. Arkhangelskaia oblast
2. Nenetskii autonomous okrug
3. Republic of Karelia
4. Republic of Komi (1)
5. Murmanskaia oblast (1)
6. Vologodskaia oblast
7. St. Petersburg (47)
8. Leningradskaia oblast (18)
9. Novgorogskaia oblast
10. Pskovskaia oblast
11. Brianskaia oblast
12. Ivanovskaia oblast
13. Kaluzhskaia oblast
14. Kostromskaia oblast
15. Maskovskaia oblast (3)
16. Moscow City (30)
17. Orlovskaia oblast (1)
18. Riazanskaia oblast
19. Smolenskaia oblast
20. Tverskaia oblast (1)
21. Tul'skaia oblast (1)
22. Vladimirskaia oblast (2)
23. Iaroslavskaia oblast (1)
24. Republic of Chuvash
25. Kirovskaia oblast (2)
26. Republic of Marii-El
27. Mordovian Republic (1)
28. Nizhniy Novgorod oblast (3)
29. Belgorodskaia oblast
30. Kurskaia oblast
31. Lipetskaia oblast
32. Tambovskaia oblast
33. Voronezhskaia oblast
34. Astrakhanskaia oblast (1)
35. Republic of Kalmykia
36. Penzenskaia oblast
37. Samarskaia oblast (10)
38. Saratovskaia oblast (1)
39. Republic of Tatorstan (1)
40. Ulianovskaia oblast (5)
41. Volgogradskaia oblast (3)
42. Republic of Dagestan (1)
43. Chechen Republic
44. Kabardino-Balkar Republic
45. Krasnodarskii krai (5)
46. Republic of Adygeya
47. North-Osetien Republic
48. Rostovskaia oblast (4)
49. Stavropolskii krai (4)
50. Korachai-Cherkess Republic (1)
51. Republic of Bashkortostan
52. Cheliabinskaia oblast (10)
53. Kurganskaia oblast
54. Orenburgskaia oblast (2)
55. Permskaia oblast (5)
56. Komi-Permyatskaia autonomous okrug
57. Sverdlovskaia oblast (56)
58. Udmurt Republic (1)
59. Altaiskii krai
60. Republic of Altai
61. Kemeravskaia oblast (34)
62. Novosibirskaia oblast (6)
63. Omskaia oblast (15)
64. Tomskaia oblast (3)
65. Tyumenskaia oblast (23)
66. Khanty-Mansiiskii autonomous okrug (1)
67. Yamal-Nenets autonomous okrug (1)
68. Republic of Buryatiia (1)
69. Chitinskaia oblast
70. Aginskii Buryatskii autonomous okrug
71. Irkutskaia oblast (2)
72. Ust'-Ordynskii Buryatskii autonomous okrug
73. Krasnoiorskii krai (5)
74. Republic of Khakasia
75. Taimyrskii (Dolgano-Nenetskii) autonomous okrug
76. Evenkiiskii autonomous okrug
77. Republic of Tuva
78. Amurskaia oblast
79. Kamchatskaia oblast
80. Koriakii autonomous okrug
81. Khabarovskii krai (6)
82. Jewish autonomous oblast
83. Magadanskaia oblast (2)
84. Chukotskii autonomous okrug
85. Primorskii krai (11)
86. Sakhalinskaia oblast (3)
87. Republic of Sakha (Yakutia) (2)
88. Kaliningradskaia oblast (1)
89. Ingush Republic (1)

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