

**PROMOTING EFFICIENT
OPERATION IN DIVESTED
RUSSIAN ENTERPRISE
HOUSING:**

**OCTOBER 1995–
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EXECUTIVE SUMMARY

Overview of Divestiture

The government of the Russian Federation has, since the early 1990s, implemented a broad range of programs in an attempt to reform the housing sector of its economy. Part of these reforms focused on the large portion of the national housing stock that was managed by enterprises, approximately 40 percent of the national total as of 1992. The government believed that divestiture of this housing to the cities would drive a number of reforms including:

- Increasing the competitiveness of enterprises by eliminating the need for them to focus a substantial portion of their efforts and resources on housing management rather than business functions;
- Improving the maintenance and condition of the housing stock;
- Encouraging residents to privatize their apartments; and
- Stimulating the formation of condominiums.

The USAID Housing Sector Reform Project II (HSRP II) continues and expands housing reform work begun under an earlier project. The HSRP II Work Plan contains a number of planned activities and goals relevant to housing divestiture. HSRP II staff and consultants (from the Urban Institute and the Institute of Urban Economics in Moscow) are working with municipalities to efficiently deal with the large volume of housing being divested to them from privatized enterprises. Components of this work include promotion of privatization of units, formation of condominiums in divested buildings, and encouraging and helping municipalities to organize competitions for privatization of housing maintenance.

The intent of HSRP II is to concentrate the activities of Institute consultants and Institute-trained Russian staff in several high priority demonstration activities in four locations within Russia: Moscow, Ryazan, Vladimir Oblast and Nizhni Novgorod Oblast. HSRP II also continues the activities of staff in other cities as an overlap with the remaining activities funded under the earlier project, HSRP I.

In addition, a major component of HSRP II relating to housing divestiture calls for the Urban Institute to support activities of the World Bank Enterprise Housing Divestiture Project (EHDP) targeted at the cities of Petrozavodsk, Volkhov, Ryazan, Novocherkassk, and Vladimir. (Just recently Novocherkassk was dropped by the World Bank program and replaced by the city of Cherepovets.) The main goal of this project is to encourage and help enterprises and cities to complete the divestiture process, thus enabling the enterprises to become more competitive in the world marketplace. It also intends to move cities toward 100 percent recovery of operational costs associated with supplying utilities to and maintaining divested housing stocks.

EHDP has as its base a \$300 million loan to the Russian Federation, which will then on-lend the funds to the cities approved to participate in the project. The funds will be used by the cities to finance energy efficiency retrofits to buildings to make them more economical to operate. Consumption will fall but prices will rise as utilities must increase tariffs to pay for operations. The cities would then be required to pass on 100 percent of the costs for utilities and maintenance to residents of the buildings. Recognizing that this will put economic burdens on financially vulnerable households, EHDP also requires participating cities to establish housing allowance programs to assist needy families. EHDP further requires cities to privatize provision of maintenance services

to stimulate competition, reduce costs and encourage the formation of private companies that will in turn create employment opportunities.

Impact of HSRP II Activities

While it is difficult to assess the true impact of HSRP II's work in the target cities, some general conclusions can be drawn from project activities during the period from October 1, 1995 to October 1, 1996:

- Competitive maintenance programs are progressing reasonably well in most cities with the assistance of HSRP II staff. Moscow continues to lead the way with its fairly aggressive program. Most target cities have just completed or are in the process of organizing new competitions. The cities are also carefully scrutinizing the structure of their Customer Service entities, where necessary, or planning for the introduction of such organizations.
- As many cities reach levels of almost 90 percent divestiture or more, acceptance of divested stocks has slowed as the remaining stock still on the balance of enterprises is composed of housing in very poor condition. It is also proving very difficult to divest some housing due to various legal or administrative problems (housing stock on the balance of the railroad, for example). Some cities (Moscow, Novochebassk) state flatly that they have no plans to accept any divested housing in the remaining months of 1996. Others have plans to continue accepting divested stocks, but only if the funding for its repair and maintenance can be secured. Because progress depends almost entirely on the cities' economic situation and the political will of the city leaders, there appears little that HSRP II staff can do to speed up the process of divestiture in the target cities.
- Progress on increasing the percentage of costs of maintenance and utilities recovered from residents has stagnated. In part this results from the large real increases in tenant payments required just to maintain cost recovery levels in 1995 as energy prices were significantly decontrolled in Russia. In part, it is also due to cities' perception that until economic conditions improve for residents, increased cost recovery will remain a difficult goal to pursue. It is also extremely volatile politically, as can be witnessed by city leaders refusing to raise tariff rates during the summer and fall municipal and oblast election campaigns.
- All the cities have implemented housing allowance programs. Although application requirements vary city to city, housing allowance programs have proven successful and effective in all the target cities. The importance of the HSRP's activities lies primarily in helping city administrations fine-tune their programs. Also, participation rates remain well below the 25 percent level set by the World Bank as the maximum level consistent with efficient program operation. Thus, the cities may be able to raise cost recovery percentages further in an attempt to meet the targets set by the World Bank and then assist additional residents through the allowance program.
- The HSRP has been instrumental in helping the cities formulate policies and procedures for the creation and registration of condominiums. The cities have been struggling with the questions of how much, if any, subsidy money they should pay to condominiums, the percentage of privatized units necessary before a condominium can be formed in a



building, land allocation issues, and distribution of income from commercial spaces. An extremely important factor in this regard is the recent passage of the Russian Federation Law on Home Owners Associations (Condominiums). The Law clarifies many of the issues regarding condominium formation and finance so that cities now have a consistent basis on which to model local regulations. Before the enactment of the Law, regulations tended to differ significantly from city to city. As these issues are worked out in coordination with the new Law, the growth in the number of condominiums can be expected to continue to increase.

- Privatization of units has slowed significantly over the past two years. It appears that the advertising programs initiated by the Institute have had little impact on interest in and actual rates of privatization of apartments.

HSRP activities have had an overall positive impact in the target cities, however the results remain mixed. By carefully examining the results of the past year, building upon project successes, and reshaping the areas of the program that have proven ineffective, significant achievements in housing reform in the HSRP II cities should continue throughout the next year. As the program continues, it will be very important for the Institute to gather as much data as possible to help gauge the effectiveness of its efforts and fine tune strategies.

Recommendations

Based on reported results through October 1, 1996, it is possible to render some recommendations that may serve to focus team efforts effectively. Recommendations include:

- Novocherkassk has been dropped from the World Bank program. The World Bank has announced that Cherepovets will take its place on the list of candidate cities. The HSRP II team should work to quickly to include Cherepovets and any other World Bank-selected cities to ascertain their level and attitudes toward reform.
- Staff should continue to work intensively with the cities to develop solutions to the practical problems of condominium formation. In particular, staff should focus on explaining the new federal condominium law to city officials and assisting with overall implementation.
- Cities have not pushed to increase the percentage of cost recovery from residents, as is required by the EHDP. The EHDP target for year-end 1996 is 60 percent cost recovery, as long as fewer than 25 percent of the households in the city are receiving allowances. None of the cities have yet to reach even 20 percent housing allowance participation, and cost recovery is averaging approximately only 30-40 percent. Institute staff need to assist the cities to create practical approaches to increasing cost recovery, while continuing to closely monitor the participation levels in the housing allowance programs.
- While several cities have already achieved or exceeded the 90 percent divestiture level set by the World Bank program, staff should do whatever is necessary to encourage cities (especially those cities lagging behind) to continue to accept divestiture of enterprise housing.

- HSRP II staff should continue to work with the target cities to increase the pace of holding competitions for maintenance. World Bank cities must have 10 percent of their units under competitive maintenance by year-end 1996 to remain eligible for the program.
- Project staff have begun to reassess its “mass marketing” approach to promote privatization and condominium formation. In spite of a great deal of effort in door-to-door and tenant-to-tenant dissemination of information, few contacts are being generated, and few additional units are being privatized. The HSRP II team is now developing a new strategy focusing more on the mass media (information in newspapers, on radio and television) to be implemented in the coming year. Data from the previous year show greater levels of success in disseminating information via mass media than through the exhaustive work of poster and leaflet distribution house by house.
- While continuing to work closely with EHDP cities, it is important for the Institute to extend its contacts and expertise in divestiture issues to a much larger and inclusive list of cities. Project staff report a real desire for knowledge in Russian cities and regions that have yet to benefit directly from HSRP assistance. The HSRP II team should develop a system of disseminating information and providing assistance to cities and regions outside of European Russia. This could include a system whereby UI establishes four “regional centers” across Russia, in the Far North, South, Siberia and Far East. Seminars and consulting services could be offered at these regional centers from Moscow-based staff to cities from throughout that particular region.
- The HSRP II team should continue its successful efforts at data collection. It has started the process and has begun to collect more detailed information about team activity and reform development in the cities. This data will help the Institute develop its plans and strategies for its future programs.

PROMOTING EFFICIENT OPERATION IN DIVESTED RUSSIAN ENTERPRISE HOUSING: OCTOBER 1995–OCTOBER 1996

INTRODUCTION AND OVERVIEW

Overview of Divestiture Issues

The government of the Russian Federation has, since the early 1990s, implemented a broad range of programs in an attempt to reform the housing sector of its economy. Part of these reforms focused on the large portion of the national housing stock that was managed by enterprises, approximately 40 percent of the national total as of 1992¹. The government believed that divestiture of this housing to the Subjects of the Federation and the cities would drive a number of reforms including:

- Increasing the competitiveness of enterprises by eliminating the need for them to focus a substantial portion of their efforts and resources on housing management rather than business functions;
- Improving the maintenance and condition of the housing stock;
- Encouraging residents to privatize their apartments; and
- Stimulating the formation of condominiums.

It should be noted here for those not familiar with Russian economic and housing issues that the term “privatize” can be applied to many different sectors of the economy. A privatized commercial or business enterprise is one that has shifted from sole governmental ownership and control to that of control and ownership by a private legal entity, which may in fact still have government representation. A privatized apartment is one for which ownership rights, including rights to sell or rent the unit, have been transferred from the government to the residents of that apartment.

The first step in the divestiture process was the transfer of housing stocks of enterprises that had been privatized as part of the broad privatization program of 1991. These enterprise housing stocks were transferred to Subjects of the Federation and local municipal authorities. This transfer, however, did not relieve the enterprises of their responsibility to manage, maintain and finance these housing stocks.

Presidential Decree 235, issued in 1994, reemphasized the policy of divestiture. It mandated that enterprises that had privatized their assets must divest their housing stocks to the local municipal bodies governing the areas in which those housing stocks were located, and that the municipal authorities must accept this divestiture within six months of privatization. However, the acceptance of divested housing is subject to control by the local authorities who are left to negotiate divestiture of enterprise housing stocks within their jurisdiction with each individual enterprise. This process often exceeds the six-month limit called for in Presidential Decree 235.

Funding for city management and maintenance of divested housing stocks comes from a variety of sources. The sources include rents and other payments from residents, city budgetary funds and federal budget subsidies to the cities. An additional major source of funding is that cities

See Sheila O’Leary, Stephen Butler, et al, *Russian Enterprise Housing Divestiture*, The Urban Institute, Washington, DC, January 1996, for a complete discussion of divestiture issues in Russia.

are authorized to collect a 1.5 percent turnover tax on enterprise production. The proceeds of this tax are intended to support housing maintenance and other city social assets. The federal government, through the Ministry of Finance, also agreed to take into account the costs to the cities of housing divestiture for units from privatized federal enterprises when calculating regional budget transfers.

In spite of these potential sources of funding, cities routinely claim that they lack the financial resources to support management and maintenance of additional housing units. The municipalities assert that residents frequently are delinquent in their rent payments. Officials claim (correctly) that the federal budget does not meet its funding obligations on time. They also realize that if they accept more divested housing, they will have to direct more of their turnover tax revenues to its maintenance, thereby depriving the cities of funds used for other city social programs. City administrations also claim that the condition of the enterprise housing stocks is universally poor -- more so than municipal housing. Therefore, the cities argue that if they accept divested housing, they will have to finance huge capital repair and modernization projects, which they can ill-afford.²

Because the cities are authorized to negotiate the specifics of divestiture with each enterprise, they have considerable latitude in setting the requirements for acceptance of units. In view of the problems they perceive, many municipalities have deliberately slowed the process of negotiation and acceptance, in spite of the Presidential Decree mandating divestiture.

After an initial flurry of divestiture activity in 1994, the emergence of these problems, exacerbated by complex political debates and opinions regarding reform in general, has resulted in a significant slow-down of enterprise housing divestiture to the municipalities. City administrations are now often reluctant to take on the added responsibility and financial burdens that management and maintenance of more divested units. Private enterprises are unwilling or unable to finance maintenance and capital repairs of stocks that they have yet to divest. The result has been further deterioration in the condition of enterprise housing buildings, the quality of life of residents, and the ability of enterprises to devote their efforts to becoming more competitive.

The Housing Sector Reform Project II (HSRP II)

The U.S. Agency for International Development (USAID) project, Housing Sector Reform Project II (HSRP II), continues and expands housing reform work begun under an earlier project. The HSRP II Work Plan contains a number of planned activities and goals relevant to housing divestiture. Project staff and consultants are working with municipalities to efficiently deal with the large volume of housing that has been divested to them from privatized enterprises. Components of this work include promotion of privatization of units, formation of condominiums in divested buildings, and encouraging and helping municipalities to organize competitions for privatization of housing maintenance.

The intent of HSRP II is to concentrate the activities of the HSRP staff and consultants (from the Urban Institute and the Institute for Urban Economics of Moscow) in several high priority demonstration activities in four locations within Russia: Moscow, Ryazan, Vladimir Oblast and Nizhni

See Sheila O'Leary, Stephen Butler, et al, *Russian Enterprise Housing Divestiture*, The Urban Institute, Washington, DC, January 1996.



Novgorod Oblast. HSRP II also continues the activities of staff in other cities as an overlap with the remaining activities funded under the earlier project, HSRP I.

In addition, a major component of HSRP II relating to housing divestiture calls for the project to support activities of the World Bank Enterprise Housing Divestiture Project (EHDP) targeted at the cities of Petrozavodsk, Volkhov, Ryazan, Novochoerkassk, and Vladimir. (Just recently Novochoerkassk was dropped by the World Bank program and replaced by the city of Cherepovets.) The main goal of this project is to encourage and help enterprises and cities to complete the divestiture process, thus enabling the enterprises to become more competitive in the world marketplace. It also intends to move cities toward 100 percent recovery of operational costs associated with supplying utilities to and maintaining divested housing stocks.

EHDP has as its base a \$300 million loan to the Russian Federation, which will then on-lend the funds to the cities approved to participate in the project. The funds will be used by the cities to finance energy efficiency retrofits to buildings to make them more economical to operate. Consumption will fall but prices will rise as utilities must increase tariffs to pay for operations. The cities would then be required to pass on 100 percent of the costs for utilities and maintenance to residents of the buildings. Recognizing that this will put economic burdens on financially vulnerable households, EHDP also requires participating cities to establish housing allowance programs to assist needy families to meet the obligations of 100 percent cost recovery. EHDP further requires cities to select the provision of maintenance services on a competitive basis to reduce costs, stimulate competition and encourage the formation of private companies that will in turn create employment opportunities.

EHDP expects that all parties will experience net positive gains from the project's activities. According to the EHDP plan, cities will gain in rent and tax revenues and from reduced expenditures due to 100 percent recovery of maintenance and utility costs from residents. Enterprises will become more profitable to operate and will be able to devote all of their efforts to business-related activity instead of housing maintenance. Residents, though shouldering more costs for maintenance and utilities as part of 100 percent cost recovery, will nonetheless have a reduced burden due to the energy efficiency enhancements to their buildings and units that EHDP loans will finance. EHDP strongly suggests that maintenance and utility costs for residents will increase regardless of whether or not EHDP commences. Therefore the program planners argue that with EHDP the increase that residents will experience will be reduced due to the energy retrofits funded by the project. Finally, EHDP suggests that residents will benefit from improved living conditions that will result from project-funded energy retrofits and related improvements.

The World Bank has set specific reform targets for the cities to meet, by the end of calendar year 1996, in order to remain eligible for continuing investments under the program. These targets include:

(1) Divestiture

- Complete divestiture of 90 percent of enterprise housing stock eligible for divestiture by the end of 1996 (100 percent by the end of 1997) together with corresponding utility networks.

(2) Competitive Maintenance.

- Place at least 10 percent of total housing stock under competitive maintenance.
- Undertake the following structural reforms in order to de-monopolize the maintenance market:
 - Reorganize structures (both municipal maintenance organizations and maintenance departments divested from enterprises) which provide housing maintenance services into legal entities.
 - Liquidate management structures which serve as intermediaries between single Customer Service agencies and organizations which provide maintenance services.
 - Improve procedures and legal mechanisms for competitive tenders for maintenance services based on experience to date.
 - Establish clear and transparent frameworks for financial and legal relations with winners of tenders.

(3) Condominium Formation

- Give condominiums the legal and actual right to own both commercial real estate located in their buildings as well as surrounding land.

(4) Cost Recovery

- Achieve 60 percent cost recovery, as long as the number of housing allowance recipients remains less than 25 percent of households in the city. The eligibility threshold level of household income for housing and utility payments is set at 15 percent.
- Ensure sufficiency of the institutional and administrative capacity of the housing allowance system via the following:
 - Consistently provide information on the housing allowance system in a city, including criteria of eligibility for housing allowances, application procedures, and contact persons;
 - Ensure that the number and location of branch offices of the housing allowance service are sufficient to accommodate applicants in a timely manner; and
 - Build in flexible hiring mechanisms for temporary expansion of housing allowance services to avoid lines following tariff increases.

Under HSRP II, USAID is assisting the EHDP cities to meet the pre-requisites for inclusion in the World Bank program. The HSRP II team's activities in support of EHDP center around assisting cities in the areas of:

- Completing divestiture of targeted percentages of enterprise housing stocks;
- Privatizing housing maintenance;
- Encouraging the privatization of units;
- Creating and implementing the legal foundations for formation of condominiums;
- Assisting the cities to devise and implement policies on increasing recovery of maintenance and utility costs; and



- Working with cities to strengthen and revise housing allowance programs to mitigate the effects of increased cost recovery on poor households.

These tasks closely parallel the activities that HSRP II calls for in Moscow, Nizhni Novgorod Oblast, Ryazan and Vladimir Oblast. In fact, two of the HSRP II target cities, Ryazan and Vladimir, are included as eligible under EHDP. The EHDP support tasks are also similar to the activities the HSRP team conducts under previous agreements in other targeted regions and cities, including St. Petersburg, Pskov, Yaroslavl City and Oblast, Krasnoyarsk, Novgorod, and Tver. It was therefore anticipated that HSRP II would be able to easily incorporate the goals of EHDP, and its target cities, into its schedule of activities.

In summary, the theme of the overall program is to encourage cities to accept more housing from enterprises ready to divest their units by helping cities cut the subsidies associated with operating their stock. To do this, the HSRP II team works in three directions in each city:

- Designing phased increases in housing rents paid by tenants and at the same time strengthening the housing allowance programs;
- Improving the efficiency of the maintenance and management of the municipal housing stock (including divested buildings) by selecting maintenance firms through competitions and thereafter monitoring their performance closely, and by the formation of condominiums whose members will have a strong interest in good management for their buildings (promotion of unit privatization is a necessary antecedent to condominium formation in many buildings); and
- Working with the city to design and finance energy efficiency enhancing investments for the housing stock.

Purpose of the Report

This is an “end of year” report covering the period from October 1, 1995 to October 1, 1996. It is significantly based upon two earlier “mid-course” reports prepared in April and June 1996. The objective of this paper is to document the level of activity carried out by HSRP II staff with regard to enterprise housing divestiture. The report will detail work in the target cities of the program. It also attempts to measure the cooperation from cities with HSRP efforts under the programs. The report provides an assessment of the impact of team activities on privatization, condominium formation and other issues of focus under the programs. Finally, the report will offer recommendations to consider for program activities during the next work period through October 1, 1997. The data in this report has been updated by HSRP II team members through September 30, 1996.

OVERVIEW OF HOUSING DIVESTITURE ACTIVITY IN TARGET AREAS

Each city included in the program is at a different phase in the process of divestiture of enterprise housing stock. Although there are some constants that affect all of the cities’ acceptance of divested housing (lack of funding, poor condition of enterprise housing stocks) each city also has unique political, economic and jurisdictional factors that have an impact on divestiture activity. The purpose of this section is to describe the current status of divestiture in each city and plans for additional acceptance of divested stocks this year.

Table 1, below, shows the level of divestiture in the cities targeted under the programs as of January 1, 1996, April 1, 1996, June 1, 1996, and October 1, 1996. As can be seen, divestiture activity in the cities varies considerably, but overall, divestiture has progressed slowly so far in 1996.

Table 1
Estimate of Percentage of Divested Enterprise Housing for Target HSRP II/EHDP Cities^{a, b}

City	October 1995	January 1996	April 1996	June 1996	October 1996
Moscow	40	40 ^c	40	40	40
Nizhni Novgorod	n/a	35	50	50	50
Ryazan	38	49	52	65	69
Vladimir	30	30	52	55	68
Volkhov ^d	n/a	93	95	95	95
Petrozavodsk	n/a	77	n/a	n/a	87
Novocherkassk	n/a	85	85	85	85
Cherepovets	n/a	97	97	98	98

Notes:

- a The sources for this data were *Russian Enterprise Housing Divestiture*, O'Leary, Butler, et. al.; Russia Housing Sector Reform Project II Work Plan, and estimates provided by HSRP professional staff working in the cities.
- b The size of each city varies considerably (from a few thousand apartments to several million). Therefore, percentages are far more relevant comparisons than are numbers of units.
- c More detailed analysis shows that the figure of 50 percent given for Moscow in the previous report was overstated.
- d Percentages for Volkhov were understated in the previous report.

As the table above shows, the cities fall into three categories:

- Group A: Cities that have already reached the 90 percent divestiture goal set by the World Bank;
- Group B: Cities that are moving forward and have a good chance of reaching the World Bank target; and
- Group C: Cities that have made no recent progress in divestiture of enterprise housing.

According to HSRP II staff, each city has varying plans for accepting additional divestiture housing in the remaining months of 1996. The realization of these plans will depend on economic and political developments during this time. The most critical governing factor will be the availability of funding for maintenance and capital repair of the buildings. Anticipated divestiture activities in each city for 1996 include:

Group A



■ **Volkhov (95 percent).** Volkhov has accepted 95 percent of its privatized enterprise housing. The city has a number of enterprise-owned dormitories yet to be divested. The city also has a large block of enterprise housing controlled by the non-privatized railroad. The railway wants to divest all of its stock at once. However, the housing stock stretches across the jurisdictional boundaries of several cities. These other cities have not agreed to accept divestiture. Until the parties can resolve this issue, this block of housing will remain undivested.

■ **Cherepovets (98 percent).** The city has accepted almost all the enterprise housing available. It expects to achieve 100 percent divestiture in 1997.

Group B

■ **Petrozavodsk (87 percent).** For the most part, only housing belonging to the railroad and a few buildings in very poor condition remains to be divested. The city is working on developing ways to have this housing divested by the end of 1996 or early 1997. The city expects to achieve 100 percent divestiture in 1997.

■ **Ryazan (69 percent).** The city is continuing to slowly accept divested housing, mostly from those enterprises that go out of business. The city has given no estimate of the number of units it foresees accepting in the remainder of 1996, but remains favorable to the process, if funding is available.

■ **Vladimir (68 percent).** The city is continuing to accept divested housing and remains favorable to future divestiture if funding is available. It has established a goal of 90 percent divestiture by the end of 1996. The city officials understand the need to accept divested housing now rather than to wait while the condition of the housing deteriorates, and has established a special municipal enterprise to organize the divestiture of enterprise housing..

Group C

■ **Moscow (40 percent).** The city has not accepted any divested housing since March 1995. No additional divestiture is anticipated in 1996. This pattern is clearly demonstrated in the table.

■ **Nizhni Novgorod City (50 percent).** The city was active in accepting divestiture between October 1995 and April 1996. It plans to divest 300 additional buildings from one major enterprise (Sokol) in 1996, if funding allows. This should not, however, dramatically increase the percentage of divested enterprise housing.

■ **Novocherkassk (85 percent).** The city (which was recently dropped from the World Bank program) has not announced any plans for additional acceptance of divested housing for this year.

PROGRAM STRATEGY, BUILDING SELECTION CRITERIA AND TARGETED ENTERPRISES

Program Strategy

A key strategic element of the work program from October 1, 1995 to October 1, 1996 was to concentrate available resources on selected “high priority” buildings—former enterprise housing stock which was attractive for unit privatization and possibly condominium formation. Spreading resources more widely was thought to carry the clear danger of not sufficiently alerting tenants to the possibilities of privatization and condominium formation or pushing information at tenants known to have little reason to be interested in those options. Thus, in addition to an operational approach, the team’s activities can also be viewed as a test of that approach to determine if this intensive focus of time and resources would be effective in stimulating reforms, and if so, could be used as a model for other regions and cities in their reform programs.

Building Selection Criteria and Targeted Enterprises

In each of the targeted cities, the program teams developed lists of target enterprises that have recently divested stock to the administration. Staff also identified blocks of buildings that have already been divested but that were not previously targeted for HSRP work. Within these broad parameters, staff then searched for individual buildings or blocks of buildings on which to focus their activity of promoting privatization and condominium formation.

The selection criteria on which to base the initial determination of a building’s suitability for activity included:

- **Technical Condition of the Building.** Targeted buildings should be not more than 10 years old. Buildings that were constructed more than 10 years ago may be considered if they have had major renovations completed within the last 7 years. Staff looked for buildings that are in the best condition. They also reviewed building documentation and conducted visual inspections of target buildings to determine if they met these standards.
- **Percentage of Privatized Apartments.** The percentage of privatized apartments should have been more than 30 percent in target buildings. Staff felt that high levels of privatization would stimulate activity in condominium formation and give residents greater incentive to properly maintain their buildings to improve their future value.
- **Building Location.** Staff looked for buildings located in more prestigious districts. Experience shows that such buildings are easier and more economical to operate. They also prove to be better targets for formation of future condominium associations. This factor can be severely limited if the divested housing is all located in one area and that area is undesirable.
- **Existence of Groups of Residents Showing Interest in Creation of Condominiums.** It is important to the future of any condominium that it contain a group of interested and active people who are willing to push for reform and assist in the management of the condominium.
- **Presence of Non-Residential Areas in Building.** If the building contains non-residential spaces (commercial, potential commercial, or amenities) its value and ability to provide income to the condominium association increases.



- **Condition/Desirability of Adjacent Territories.** Staff looked for buildings to target that had adjacent territories that were desirable and in good condition. Such territories, if allocated to the condominium at registration or in the future, could serve to increase the value of the condominium and may be developed for income purposes.

Staff worked to select target buildings based on the above standards. However, buildings that were selected did not always meet all the selection criteria. Once staff selected target buildings, they began their work to promote privatization of units, condominium formation and competitive maintenance for the buildings. They met with residents to begin training programs, consulted with city officials on registration issues and began advertising campaigns. The amount of time that these efforts took to bear fruit varied widely depending on the attitudes of residents and officials, the local political atmosphere, economic conditions, and the level of reform and legislative base in the city.

ACTIVITIES IN TARGET CITIES

Overview

HSRP II staff working with each target city engaged in a wide variety of activities to promote housing reform and accomplish program goals. The principal activities carried out by team members concentrated on hiring and training staff to work in the other cities, developing and implementing information campaigns in support of program goals, promoting unit privatization and condominium formation, bringing the municipal housing stock under competitive maintenance, assisting cities to increase the percentage of maintenance and utility costs they recover from residents, and helping cities refine their housing allowance programs. The following sections of the report detail the actions taken by staff in support of these tasks.

Staffing Levels

HSRP II Moscow-based staff, field-based staff and consultants worked together closely to accomplish the program goals. One of the first tasks was to recruit and train teams to work in each of the target cities. A team leader was assigned to coordinate activities for a number of geographic areas. Some of the team leaders oversaw efforts in cities exclusively listed as EHDP targets. Others had responsibility for EHDP target cities plus other cities UI works with under previous contracts. Table 2, below, shows the staffing levels as of June 15, 1996. Staffing levels towards the end of the year had been significantly reduced in the field, and thus do not reflect levels maintained throughout the majority of the project period.

Table 2
Staffing Levels by City (as of June 1, 1996)

City	Team Leader*	Moscow-Based Staff	Exclusively in Moscow	City-Based Staff	Hire Date	Total
Team 1: Moscow	1		2		10/95	3
Team 2: Nizhni Novgorod	1			1	02/96 06/96	2
Team 3: Ryazan Vladimir	1			1 1	11/95 10/95	3
Team 4: Volkhov Petrozavodsk Novochercassk	1	1		1 1 1	02/96 03/96 03/96 11/95	5

* All team leaders were on-staff at the beginning of September 1995, except for Nizhni Novgorod.

Information Campaigns

Program team members were actively involved in organizing informational campaigns in target cities. The intent of these campaigns was to disseminate as much information as possible to city officials and residents regarding program goals, and to meet and consult with interested parties to discuss issues, problems and potential solutions to those problems.

Prior to February 1996, the team's efforts primarily consisted of meeting with officials and residents to develop working relationships, gathering information about the status of housing reforms in the cities, assessing and selecting target enterprises and buildings, completing other necessary background work, and developing informational materials (advertisements, brochures, fliers, etc.).

Beginning in February and March, field staff began to work with the cities to place advertising materials in local media when possible (TV, radio, print), and to distribute flyers, posters and brochures to buildings selected as targets for action. These materials were developed by the HSRP II staff and were intended to stimulate resident interest in privatizing their units and forming condominiums. In each advertising piece or placement, a telephone contact number was listed to which residents could call to receive more information. Staff also gave interviews in the local press and encouraged city officials to publicize program goals.

The major areas of work included:

- Distribution of fliers that encouraged residents to privatize their units and to form their buildings into condominiums. Staff posted fliers at residents' units and handed them out at informational meetings.
- Placing advertising posters to encourage privatization and formation of condominiums. Posters were typically hung in resident buildings, in public buildings and in employment offices where those seeking jobs might be stimulated to consider condominium management or maintenance as forms of employment.



- Distributing brochures developed by the team. Staff had these on display and available at informational meetings held with residents, city officials and other interested parties.
- Holding informational meetings with residents and city officials to educate them about privatization and condominium formation and to solicit their support.
- Showing videos pertaining to apartment privatization and condominium formation to city officials and residents of target buildings. The videos were produced by the HSRP team.
- Conducting training seminars to teach the practical aspects and advantages of condominium formation, unit privatization and maintenance competition.
- Holding consultations with city administrations, residents and other interested parties. Such consultations covered the entire spectrum of program goals including privatization, condominium formation, competitive maintenance, and housing allowance programs.
- Broadcasting television advertisements produced by the HSRP that promoted program goals. Included in this category were interviews and other informational activities that appeared on television in support of team efforts.
- Broadcasting radio advertisements produced by the HSRP team.
- Miscellaneous other activities carried out by staff in support of HSRP activities including giving presentations, advertising in print media, reviewing documents, etc.

For the most part, this intensive level of “tenant-to-tenant” activity proved to be ineffective in generating significant numbers of contacts with residents or encouraging them to privatize their apartments. For example, in Moscow, two thousand fliers were distributed throughout one particular region of the city announcing an informational meeting which was to be held on unit privatization and condominium formation. Only four residents showed up for the meeting.

Since March, staff have attempted to track the numbers of contacts received, units privatized and condominiums that have been formed in the cities. From trends in such activity through September, preliminary inferences can be drawn regarding the effectiveness of the information campaign. In summary, Table 3, below, shows activity totals from February-June 1996 and numbers of contacts generated.³ The table shows that in spite of the intensive, broad-based, door-to-door information campaign by HSRP II staff, relatively few contacts occurred. Staff have carefully tracked this data and determined that efforts on the information campaign need to be targeted more effectively to those approaches that give the most significant results. Experience has shown that

Table 3

For a more detailed description of numbers of flyers and brochures distributed, advertisements placed, and meetings and consultations held by month, see Table 4 in the previous report *Promoting Efficient Operation in Divested Housing: A Mid-Course Assessment*, June 1996.

Levels of Activity and Contacts Received February-June 1996

City/Activity	Moscow	Nizhni Novgorod	Ryazan	Vladimir	Volkhov	Petro- zavodsk	Novo- cherkassk
Fliers	16,025	520	10,645	9,271	2,040	691	1,094
Ads	764	60	0	190	184	36	79
Brochures	447	30	39	65	56	18	45
Meetings	4	2	0	6	5	6	22
Videos	7	1	24	19	2	0	1
Training	6	3	3	6	1	0	0
Consultation	75	32	31	85	30	32	66
TV Shows	0	1	11	1	0	12	28
Radio	0	0	0	0	1	0	0
Other	18	2	11	3	0	0	0
Number of contacts	118	47	40	120	32	34	106
Contacts per 1,000 population	0.13	0.34	0.76	3.42	5.33	1.21	5.30

articles in newspapers and advertisements on television and radio tend to generate the greatest response from residents.

Unit Privatization

One area of activity not specifically addressed in EHDP as a target, but that has been a focus of HSRP II efforts, is that of encouraging privatization of units. Increased privatization levels are viewed as critical to realizing the creation of condominium associations. Higher privatization rates in buildings usually reflect greater tenant activity and positive attitudes toward reform. Experience shows that tenants in these buildings are more likely to form condominiums.

Generally, unit privatization rates in enterprise housing have been lower than in municipal housing. Nationally at the end of 1994, the rates were 19 percent and 36 percent respectively⁴. One reason for the lower rates in enterprise housing was that tenants were often discouraged from privatizing their units by firms wishing to retain ownership and control. Once the housing has been divested to the municipality, there is a good chance the tenant interest in privatizing could be rekindled. On the other hand, the poor condition of much of the enterprise housing works against privatization since the value of the asset "on offer" is less.

See O'Leary, Butler, et al., *Russian Enterprise Housing Divestiture*, The Urban Institute, Washington, DC, January 1996



Table 4
Privatization Levels in Targeted Cities (Percent as of Given Date)^a

City	Municipal Housing Stock			Enterprise Housing Stock		
	April 1996	June 1996	October 1996	April 1996	June 1996	October 1996
Moscow ^b	41	43	44	34	39	39
Nizhni Novgorod ^c	33	34	34	n/a	n/a	n/a
Ryazan	40	44	45	23	24	24
Vladimir	50	51	52	55	55	56
Volkhov	38	38	38	33	33	34
Petrozavodsk	33	n/a	36	63	n/a	63
Novocherkassk	37	n/a	39	86	n/a	87

Notes:

- a Data for this table comes from the report on the World Bank Enterprise Housing Divestiture Project, the Housing Sector Reform Project II Work Plan, and from HSRP II field staff.
- b Percents shown here for Moscow are from January 1, 1996. Specific data was not available in April 1996.
- c Nizhni Novgorod has not kept separate data on privatization in enterprise housing.

Many of the program activities involved promotion and advertising in targeted buildings to encourage residents to privatize their units and/or create condominiums. Therefore, measuring the results of these activities can be general indicator of the impact and effectiveness of HSRP advertising and information dissemination programs.

Table 4, above, shows the level of housing privatization in each of the cities.

As can be seen in Table 4, privatization levels are generally flat, although slight progress has been achieved in most cities, with significant progress in Ryazan’s municipal housing stock and Moscow’s enterprise housing stock. The reason for the increase in Ryazan is difficult to pinpoint. However, the return of the communists to power in the local city council might have caused residents to “hurry” and privatize now fearing that this option may be taken away by the communists in the future. As for the increase in Moscow, until 1995, there were severe limitations on privatizing apartments in the enterprise housing stock. The increase from 34 percent to 39 percent could have been caused by a further easing of these restrictions in 1996, as well as the continuing growth of the overall housing market in Moscow.

The low level of privatization in other cities is in spite of the intensive activities of the HSRP II team to advertise and promote privatization. If this trend continues, USAID may want to reconsider whether or not to refocus its efforts and change its approach to this problem. For the most part, however, tenants who saw a benefit of privatizing their apartments have done so. Those living in poor quality housing or in undesirable regions remain hesitant about privatizing their apartments and will most likely remain so, regardless of HSRP team efforts.

Condominium Formation

One of the key program goals is that of encouraging the formation of condominium associations. HSRP II staff have been very active in the cities promoting this goal. Specific activities that staff engaged in with regard to condominiums included:

- Training city officials and residents in the concepts and importance of condominiums;
- Conducting advertising campaigns (TV, radio, fliers, brochures, print media articles, interviews) that prompt residents to form condominiums;
- Assisting the cities in drafting normative documents, both before and after the adoption of the national condominium law, that form the legal basis for the existence and registration of condominiums; and
- Consulting with city officials and residents on a variety of matters that effect condominiums including payment of subsidies, land allocation, formation and function of boards of directors and maintenance issues.

Table 5 summarizes the level of condominium development in the target cities. It lists the number of condominiums registered as of October 1, 1996, and the number of condominiums registered since October 1, 1995.

Table 5
Condominium Registration Levels in Target Cities (As of October 1, 1996)

City	Condominium Associations Registered as of October 1, 1996		Condominium Associations Registered from October 1995 to October 1996
	Total	In Divested Buildings	
Moscow	49	2 ^b	17
Nizhni Novgorod	44	6	26
Ryazan	38	1	11
Vladimir	9	0	7
Volkhov	3	0	3
Petrozavodsk	2	0	2
Novocherkassk	24	10	19
Cherepovets	2	0	2

Notes

a Data for this table comes from the HSRP report, *Inventory of Condominium Associations as of October 1, 1996*, compiled by Lisa Lee of the Urban Institute, and from HSRP II field staff.

b The much larger number in the previous report had been miscalculated.

The data indicate that since October 1, 1995 condominium formation has increased significantly in all target cities except Volkhov and Petrozavodsk⁵. The downside to the data is that condominium formation in divested buildings remains low in most cities. The reasons for this are

As Cherepovets was just recently added to the program, it may be early to judge the city's commitment to condominium registration.



as financially and politically complex as they are for privatization (poor building conditions, financial stagnation, political uncertainty). It is also important to understand that a key factor in condominium formation is the willingness of the local government to provide appropriate subsidies to the buildings. In several cities local administrations had been reluctant to give the same level of subsidy support to buildings registered as condominiums as to buildings registered as belonging to the municipal stock. This issue, along with others, has been clarified by the new federal condominium law, which should improve the situation as cities adopt local condominium legislation in line with the national law.

So far no cities have adopted local regulations on condominium registration based on the federal law. Some cities such as Ryazan and Vladimir expect to approve new condominium regulations in late October or early November of this year. Despite assurances by city leaders, many cities (Moscow in particular) continue to delay this process. HSRP staff expect that it could be several more months before these cities finally approve new local condominium regulations.

Competitive Maintenance Activities

An important aspect of HSRP work has been to encourage and assist the cities to organize and hold competitive bidding for maintenance of housing stocks in their jurisdictions. The blocks of buildings in these competitions often include divested housing as well as other non-enterprise municipal housing. As with other issues, the team has achieved varying levels of success in stimulating this activity in the cities, depending upon the political, economic and reform atmosphere in each location.

In each city, staff members first encouraged and assisted the administration to create an efficient “customer service” organization. Establishing customer service is a critical step because it separates the functions, and responsible entities, of management of the housing stock from those of maintenance of the housing stock. Customer service entities act as the city’s agent in matters relating to the management of the housing stock. Maintenance activities are then assigned to separate maintenance organizations on a contract basis, ideally those selected through competitive bidding.

Customer service organizations guide the process of selection and offering blocks of units for maintenance. They contract with the selected maintenance organizations and monitor the contract and contractor performance. Under the old city structures, all of these functions, including management and maintenance, are combined in one entity. This old system creates conflicts of interest, limits maintenance and management effectiveness, reduces clear accountability, and inhibits the ability to create competitive bid programs. Under the new structure, the Customer service is responsible for monitoring contractor performance and has the authority in most cases to break a contract with a maintenance organization for poor or unsatisfactory work.

When the city has established a customer service, the staff assigned to that city then assist in preparing for and conducting actual competitions for housing maintenance. Some cities, most notably Moscow, can now conduct competitions without any assistance from HSRP II staff because of their growing expertise with the bidding process.

Not all cities have followed this pattern. In some locations, such as Volkhov and Petrozavodsk, maintenance competitions have been held before the city has formally adopted a customer service, leading to a host of problems, including continued unclear functions between

customer and contractor after the signing of a maintenance contract, and the possibility that city officials may annul or alter the results of any given competition. In other cities, the duties of the customer service have not been clearly defined, thus limiting the effectiveness of the system. UI strongly encourages cities to adopt an efficient, well-defined customer service as quickly as possible.

Table 6, below, shows the current status of maintenance competitions in each of the target cities as demonstrated by the existence of a customer service in the city and by the number of maintenance competitions that have been conducted. Note that all cities have had at least one competition since October 1995. More are expected before the end of the year. It is also important to note that most cities have now had two or more competitions, and have gained sufficient

Table 6
Existence of Customer Service in City and
Number of Maintenance Competitions Held Since October 1, 1995^{a,b}

City	Customer Service Exists	Maintenance Competitions:		
		Before October 1995	October 1995-October 1996	Total
Moscow	Yes	39	18	57
Nizhni Novgorod	Yes	7	3	10
Ryazan	Yes	1	3	4
Vladimir	Yes	1	1	2
Volkhov	No	0	2	2
Petrozavodsk	No	0	2	2
Novocherkassk	Yes (not clearly defined)	1	1	2
Cherepovets ^c	No	0	1	1

Notes

- a Moscow has a very active maintenance competition/privatization program that has been in operation since the spring of 1993. Many competitions occur without the assistance of HSRP II staff. As of October 1, 1996, the city had more than 350,000 units under contracted maintenance.
- b Data for this table came from the HSRP report, *Inventory of Maintenance Competitions in Russia as of October 1, 1996*, compiled by Lisa Lee of the Urban Institute, and from HSRP II field staff.
- c The competition in Cherepovets can, for practical purposes, be disregarded as it did not meet required standards. Another (hopefully more successful) competition is scheduled for November.

Table 7
Estimated Percentage of All City Units Maintained Under
Competitively-Awarded Contracts (as of October 1, 1996)^a



City	Estimate of Percentage of All City Units Maintained Under Competitively-Awarded Contracts
Moscow	14.0
Nizhni Novgorod	4.2
Ryazan	7.4
Vladimir	5.9
Volkhov	14.0 / 7.3
Petrozavodsk	15.8
Novochercassk	10.0
Cherepovets	0

Note

a Data from estimates by HSRP II field staff.

experience to continue holding future competitions without direct assistance from HSRP. Experience has shown, however, that cities often hold initial competitions but then hesitate or stop, presumably as resistance from the state maintenance organizations takes hold. In such cases HSRP staff attempt to take appropriate action to re-start or accelerate the process.

One of the targets set by the World Bank is that of the percentage of units in a city under competitively-awarded maintenance contracts. The Bank has set goal of 10 percent of a city's units to be under competitive maintenance as of the end of calendar year 1996. Table 7, below, lists the current percentages of units being maintained under contracts awarded competitively.

The data show that all cities except Nizhni Novgorod, Vladimir and Cherepovets are well on their way to meeting the World Bank target of 10 percent of the municipal housing stock under competitive maintenance by 12/31/96. Four cities, Moscow, Novocherkassk, Petrozavodsk and Volkhov⁶ have already surpassed the target. Ryazan expects to meet the target by early next year.

Cost Recovery and Housing Allowances

One of the major goals of EHDP is to assist cities to increase the percentage of costs recovered from residents for maintenance and utilities in divested housing. This objective parallels

Table 8

City Cost Recovery Percentages^a

The contract for the most recent competition in Volkhov has not yet been signed for a variety of technical and political reasons. If this contract is not awarded, a new competition will have to be held. If this happens, Volkhov will have had only 7.3 percent of city units under competitive maintenance as of October 1, 1996 (see Table 7, above).

City	Cost Recovery Percentage		
	Before October 1995	As of April 1996	As of October 1996
Moscow	35	29	29
Nizhni Novgorod ^b	30	28	26
Ryazan	27	27	27
Vladimir	30	30	30
Volkhov	44	44	40
Petrozavodsk	45	40	40
Novochercassk	49	49	40
Cherepovets	n/a	40	40

Notes

a Data estimates by HSRP II field staff.

b Percentage from Nizhni Novgorod does not include rent increase implemented on October 1, 1996.

current government policy regarding this issue. All parties recognize that such a policy would put a burden on poor families. Therefore, as part of the participation requirements for the cities, the loan program requires that the target cities establish a housing allowance program as a protection for these needy households.

As part of their efforts with city officials, team members have been working to devise policies to increase cost recovery and to develop housing allowance programs or fine tune and improve previously existing programs.

One indicator of outcomes is the share of operating expenses paid by tenants. Table 8, above, demonstrates the current status of cost recovery in the target cities.

Table 8 shows that the percentage of cost recovery for all cities has either stayed constant or actually decreased since last year. This is not surprising considering that fact that tariffs have been eroded by inflationary pressure. The cities state that they intend to push cost recovery, but that residents are not able to absorb additional costs at this time due to the weak economy and stagnant wages. The World Bank program acknowledged that this might be a problem when it linked advancement in cost recovery to a limit on the percentage of city households receiving subsidies (25 percent). Until general economic conditions improve, it will continue to be very difficult, both in actual and political terms, for the cities to increase cost recovery percentages. Only one city, Nizhni Novgorod, has recently increased tariff rates (as of October 1, 1996) so that cost recovery levels have been adjusted for inflation and are now back at the levels of six months ago. Further increases may be planned in the near future.

Table 9
Estimates of Housing Allowance Participation^a



City	Households Receiving Allowances				Number of Allowance Centers
	As of October 1, 1995		As of October 1, 1996		
	Number	Percent	Number	Percent	
Moscow	206,000	6.4	370,000	12.0	85
Nizhni Novgorod	71,500	14.6	81,000	16.8	8
Ryazan	7,407	4.6	10,865	6.7	5
Vladimir	12,174	10.8	850	0.8	4
Volkhov	380	2.8	282	2.1	1
Petrozavodsk ^b	6,420	6.5	14,800	14.8	4
Novocherkassk	4,796	6.0	6,882	9.0	9
Cherepovets	n/a	13.0	n/a	3.0	9

Notes

- a Data for this table comes from the HSRP report Results of Implementation of the Housing Allowances Program in the Cities of Russia, compiled by Alexander Puzanov of the Institute for Urban Economics and from HSRP field staff.
- b Data for 1995 are for January 1, 1996.

The cities continue to make progress in the area of housing allowances. All cities now have allowance programs. Table 9 shows the city housing allowance activity.

The data indicate that most cities have experienced an increase of numbers and percent of families receiving allowances over the last year. This is most likely due to falling family real incomes and more awareness on behalf of the population of the housing allowance program in general. The significant drop in numbers in Vladimir is due to two reasons: (1) from May through September, the city implemented “summer” rates for heating, which are significantly lower than “winter” rates; and (2) the Law on Veterans went into effect over the summer effectively making a large number of veterans ineligible for housing allowances by cutting their rent payments. Once the “winter” rates come back into effect, the number of households receiving allowances should increase significantly.

It is important to note that none of the cities are near the 25 percent ceiling established by the World Bank as the limiting factor for increasing cost recovery. Therefore, it can be argued, at least from the perspective of EHDP, that it still remains possible for the cities to increase their cost recovery percentages towards the 60 percent target set by the World Bank for the end of the year. The HSRP II team has been pushing this issue with local and oblast administrations, but unfortunately with little effect.

CITY ADMINISTRATION COOPERATION

The success of this project obviously has been dependent on the attitudes of city officials, the extent to which they have been cooperating with the program team and their energy in implementing changes. Those attitudes ebb and flow with changes in political alliances, financial conditions, and as the results of elections change the make-up of the city governing bodies. As a result, the program team has been in a nearly continuous process of gauging the current situation and the level of cooperation they can expect in each city. The following is an assessment of the current situation in each city, based on interviews with the team leaders working in each location.

■ **Moscow.** Because Moscow is so large and complex, the attitudes of officials toward housing reform work vary considerably in each of Moscow's ten administrative districts, or "prefects." This is because the initiative for housing reform has been largely relegated from the Moscow central government to the prefects. These administrators continue to tender packages of buildings for bid for competitive maintenance. Municipal-level officials frequently meet with HSRP II staff and seek their input on policy considerations. They are also attempting to assist project staff in placement of advertising to encourage privatization of units and formation of condominiums.

There are, however, powerful factions within the city that oppose reforms and activity in support of those reforms. For example, the attitude towards divestiture and condominium formation has been less favorable than it is towards competitive maintenance. The city is not now accepting divested buildings and has no plans to do so in the remaining months of 1996, principally for financial reasons. The city is in the process of developing new city condominium regulations in line with the new federal condominium law, but approval and implementation of these regulations may take several more months. In the meantime, the city's old, and often inefficient, system of condominium registration is still in effect.

In spite of the difficulties they face in working in such a large and complex city, staff feel that the situation remains positive in Moscow and that further progress can and is being made. The importance of Moscow as a "leader" in housing reform cannot be overlooked as many cities and regions throughout Russia continue to look to Moscow as an example.

■ **Nizhni Novgorod Oblast and City.** Staff describe the situation in this region as very complex. The oblast has for some time been supportive and helpful to housing reforms. However, until recently, staff had received little support and assistance from municipal officials, despite the grudging implementation of some reforms.

Earlier this year, the situation in the city began to change, however. There has been a major reorganization of city functions and departments and a reassignment of staff. In recent meetings, city officials have been much more cooperative with the HSRP II team. HSRP II staff have had a recent series of very positive meetings with city officials, especially with those working in the local housing department. Another positive sign is a decree issued at the Oblast level mandating the creation of Customer Service organizations in all Nizhni Novgorod Oblast cities. The city and oblast are now both looking favorably on maintenance competitions. The city of Bor held a successful competition in June, and the city of Nizhni Novgorod has plans to hold six competitions in each of eight city districts next year.

Because of these recent developments, HSRP II staff are now cautiously optimistic about the future working relationship with the city and the prognosis for improved cooperation with HSRP efforts. It should be noted, however, that tensions still exist between oblast and city officials, and sometimes this "jealousy" impedes the reform process.



■ **Ryazan.** The city has had a reputation as being one of the most aggressive in implementing housing reforms. It continues to be committed to promotion of condominium formation, competitive maintenance, and, as funding allows, divestiture of enterprise housing. However, recent changes in the political climate in Ryazan may alter these attitudes. The program's key city contact, a reform-minded deputy mayor, resigned in April. Staff report that the Communist-dominated city council is attempting to change the City Charter to require an appointed rather than elected mayor. The city is also showing signs of slowing down reform efforts and cooperation, at least until the current, unclear, political situation can be clarified.

■ **Vladimir.** City officials continue to work toward housing reform goals. However, they are hampered, as are all the cities, by a chronic lack of funding. The city created a Customer Service and a separate department of Housing Maintenance. The local city council, however, recently liquidated this Customer Service and replaced it with a much less well-defined system separating customer and contractor functions. It did, however, create a municipal entity to coordinate acceptance of divested enterprise housing and monitor contractual relationships with maintenance contractors for this housing. It has however, made little progress in the area of increasing cost recovery percentages.

Progress in the areas of condominium registration, unit privatization and divestiture continues, however. HSRP II staff feel that the city is supportive of housing reform initiatives and will remain one of the program's most progressive cities, as long as it can find the financial resources necessary to fund such activity.

■ **Volkhov.** Although at first difficult to work with, city officials now appear supportive of HSRP programs. Administrators regularly appear on television to promote city efforts towards condominium formation and competitive maintenance. The city continues to make progress with developing a Customer Service, and plans further maintenance competitions by the end of 1996 or early 1997. Almost 95 percent of privatized enterprise housing has been divested and accepted by the city, and negotiations continue for the divestiture of the remaining housing stocks controlled by the non-privatized railway company and other enterprises.

HSRP II staff remain hopeful that progress will continue in Volkhov, and that Volkhov will remain in the World Bank Enterprise Housing Divestiture Program.

■ **Petrozavodsk.** At first, the city was not cooperative. Project staff feel this situation has changed somewhat for the better in recent months. At the urging of the mayor, the Housing Committee established a group within the Committee to coordinate condominium formation and registration. A second maintenance competition took place in June, and the city has met the World Bank target for acceptance of divested housing. In contrast to these developments, however, the team's main contact in the city, the vice mayor, has been seriously ill for several months and is not expected to return anytime soon. It was also recently announced that the head of the Housing Committee was arrested on charges of corruption. This has of course limited the effectiveness of team efforts.

HSRP II staff, however, remain hopeful that the recent positive changes will lead to better things to come. However, they are worried that if the vice mayor remains ill, and if the head of the Housing Committee is not replaced with a progressive person, it will ultimately impact on their ability to effectively push reforms in the city.

■ **Novocherkassk.** HSRP II staff have been discouraged by the state of affairs in the city for some time. The city is no longer a target city for the World Bank EHDP.

■ **Cherepovets.** The city replaced Novocherkassk as a participant in EHDP. Local elections are expected in October, but the results are expected to be quite positive for reforms in the city. Since joining EHDP, Cherepovets has been very progressive in working toward the World Bank targets and HSRP II staff expect this trend to continue.

RESULTS AND PERCEIVED IMPACT OF ACTIVITIES IN TARGET CITIES

While it is difficult to assess the true impact of the HSRP II team's work in the target cities, some general conclusions can be drawn from project activities during the period from October 1, 1995 to October 1, 1996.

- Competitive maintenance programs are progressing reasonably well in most cities with the assistance of HSRP II staff. Moscow continues to lead the way with its fairly aggressive program. All other target cities (except Petrozavodsk) have just completed or are in the process of organizing new competitions. The cities are also carefully scrutinizing the structure of their Customer Service entities, where necessary, or planning for the introduction of such organizations.
- As many cities reach levels of almost 90 percent divestiture or more, acceptance of divested stocks has slowed as the remaining stock still on the balance of enterprises tends to be composed of housing in very poor condition. It is also proving very difficult to divest some housing due to various legal or administrative problems (housing stock on the balance of the railroad, for example). Some cities (Moscow, Novocherkassk) state flatly that they have no plans to accept any divested housing in the remaining months of 1996. Others have plans to continue accepting divested stocks, but only if the funding for its repair and maintenance can be secured. Because progress depends almost entirely on the cities' economic situation and the political will of the city leaders, there appears little that HSRP II staff can do in the short term to speed up the process of divestiture in the target cities.
- Progress on increasing the percentage of costs of maintenance and utilities recovered from residents has stagnated. In part this results from the large real increases in tenant payments required just to maintain cost recovery levels in 1995 as energy prices were significantly decontrolled in Russia. In part, it is also due to cities' perception that until economic conditions improve for residents, increased cost recovery will remain a difficult goal to pursue. It is also extremely volatile politically, as can be witnessed by city leaders refusing to raise tariff rates during the summer and fall election campaigns.
- All the cities have implemented housing allowance programs. Although application requirements vary city to city, housing allowance programs have proven successful and effective in all the target cities. The importance of the HSRP's activities lies primarily in helping city administrations fine-tune their programs. Also, participation rates remain well below the 25 percent level set by the World Bank. Thus, the cities may be able to raise cost recovery percentages further in an attempt to meet the targets set by the World Bank and then assist additional residents through the allowance program.



- The HSRP team has been instrumental in helping the cities formulate policies and procedures for the creation and registration of condominiums. With the exception of Petrozavodsk, the process continues well in all cities. The cities have been struggling with the questions of how much, if any, subsidy money they should pay to condominiums, the percentage of privatized units necessary before a condominium can be formed in a building, land allocation issues, and distribution of income from commercial spaces. An extremely important factor in this regard is the recent passage of the Russian Federation Law on Home Owners Associations (Condominiums). The Law clarifies many of the issues regarding condominium formation and finance so that cities now have a consistent basis on which to model local regulations. Before the enactment of the Law, regulations tended to differ significantly from city to city. As these issues are worked out in coordination with the new Law, the growth in the number of condominiums can be expected to continue to increase.
- Privatization of units has slowed significantly over the past two years. It appears that the advertising programs initiated by the HSRP team have had little impact on interest in and actual rates of privatization of apartments.

The above demonstrates that HSRP activities have had an overall positive impact in the target cities, however the results remain mixed. By carefully examining the results of the past year, building upon project successes, and reshaping the areas of the program that have proven ineffective, significant achievements in housing reform in the HSRP II cities should continue throughout the next year. As the program continues, it will be very important for the project to gather as much data as possible to help gauge the effectiveness of its efforts and fine tune strategies.

RECOMMENDATIONS

Based on reported results through October 1, 1996, it is possible to render some recommendations that may serve to focus team efforts effectively. Recommendations include:

- Novocherkassk has been dropped from the World Bank program. The World Bank has announced that Cherepovets will take its place on the list of candidate cities. The HSRP II team should work to quickly to include Cherepovets and any other World Bank-selected cities to ascertain their level and attitudes toward reform.
- HSRP II staff should continue to work intensively with the cities to develop solutions to the practical problems of condominium formation. In particular, staff should focus on explaining the new federal condominium law to city officials and assisting with overall implementation.
- Cities have not pushed to increase the percentage of cost recovery from residents, as is required by the EHDP. The EHDP target for year-end 1996 is 60 percent cost recovery, as long as fewer than 25 percent of the households in the city are receiving allowances. None of the cities have yet to reach even 20 percent housing allowance participation, and cost recovery is averaging approximately only 30-40 percent. HSRP II staff need to assist the cities to create practical approaches to increasing cost recovery,

while continuing to closely monitor the participation levels in the housing allowance programs.

- While several cities have already achieved or exceeded the 90 percent divestiture level set by the World Bank program, project staff should do whatever is necessary to encourage cities (especially those cities lagging behind) to continue to accept divestiture of enterprise housing.
- Staff should continue to work with the target cities to increase the pace of holding competitions for maintenance. World Bank cities must have 10 percent of their units under competitive maintenance by year-end 1996 to remain eligible for the program.
- HSRP II staff has begun to reassess its “mass marketing” approach to promote privatization and condominium formation. In spite of a great deal of effort in door-to-door and tenant-to-tenant dissemination of information, few contacts are being generated, and few additional units are being privatized. The HSRP II team is now developing a new strategy focusing more on the mass media (information in newspapers, on radio and television) to be implemented in the coming year. Data from the previous year show greater levels of success in disseminating information via mass media than through the exhaustive work of poster and leaflet distribution house by house.
- While continuing to work closely with EHDP cities, it is important for the HSRP II team to extend its contacts and expertise in divestiture issues to a much larger and inclusive list of cities. Project staff report a real desire for knowledge in Russian cities and regions that have yet to benefit directly from HSRP assistance. The HSRP II team should develop a system of disseminating information and providing assistance to cities and regions outside of European Russia. This could include a system whereby HSRP establishes four “regional centers” across Russia, in the Far North, South, Siberia and Far East. Seminars and consulting services could be offered at these regional centers from Moscow-based staff to cities from throughout that particular region.
- The HSRP should continue its successful efforts at data collection. It has started the process and has begun to collect more detailed information about team activity and reform development in the cities. This data will help the project develop its plans and strategies for its future programs.