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

MONTHLY REPORT

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A. Program Activities — Russian Federation

Notable Developments

1. A significant national two-day conference on housing reform, sponsored by the Interagency Committee on Housing Reform and the City of Moscow, with the HSRP playing a major role, was held in early February. The deputy governors responsible for housing of each of Russia's 88 regions were invited to attend, and a total of about 200 persons participated. Deputy Minister Alexander Krivov, Evgeniy Saburov (former Minister of Economy) and other dignitaries opened the conference. One whole day of the conference was devoted to the implementation of the new program of raising rents and introducing housing allowances for which regional governments are now responsible. The Urban Institute team made four major presentations at the conference. We also produced, packaged and distributed all of the materials given to participants. Modified versions of the procedures manual and other administrative materials for housing allowances developed by the Urban Institute with Moscow have been formally adopted by the Interagency Committee as government guidance on the program and were distributed to all participants.
2. The first three volumes in our "Mortgage Handbook Series" were published by the Center for Mortgage Business. The print run was 3,000 copies of each title. The topics of the manuals are legal documentation; the new mortgage instrument designed for Russia (the DAIR); and loan origination. Two more volumes are being printed (loan servicing and loan pricing) and three more are under preparation. The manuals will be distributed by the Center and by the Association of Mortgage Banks. The Handbook Series provides the fundamentals of mortgage lending adapted to the Russian context. They should serve as a resource for the entire NIS.
3. This month the Association of Mortgage Banks, in cooperation with the Shelter Sector Reform Program, began the initial offering of its two-week mortgage finance training course in a Moscow suburb. Thirty-five students participated. In the first week, a general overview of mortgage lending was presented to all students. In the second week, there were two tracks with each student participating in one: a) loan origination and servicing and b) the financial aspects of mortgage lending, e.g., risk management, pricing. The core faculty consisted of HSRP staff and consultants: Suchkov, Kosareva, Struyk, Robertson, Butler, Ravicz, Kopekin and Healy. Robertson, a professional mortgage trainer, did much of teaching; he is the only person brought to Russia especially for the course. In addition to the HSRP contribution, about a dozen Russians are making presentations on the current situation and present practices in Russia.

Legal and Policy Developments

1. Kosareva participated in many review meetings on the draft regulations on housing debentures, a kind of real estate investment trust. Quick completion of the regulations was mandated by the Presidential Decree on "non-budget sources of finance for housing."
2. In the first week of February, we prepared revised draft regulations on the Agency for Mortgage Lending and submitted them to Andre Vavilov, First Deputy Minister of Finance as requested. Two versions were prepared: one in which the Agency has an explicit regulatory function and another in which it does not. There is some controversy about whether the Central Bank should share its regulatory function in any way with another agency. Kosareva was then asked by Vavilov to coordinate the review process of the regulations. Several ministries and the Central Bank were also involved. She made maximum effort and received review comments on the draft regulations from the Ministry of Economics, GKI, and Gosstroy. Vavilov also solicited comments. Kosareva then worked with the Ministry of Economy to draft a charter based on the comments. Both the charter and regulations are turning out to be quite complex because of the Agency's projected role in issuing securities and because the Presidential Decree creating it named it a "Federal Agency," a specification which carries certain rights and restrictions.
3. Butler, Kosareva, and Struyk met with Albert Sokin and Mrs. Volkava of GKI to discuss Butler's drafts of the condominium charter and the law on mortgage. Jonathan Hay, a USAID adviser to GKI attended part of the meeting. Sokin said he plans to use the draft condominium charter as the basis for further discussion within government. He expressed dissatisfaction with other drafts which gave only cursory treatment to a number of key points. Sokin also said that he wanted to collaborate with us on the preparation of the law on condominiums which should be prepared by September. (Temporary regulations are now in effect.) With respect to the discussion of the law on mortgage, much of the time was spent on registration issues--a complication caused by the lack of a general law on registration. Mrs. Volkava said that she believed that GKI would work with Duma deputies to introduce an emended version of Butler's draft for consideration by the Duma. Nevertheless, GKI is not sanguine about the chances of passage. A competing, much more conservative draft, prepared by Alexander Makovsky, has received wide publicity and seems much more likely to be adopted by the Duma.
4. Kosareva also continued her work with Gosstroy on the draft of the Presidential Decree "On Housing Certificates".

5. Although Gosstroi is not fully convinced that the Committee on Municipal Economy which was eliminated by presidential decree will not be reinstated, it has begun working again on the draft Council of Ministers regulation on mandating the introduction of competitive procurement of maintenance services for the state housing stock. We have reached agreement with GKI on a draft which Gosstroi is now considering.
6. With a great deal of assistance from our team, Gosstroi has completed a draft of the document "Exemplary List and Forms of Necessary Documents to be Submitted by Citizens when Applying for Housing Construction or Purchase subsidies." In effect, these are the guidelines for the down payment subsidy program created last fall. We were able to utilize a good deal of the thinking on the military certificate program in preparing these.

Housing Finance

1. Please see also number two under "Legal and Policy" and a description of the Association of Mortgage Bankers first training under "Notable Developments."
2. This month Consultant Len Newman worked on the installation of the loan servicing software at Mosbusinessbank, the initiation of the installation process at Joint Standard Mortgage Bank, and the training of two senior Russian programmers in the software. With the programmers trained, we will have local capacity for additional installations and for introducing enhancements to the basic software that banks may want.
3. Struyk and Kosareva met with Alexander Androsov and others at Menatep Bank to discuss their interest in developing a mortgage lending program. (Menatep is one of the largest banks in Russia and has been classified by the World Bank as an "international standard bank." Androsov explained that the senior management of the Investment Department had decided to establish a new subdivision for mortgage lending and intended to become active in the area. Mortgage lending will complement the existing construction lending program. Androsov expressed the bank's strong interest in obtaining assistance from the HSRP in beginning their operations. In the short term, Newman and Healy will work with the bank's team and in March Struyk will discuss the possibility of a more comprehensive work program.
4. In the third week of February the ten Russian bankers nominated by our program departed for the housing finance construction course being offered by Dick Pratt and Associates in Utah. Our participants included the president of the Association for Mortgage Banks, bankers from Moscow (Menatep, Joint Stock Mortgage Bank, Sberbank, Mortgage Standard Bank), bankers from

Irkutsk and the Deputy Governor for Construction of the Nizhni Novgorod Oblast.

Housing Allowances

The Ministry of Labor issued its regulation on defining incomes of households participating in the housing allowance program. This will likely have importance beyond the allowance program because it will likely serve as the guide for other income-conditioned programs. The regulation incorporates essentially all of the changes to the draft we recommended, meaning that the guidelines we prepared for Moscow will be generally applicable.

Condominiums

1. Rabenhorst, working with Telgarsky and O'Leary, prepared a detailed work plan for assisting the six cities included in the World Bank/AID loan project with the creation of necessary local regulations and training programs for the development of condominium associations. The draft was submitted to AID. Preparations are underway for their March visit. They plan to initially work in Nizhni Novgorod (chosen in part because of our excellent working relations with the oblast) and then expand to all six cities in the loan program plus Ryazan and Moscow.
2. Olson continued to work with Bain Link, advisers to GKI, on the design of their pilot project in Jaroslavl, which includes the introduction of private maintenance. He arranged meetings between Jaroslavl officials and private contractors and the "owner" in the western administrative district.

Land

Alexander Lazarevsky (now at GKI) drafted a Presidential Decree that would bring existing land law into line with the provisions of the new constitution and set other conditions to advance the functioning of the land market. Getting the decree issued is a priority of First Deputy Prime Minister Soskovets. Struyk and Butler gave him comments on the draft.

B. Program Activities — City of Moscow

Housing Maintenance Pilot Project

1. **Mitino:** In the first week of February a Pre-Bid Conference was held which was very well attended by over twenty persons from 11 firms. Even though

attendance at this meeting was not mandatory, the participants traveled 30 kilometers to reach the Mitino destination. The team of Shapiro and Tikhomirova did a solid job of conducting the Pre-Bid Conference. The Mitino Owner was also well prepared, and participated in several segments regarding funding and demographics. After the Pre-Bid Conference, five additional firms expressed interest in the bidding.

The Mitino situation is ideal for private maintenance firms, because the buildings are new, and there are no existing REUs. The Contractor can familiarize himself with the buildings before any tenants move-in and can establish good tenant relations at the very beginning of tenant occupancy. The contract covers 3,295 units. The contract includes a 200 square meters of office, workroom and warehouse space. The buildings come complete with a Dispatcher Point. As a fringe benefit, the Mitino owner is willing to consider giving units to the Contractor's employees (only for the term of the Contract).

Five bidders were interviewed by the Mitino District Selection Committee. The 7-member panel consisted of Sub-Prefecture and Prefecture personnel, including the Sub-Prefect and Deputy Prefect. The participation of these high level officials was an indication of how seriously Mitino approached the procurement process. Two of the bids were from firms already managing municipal buildings. One large new entrant, Akra, was an experienced and capable firm. Two former REUs also submitted bids. The Committee was very professional in carrying out its work, taking over 1-hour for each interview, and carefully following our objective rating scale. Only .2 points separated the top two bidders: San Technica Complex (a Program veteran) and REP Mitino. The competitive negotiation procedure was then used to select the winner. In order to check performance, Committee members made "no notice" at several of the bidders' existing sites. As a result, San Technica Complex was awarded the contract. The contract was signed on February 25 and the Notice To Proceed was issued March 1st. In addition the procurement schedule for the next set of blocks was finalized and the signing is expected to be April 20/

2. Problems of securing adequate funds for the private contractors continue. Attached to this report is a summary of the monthly meeting in the Western Administrative District where this situation was candidly discussed.
3. A major meeting was held at the Department of Engineering and Communal Services on the maintenance program. Olson, Struyk, Kosareva, Shapiro and Tikhomirova and met with Mrs. Kuznetsova, Mrs. Medvedeva, Mr. Bitsukov and Mrs. Osipova. The meeting marked a formal handing over of primary responsibility for the program from Mrs. Kuznetsova's office (Economics) to Mr. Bitsukov's (Maintenance). Even though this was an initial meeting, we

outlined the continuing problems on the City's side in fulfilling the contracts with the private firms. Bitsukov pledged energetic action.

4. An excellent meeting was held with MosLift Training Center to plan their future training role. Kharchenko, the Director, is working on a business plan, and two of his most seasoned trainers will undertake the training effort. Olson and his team will work with Kharchenko to update the real estate by using actual budget formats from municipal properties in Moscow. MosLift will preview their training in mid-March, with owners from the Program expansion.

Housing Allowances

Throughout February, The Moscow City Duma continued to be a roadblock in the implementation of the program of rent increases and housing allowances, holding numerous unproductive meetings on the issue before voting on the proposed program on February 25. Puzanov participated in a long discussion on the day of the vote, and after two votes, it was passed, with comments. A special working group of Deputies will now prepare a final draft of the proposal based on the Duma's comments. On March 9, the Duma will consider the final draft. One new provision sets up a joint Duma-City Government working group headed by Vice Mayor Nikulski; this body will adopt all procedures for housing allowance allocations.

Highlights of HSRP activities leading up to the vote include:

1. In the first week of February Kuznetsova requested that Angelici and Daniell complete additional program simulations. To our surprise the City Duma was considering asking for a reduction in the household contribution from allowance subsidy recipients from 10 percent to 5 or 7 percent. The simulations showed that such a change would only modestly increase the number of program participants at the program's initiation and decrease the net revenues received by the city from raising rents. In addition, changing the beneficiary contribution rate would have much greater effects at the time of the second increase in rents, scheduled for July. The simulations were shared with the Duma.
2. The Duma met twice informally in early February on the issue. The first session primarily featured spirited defenses of the program proposed by the government from a representative of the mayor's office and others not directly involved in the development of the program. Puzanov served as resource during the meeting. At the end of the meeting it appeared that the Duma was moving to closure. However, at a second meeting, which was to schedule items to be formally considered the following week, agreement could not be reached on whether to schedule further discussion. Mrs. Havanskya, who had

been heading the committee on the issue, resigned her post. We estimate that the city is losing about rub 50 billion each month that the program is delayed. The stage seemed set for Mayor Luzhkov to take some real action.

3. In the first week of February, Kosareva met with a group organized within the mayor's office, headed by Kemer Norkin, to review the design of the housing allowance program. More small design changes were suggested. Kosareva advanced our strong position which is to stop playing with the design; implement the program now and worry about small modifications before the next (and much larger) rent increase in July.
4. With some major decisions about the structure of the program left "floating," it was impossible for Rizer to work efficiently on preparing the training programs. For this reason in early February he returned to the U.S. until resolution of these fundamental issues.
5. On February 18th, Kosareva and Puzanov met with Mrs. Kuznetsova to discuss the implementation of the housing allowance program. The Department of Communal Services was pushing hard for an April first start.
6. In the third week of February, Rizer delivered a first draft of the housing allowance training program.

C. Program Activities — General

Nizhni Novgorod Program

1. Kosareva and Struyk drafted an order on the development of the housing finance system for Governor Nemstov's consideration, and submitted it to Deputy Governor Frolov for review and emendation.
2. Olson and Tikhomirova visited Nizhni Novgorod the week of February 6 with the objective of helping to revive relations between the oblast and the district maintenance operations. This objective got lost in officials' interest in privatizing the maintenance function. The team met with Governor Nemstov who wanted to begin a pilot program on an urgent basis. We were not planning on this extra task now and are thinking about whether we can respond positively in the near term.
3. Deputy Governor Frolov visited our offices the week of February 20th to develop a schedule for the next stages of work. The most pressing issues are

housing allowances, the reorganization of housing management and the development of a housing finance system.

World Bank/USAID Housing Construction Loan

1. In the first week of February, Struyk met with Nassau, Heller, and Leibson to discuss some issues on the design of the loan package and the survey work that the Urban Institute is managing. He was surprised that the World Bank project preparation team has given an additional contract to two of the contractors involved for faster data collection on the similar topics already under contract, without informing the Institute. Obviously, this diversion will have some effect on the ability of the contractors to meet their schedules under our contracts.

Struyk stressed that the World Bank team had provided no guidance to the Urban Institute beyond the general statement of work from last August about what analysis should be done with the data collected. We have approved general analysis plans from the contractors for the developer and household surveys. (The analytic tasks are well-defined in the transaction survey and indicators project.) Struyk emphasized that now was the right time for such guidance, if the contractors were to have guidance in time to apply it.

Nassau stated that the highest priority was analysis of effective housing purchasing power. Struyk promised to make a set of calculations of alternative measures of demand which will be the first task done using the Moscow data set.

2. Daniell completed the analysis of effective demand for housing in Moscow, and a copy of the report was delivered to the World Bank. The analysis included effective housing demand using several sources of funds: households' accumulated personal funds; those funds plus a mortgage loan; personal funds, a loan and equity in a unit for those in privatized or purchased units. Demand under these three scenarios was then recalculated for only those on waiting lists for housing, including the subsidy for which these households are eligible as an additional source of funds. Results show that housing affordability is limited to certain sectors of the population -- those on waiting lists eligible for subsidies and owners with equity in the unit.
3. At Nassau's request Struyk reviewed selected sections of the draft major report on Russian housing prepared by Bertrand Renaud, based on his work in Russia in 1991 and 1992. A short review was sent to Nassau.

4. Struyk and Butler met Leibson to discuss the technical assistance program associated with the projected loan. Some of the earlier confusion was cleared up, but final resolution of responsibilities will only come during the review of the Urban Institute's 1994-1995 work plan which is scheduled for early March.
5. Struyk met with Buckley, Heller, Leibson and others to discuss what the Bank/AID project should do to fulfill its promise to the government of a "study" on housing finance. There was general agreement with Buckley's proposal that instead of a study there should be a process initiated which will culminate in a conference with the objective of defining technical assistance and/or future World Bank lending programs in housing finance that is agreed upon from macroeconomic, banking and housing perspectives.
6. Struyk attended a briefing by Mark Brown on the land auction project that he implemented in Ekaterinburg.
7. Struyk participated also in a meeting chaired by David Leibson with the officials of the Association of Russian Cities who manage the "land and urban section" and Peter Epstein of the International City Managers Association (ICMA). Butler and Ruth O'Sullivan also attended. The objective of the meeting was to determine how the Association could participate in the World Bank/AID housing loan project and how ICMA might work with the Association. The Association is particularly active in the land area and has numerous seminars scheduled for 1994. One idea is to provide experts to participate in these seminars; another is for selected members of the Association participate in the seminars that Bank/AID will hold so they can disseminate this information to other cities through the Association's seminars. Epstein is to draft a concrete plan. Urban Institute is (at least temporarily) the point of contact for the Association.
8. Angelici and Daniell worked on reviewing data sets and reports furnished by the four contractors. Overall, the contractors are running about a week behind schedule. We received an initial 295 observations from the household survey in Novgorod from AUREC. When Daniell examined the data she identified severe quality control problems with it--serious enough to make it unusable in its current form. Daniell sent an explanatory memo to AUREC.

We also received information on housing indicators for Novgorod and St. Petersburg, a preliminary report on the developer survey in St. Petersburg both from AUREC, and a preliminary report summarizing the data on the household survey in Tver and Rostov POLIS-3.

9. The Urban Institute's contract office continues to be unable to process the subcontracts for the four Russian firms doing the data collection work. Suffice it to say that the situation has moved beyond embarrassment.

Expanded Military Housing Program

1. Struyk and Ravicz met with Deikun again. There appeared to be agreement on the design of pilot. Pending the receipt of necessary funding for the certificates and the completion of contracts with the banks and the review (accounting) firm, we should be on schedule for a mid-March start date.
2. The teams working Pskov and Novgorod completed their work with the municipalities and banks in the first week of February. Ravicz assembled a team meeting in Washington the following week.
3. Struyk responded to questions about the design of the certificate program from Margaret Cows of KPMG. In response to the RFP issued by AID, KPMG is preparing its proposal for the review function in the program.

Monitoring and Evaluation

1. Angelici and Daniell examined the data from the 1993 Moscow Household Survey to ensure that the data is accurate and complete. Alla Guzanova delivered the data set which contains about 2,250 records. The survey team succeeded in interviewing occupants of 1,900 of the 2,000 units in which interviews were conducted a year earlier. Hence, we have the ability to track changes in ownership, utilization and conditions of a large cohort of units over time.
2. Struyk and Kosareva have completed drafts of several chapters of the major report monitoring developments in the housing sector, "The Russian Housing Market in Transition: 1991-1993." They hope to have a complete draft finished by the third week of March. Daniell and Angelici are providing a great deal of analysis for the report, based primarily on the Moscow Household Survey.. Shapiro and others in the "housing maintenance team" have also given valuable inputs on developments in the finances of maintenance operations and on the disposition of departmental housing.
3. Daniell has begun an analysis of privatization in order to determine the profile and motivation of those who privatized in 1993 and to compare the results to those from the 1992 Moscow Household Survey.

4. We received the second wave of data on the sample of units from the 5000 units placed under private maintenance in September. The survey was conducted in January. Angelici and Tikhomirova will begin analyzing this data, comparing before and after conditions at the projects in several weeks.

ADDENDUM
Funding Problems for Private Contractors
in the Housing Management Pilot

A discussion of funding problems dominated the monthly progress meeting in the Western Prefecture. Deputy Prefect Povarov chaired the meeting, and he was very candid regarding the funding shortfalls:

- a). The Department of Engineering Provision has been underfunding maintenance activities, and they have been delinquent with payments to the Prefectures.
- b). The Western Prefecture REUs are funded at only 25% of need.
- c). The Fili-Davidkova DEZ was 1/2 Billion rbl. in "debt" at the end of the year. When money is short, the municipality pays salaries first and sub-contractors (such as MosLift and rubbish removal firms) last, thus creating large "debts" to service providers. As these debts accrue, a "domino effect" occurs with the service providers- they cannot pay their wages, and service levels decline.
- d). 65% of the janitorial positions at the REUs are vacant.
- e). The Western Prefecture owes 2.6 billion rbl. for heating charges and has no funds to pay for it.
- f). 1.8 billion rbl. was not received for necessary capital repairs, creating an ever growing amount of deferred maintenance.
- g). Emergencies are currently funded, but there is great fear that there will not be sufficient funding to address emergencies in the future.
- h). Each time there is a significant snow fall in Moscow, it costs 1 billion rbl. to properly remove the snow. The City does not have this money, hence, snow removal this year is at an all time low.
- i). The Western Prefecture is better off than other Prefectures, because Bryachikin has made a lot of "noise" about the funding situation.

Since the funding of the Contractors mirrors the general situation in Moscow, our Contractors are experiencing dire cash flow problems. Two of the three Western Prefecture Contractors received funding only for salaries in December 1993 which means that they did not receive funding for materials and supplies. None of the Contractors received funding in January 1994. The Owner is in violation of the Contract by not providing payments one month in advance, at the beginning of each

month. These Contracts are liable for termination by the Contractors upon thirty days notice. The Owner is aware of this and is apologetic, but places the blame on the Department of Engineering Provision. The Department of Engineering Provision places the blame on the City. Meanwhile the Contractors are working with no funds.

These funding difficulties are the most serious threat to the Program to date. On the one hand, the City has mandated the expansion of the Program, but on the other hand the funding is not sufficient to warrant an expansion (there is not enough funding to adequately maintain the existing Contracts). This issue must be resolved soon with Matrosov, Maslov, and/or Luzhkov's staff.

On a more positive note, there were no complaints about Contractor performance, and all three Contracts will be renewed. Olson thanked the Western Prefecture for their commitment to the Pilot, and stated that many valuable lessons have been learned that will assist in the program expansion.

Povarov pledged to earmark additional buildings for the expansion. Olson pledged to work towards a resolution of the funding problems.

D. Budget and Level of Effort Summary

Budget (Actual expenditures, excluding UI fee)

January 1994 ¹	\$163,411
Project to date ²	\$2,470,091

Level of Effort (person-months)

February 1994	9.30
Project to date	94.15

¹ Note: Final financial information is not yet available for the month of February 1994.

² This figure is through January 1994.